



CONSULTATION PAPER ECB REGULATION ON SUPERVISORY FEES QUESTIONS AND ANSWERS MAY 2014

1 WHY DOES THE ECB LEVY A SUPERVISORY FEE?

Under the [SSM Regulation](#)¹, the ECB will levy an annual supervisory fee to finance its tasks concerning the Single Supervisory Mechanism (SSM).

The fee will cover the tasks for which the ECB is responsible, namely the effective and consistent functioning of the SSM, which has been established to:

- contribute to restoring confidence in the banking sector through independent integrated European supervision for all participating Member States;
- ensure the safety and soundness of the euro area banking system and to increase financial integration and stability in Europe;
- harmonise supervisory practices for the benefit of the banks it will supervise.

2 WHAT IS THE DRAFT REGULATION ON SUPERVISORY FEES ABOUT AND WHY IS IT NECESSARY?

The cost of supervision incurred by the ECB will be borne by the banks which are located in the participating Member States. The expenditure relating to the performance of the supervisory tasks will therefore be financed by fees. These fees will be levied by the ECB on banks, based on the banks' importance and the risks posed.

The ECB Regulation on supervisory fees describes how the fees for each bank are calculated.

3 WHAT BENEFITS WILL THE SSM BRING?

The effective and harmonised supervision of all banks in the euro area countries and other EU countries participating in the SSM should enhance the general public's trust in the banking

¹ Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

sector. Banks can then better intermediate between savers and borrowers wishing to make investments that may benefit the European economy and job creation. Moreover, banks operating in more than one participating Member State may reap substantial benefits from the gradual harmonisation of supervisory rules and streamlining of supervisory reporting. Last but not least, the SSM will help to create a level playing field, allowing more efficient banks to more easily expand across borders and enabling the general public to benefit from more competition and a more attractive range of banking services.

4 TO WHOM WILL IT APPLY?

The SSM, comprising the ECB and the national competent authorities (NCAs), covers all of the approximately 6,000 banks in the euro area. The ECB is responsible for the effective and consistent functioning of the SSM in its entirety, i.e. in respect of the significant banks that it directly supervises and of the less significant banks that it indirectly supervises. The ECB will ensure a harmonised implementation of the single European rulebook, in cooperation with the NCAs, which are responsible for the day-to-day supervision of the less significant banks. Accordingly, all banks supervised within the SSM will pay an annual supervisory fee to the ECB.

In more detail, the ECB will levy a supervisory fee on:

- banks established in the participating Member States, which are the euro area countries and other EU countries wishing to join the SSM;
- branches established in a participating Member State by a bank located in a non-participating Member State.

For supervised groups with several branches and subsidiaries operating in one or more participating Member States, only one fee notice shall be issued by the ECB, in principle to the highest entity in the ownership structure in those countries.

5 WHAT SERVICES ARE BANKS RECEIVING FOR THEIR SUPERVISORY FEES?

The ECB is responsible for the effective and consistent functioning of the SSM. The degree of direct supervision by the ECB on a daily basis and the role played by NCAs will vary according to the size and risk profile of banks.

The ECB has responsibility for the direct supervision of significant banks (defined under the SSM Regulation as banks whose assets exceed €30 billion or constitute at least 20% of their

home country's GDP, or which have requested or received direct public financial assistance from the European Financial Stability Facility (EFSF) or the European Stability Mechanism (ESM). In each participating country, at least the three most significant banks will be subject to direct supervision by the ECB, irrespective of their absolute size. It is for these direct supervisory tasks that the majority of expenditures, representing around 85% of the total annual supervisory fee (according to initial estimations), will be incurred and levied on the related category of banks.

Within the SSM, NCAs have direct responsibility for the day-to-day supervision of less significant banks. However, as the ECB is responsible for the overall functioning of the SSM, it may address general instructions to NCAs regarding the supervision of less significant banks and will retain investigatory powers over all supervised banks. Such powers include the authority to grant or withdraw authorisations, request information, conduct investigations and on-site inspections, assess acquisitions of qualifying holdings and impose sanctions, as well as the power to take on the direct supervision over less significant supervised banks when necessary to ensure a consistent application of high supervisory standards. These tasks of indirect supervision over less significant banks are expected to represent around 15% of the annual supervisory fee, which will be recovered from this category of banks.

6 WHICH BANKS WILL HAVE TO PAY A SUPERVISORY FEE TO THE ECB? IS THERE A DIFFERENTIATION BETWEEN SIGNIFICANT AND LESS SIGNIFICANT BANKS?

