Public consultations - Draft ECB SSM Framework Regulation

The Nordic/Baltic banks would like to congratulate ECB for the significant progress in its preparation for introducing SSM as the pan European supervisor within the Euro zone. We are in general positive to the approach adopted in the draft framework. We are however concerned about the approach chosen in the SSM supervisory model for cross border banking groups with significant operations within SSM but where the parent company is domiciled outside SSM.

The Nordic/Baltic banks operate in seven geographic home markets: Sweden, Denmark, Finland, Norway, Estonia, Latvia and Lithuania of which some countries are participating Member States in the SSM and others are not.

According to current information eight of the potentially significant banks within SSM are subsidiaries to five Nordic banks domiciled outside SSM. When Lithuania joins the Euro, the number will increase to eleven. According to the proposed framework there will be one JST responsible for the supervision of each of these eleven subsidiaries and hence in several cases more than one JST will supervise subsidiaries belonging to the same group. In addition National Competent Authorities (NCA) within SSM will be responsible for the supervision of some other parts of these groups which are deemed to be less significant.

This approach will according to our opinion counteract the main goals for setting up SSM, i.e. to develop an efficient pan European banking supervision that will foster financial integration in Europe and sever the link between the member states and domestic banking systems.
The larger Nordic/Baltic banks are in general managed with a one-bank approach along functional lines rather than according to legal entities. The organisation usually follows a matrix structure where business entities are supported by a set of group functions deployed throughout the organisation. The subsidiaries in such groups are hence operationally integrated with the parent company and essential functions such as risk control, treasury, finance, compliance and internal audit are integrated on group level.

Setting up one JST for each country where such a group, integrated in line with the description above, operates is likely to create a situation where SSM may impose diverging requirements on the group’s common business model and its essential functions such as group risk, compliance, internal audit, treasury and finance, depending on the judgements made by the individual national JSTs.

The structure with several JSTs and potentially also one or a few SSM NCAs participating in the supervisory college of such a group is also likely to hamper an efficient process within the college, unless the SSM NCAs participating in the college act in a coordinated way. Such coordination is however probably best achieved if the different SSM NCAs responsible for supervision of the group’s national SSM entities are merged into one JST responsible for all SSM supervision of the group.

According to ECB’s recently published first Quarterly SSM Progress Report:

"each JST will be set up and staffed in a way that is tailored specifically to suit its supervised institution’s business model, risk profile and geographical distribution, involving all of the ECB and NCA supervisors working on the supervision of a specific bank. This allows for a highly integrated approach to the supervision of cross-border banks, enabling the JST to conduct its activities with a view to the institution’s specific risk profile and to ensure that the institution complies with the legal and prudential framework on an ongoing and forward-looking basis.

The operational management of the JSTs will be effective. The JST coordinator will be able to react to ad hoc events by adjusting supervisory priorities, re-targeting the JST’s activities, alerting ECB management or requesting further guidance or support from the Supervisory Board or Governing Council when needed."

According to our opinion ECB should extend the rule: one JST for each banking group with significant operations within SSM, also to the banking groups where the parent company is domiciled outside SSM in order to live up to this constructive ambition.