All banks supervised within the SSM will be subject to an annual ECB supervisory fee. However, the amount to be paid by significant banks and less significant banks will be proportionate to the ECB's supervisory effort. The share of total supervisory expenditures to be recovered from less significant banks will be much lower than the share allocated to the significant banks. Initial estimates show that approximately 85% of expenditures will be recovered from significant banking groups directly supervised by the ECB, and that only 15% of the ECB's overall supervisory costs will be recovered from over 5,800 less significant banks.

7 TO WHAT EXTENT ARE NATIONAL COMPETENT AUTHORITIES EXPECTED TO REDUCE THEIR SUPERVISORY FEES?

The SSM is a banking supervision system within which the NCAs play an important role. For the significant banks under the direct supervision of the ECB, the NCAs will cooperate with and assist the ECB in preparing and implementing any acts relating to the ECB's supervisory tasks.

In addition, NCAs will continue to have responsibility for the day-to-day supervision of less significant banks following the general instructions given by the ECB. These efforts by the NCAs generate costs that are not covered by the ECB supervisory fee.

Finally, the NCAs contribute to effective and proportionate decision-making through their participation in the Supervisory Board.

The ECB supervisory fee does not affect the NCAs' right to levy fees in accordance with national law for costs incurred in the performance of their supervisory activities, including tasks outside the scope of the SSM Regulation, such as consumer protection and the fight against money laundering. This right also covers the costs incurred in cooperating with and assisting the ECB in the execution of its supervisory tasks.

8 WHAT EXPENDITURES WILL THE ECB RECOVER VIA SUPERVISORY FEES?

The annual expenditure to be recovered by the ECB via its supervisory fee will primarily consist of the direct expenses of the new business areas that have been established for the conduct of SSM tasks. Two Directorates General will be responsible for the direct supervision of significant banks, one Directorate General for the indirect supervision of less significant banks and one Directorate General will be conducting horizontal tasks for both categories of banks. In addition, business area covering SSM-related macroprudential tasks and the Secretariat to the Supervisory Board have been created.

Finally, the new SSM functions receive various support services provided by the ECB. The related costs will be incorporated in the supervisory fee. Such services include the rental of premises, human resources management, administrative services, budgeting and controlling, accounting, legal, internal audit, statistical and information technology services. The ECB will build on its existing support infrastructures to provide these services efficiently to the SSM.

9 WHAT ABOUT COSTS INCURRED IN THE TRANSITIONAL PHASE?

The ECB will levy the supervised banks for expenditures incurred from the date the ECB will assume operational responsibility for supervision, i.e. November 2014. Expenditures incurred in the transitional phase prior to this date, such as the SSM start-up costs and the ECB's costs for the comprehensive assessment will not be charged to the supervised banks.

10 HOW WILL INDIVIDUAL FEES BE CALCULATED?

The SSM Regulation prescribes that the fees will be set at the highest level of consolidation within participating Member States, and will be based on objective criteria relating to the importance and risk profile of the bank concerned, including its risk-weighted assets.

The annual supervisory fee to be paid by each supervised bank will be the sum of a minimum fee component for all banks, based on 10% of the amount to be recovered, and a variable fee component. For the smallest significant banks, with total assets below EUR 10 billion, the minimum fee component will be halved.

For the allocation of the variable fee component, the bank's total assets will serve as the indicator for the importance of a supervised bank and its total risk exposure for the measurement of its risk profile incorporating its risk-weighted assets.

The ECB fee will be charged via an annual payment payable on 1 July at the earliest. The fee will cover an advance payment based on the approved budget for the expenditures in the current year. Any surplus or deficit between the amount collected in advance and the actual expenditures incurred in the previous year will be refunded or charged by the ECB.

11 HOW CAN SUPERVISED BANKS CALCULATE THEIR ANNUAL SUPERVISORY FEE?

The ECB will make available the information that banks require to estimate their annual supervisory fee.

On its website the ECB will publish:

- a) the decision of the Governing Council on the total amount of the annual supervisory costs that will be recovered from each category of supervised banks, i.e. the significant banks and the less significant banks;
- b) the total amount of the total assets and total risk exposure per category of supervised banks;
- c) the methodology used for the calculation of the supervisory fee.

Supervised banks will be able to estimate their annual supervisory fee by using this published information, together with their own fee factors (total assets and total risk exposure) as provided by the supervised banks concerned. The ECB will detail the derivation of individual fee factors for each supervised bank or group of banks in each fee notice issued.

12 HOW MUCH FEES DOES THE ECB EXPECT TO LEVY IN 2015?

The annual expenditure for 2015 is projected to be around €260 million. This expenditure can be roughly broken down into 60% for staff costs, 10% for premises-related costs and 30% for other operating expenditures such as travel, consultancy and IT services.

13 WHEN WILL THE ECB START INVOICING SUPERVISED BANKS?

The first fee notice will be issued in June 2015 and will be payable within 30 days. This first notice will encompass the expenditures for the final two months of 2014, together with the advance payment for 2015.

14 WHAT WILL HAPPEN IF BANKS DO NOT PAY THEIR SUPERVISORY FEE?

In the event of partial payment or non-payment by the due date, the ECB will initiate a follow-up procedure and will notify the bank concerned of the outstanding amount. Interest on the overdue amount will accrue on a daily basis from the due date at a rate of the ECB's main refinancing rate plus 8 percentage points.

15 HOW DOES THE ECB EXPECT THE COST OF SUPERVISION TO EVOLVE OVER TIME?

The ECB is still in a transition phase, building up its supervisory capacity. The steady-state level of the ECB's total supervisory expenditures will only emerge in the medium term. In any case, the supervised banks can expect that the ECB will exercise sound financial management and budgetary control over all areas of expenditure. The ECB's current best estimate for the year 2015 amounts to an annual cost of €260 million.

Even though the scope of its supervision may include activities that are temporary and/or are subject to considerable variation from year to year, the ECB will seek to contain cost volatility, so as to minimise the impact on the fees for supervised banks.

16 IF A NEW BANK IS AUTHORISED DURING THE YEAR, WILL IT BE CHARGED FOR A FULL YEAR? IF A BANK CEASES ITS BUSINESS DURING THE YEAR, WILL IT BE ELIGIBLE TO APPLY FOR A REFUND?

Each supervised bank is obliged to pay a levy for the portion of the year in which it is covered by the SSM.

Newly authorised banks will thus be obliged to pay a supervisory fee covering the period from the date of authorisation to 31 December of that year. Similarly, a bank whose licence is revoked will be obliged to pay a supervisory fee covering the period from 1 January to the date on which its authorisation ceases. The supervisory fee will be calculated by reference to the number of full months that the supervised bank was covered. This pro-rata approach also applies to a shift from the significant to the less significant category and vice versa. If the status of a supervised bank changes after a full fee calculation has already been paid, the ECB will make a refund or issue an additional invoice as the case may be.

17 WILL FEES BE COLLECTED FROM BANKS LOCATED IN NON-EURO AREA MEMBER STATES THAT MAY JOIN THE SSM?

EU Member States whose currency is not the euro have the possibility to participate in the SSM, through the establishment of a close cooperation between the national banking supervisor of those non-euro area Member States and the ECB. Supervised banks located in those countries will then also be obliged to pay supervisory fees to the ECB.

18 TO WHOM IS THE SSM AND ECB ACCOUNTABLE IN RESPECT OF SUPERVISORY FEES?

The ECB is accountable for its tasks to the European Parliament and to the Council. The ECB is subject to regular reporting requirements and will respond to questions asked by the European Parliament and national parliaments on its supervisory activities.

The Chair of the Supervisory Board will present an annual report on the ECB's supervisory activities to the European Parliament and the Eurogroup, which will include information on the amount of the supervisory fees. The Interinstitutional Agreement between the European Parliament and the ECB has confirmed that the annual report will cover the method for calculating the supervisory fees, together with the ECB budget for its supervisory tasks.

Information on the supervisory fees, including an explanation of how they are calculated, will also be published on the ECB website.

19 WILL THE FEE FRAMEWORK BE REASSESSED IN A NUMBER OF YEARS?

The ECB will conduct a review of the fee framework, in particular of the methodology and criteria for calculating the annual supervisory fee to be levied on each supervised entity and group, in 2017.

20 WHAT FEEDBACK CAN BE EXPECTED ON THE CONSULTATION PROCESS?

The public consultation on the ECB Regulation on supervisory fees will be open from 27 May 2014 to 11 July 2014.

The ECB will hold a public hearing on the consultation document on 24 June 2014 at its premises in Frankfurt am Main. A webcast of the public hearing will be available on the ECB's website after the event.

Following the public consultation, the ECB will publish the comments received along with an evaluation and summary of the responses. The ECB Regulation on supervisory fees will enter into force before the ECB assumes its supervisory tasks on 4 November 2014.