



# Frequently asked questions concerning Bulgaria's request to establish close cooperation with the ECB

## 1 What requirements does Bulgaria need to comply with to become a participant in the Single Supervisory Mechanism (SSM)?

Bulgaria has requested the establishment of close cooperation between the European Central Bank (ECB) and Българска народна банка (Bulgarian National Bank – BNB) under the conditions set out in Article 7 of the SSM Regulation<sup>1</sup>. This process entails, in particular:

- ensuring that the BNB will abide by any guidelines or requests issued by the ECB;
- providing all the information on credit institutions established in Bulgaria that the ECB may require for the purpose of carrying out a comprehensive assessment of those credit institutions;
- adopting relevant national legislation to ensure that the BNB will be obliged to adopt any measure in relation to credit institutions requested by the ECB.

Upon fulfilment of these conditions, the ECB will conduct its assessment and adopt a decision on Bulgaria's request to establish close cooperation, the starting date for which, if applicable, shall be conditional on the progress made in implementing the potential measures required as a result of the comprehensive assessment.

## 2 What are the roles of the BNB, the ECB and other Union institutions in the process of responding to Bulgaria's request to enter into close cooperation?

Following Bulgaria's request to enter into close cooperation, the ECB is now conducting an assessment of the request and is preparing the comprehensive assessment. The BNB is supporting this process. As provided for in the SSM Regulation, the European Commission, the European Banking Authority (EBA) and the other Member States were notified of Bulgaria's request to establish close cooperation.

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<sup>1</sup> 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 (OJ L 287, 29.10.2013, p. 63).

### 3 What will close cooperation mean for the supervision of Bulgarian banks?

Member States whose currency is not the euro may participate in the SSM by establishing close cooperation with the ECB. Once established, close cooperation implies that some credit institutions established in Bulgaria, that are classified as significant in accordance with Article 4 of the SSM Regulation, will be supervised by the ECB via instructions to BNB. Credit institutions classified as less significant institutions will continue to be supervised by the BNB, while the ECB will exercise an oversight role. The ECB will also be responsible for the conduct of common procedures for all credit institutions established in Bulgaria. Establishing close cooperation would also automatically entail the participation of Bulgaria in the Single Resolution Mechanism.

### 4 With close cooperation, will Bulgarian banks also have access to ECB liquidity?

Participation in the SSM through close cooperation implies a change in the supervisory and resolution framework, but does not have implications for the monetary policy operational framework, so Bulgarian banks will not have access to ECB liquidity.

### 5 When a Member State establishes close cooperation with the ECB, how is the supervision of credit institutions established in that Member State exercised?

As clarified by Article 107 of the SSM Framework Regulation<sup>2</sup>, with respect to significant supervised entities and groups and less significant supervised entities and groups established in the participating Member State in close cooperation, the ECB and the national competent authority in close cooperation shall be in a position comparable to the position of the ECB and national competent authorities with respect to significant supervised entities and groups and less significant supervised entities and groups established in euro area Member States. Such an arrangement will nevertheless take into account the fact that the ECB does not have directly applicable powers over credit institutions established in the participating Member State in close cooperation. Hence the need to ensure that the national competent authority will be obliged to adopt any measure in relation to credit institutions requested by the ECB.

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<sup>2</sup> Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) (ECB/2014/17) (OJ L 141, 14.5.2014, p. 1)

## 6 What is the objective of the comprehensive assessment?

The general objectives of every comprehensive assessment ([link](#)) conducted by the ECB are: (i) to enhance the quality of information available on the condition of banks, (ii) to identify problems and implement the necessary corrective actions, and (iii) to assess whether banks are fundamentally sound. More specifically, the asset quality review aims to assess the adequate valuation of balance sheet exposures, while the stress test aims to assess the resilience of banks to a stressed macroeconomic scenario, typically including an economic downturn. Both components focus mainly on risks to capital. Other risk areas, such as liquidity risk, operational risk and money laundering, do not fall within the scope of the exercise. The comprehensive assessment will be carried out using the latest methodologies available ([link](#)), both for the asset quality review and for the stress test, in order to guarantee a level playing field.

## 7 What criteria were applied to select the banks that will undergo the comprehensive assessment?

The selected banks have been chosen to ensure coverage that is consistent with Article 6(4) of the SSM Regulation and broadly comparable with the coverage of the comprehensive assessments conducted in 2014 at the time of the setting up of the SSM and in January 2015 when Lithuania adopted the euro. Institutions are identified on the basis of their size, risk profile and overall significance for the national economy. This implies taking into account several elements, such as the business model of the institution, its internal governance and risk management, its risks to capital, and its risks to liquidity and funding or its interconnectedness with the rest of the financial system. The significance status of the entity that may emerge from the recently announced agreement on the acquisition of Piraeus Bank Bulgaria AD (PBB) by Eurobank Bulgaria AD (Postbank) will be assessed at a later stage. If the new entity is found to be significant in the Bulgarian market, it will be subject to a comprehensive assessment in due course.

## 8 Who will conduct the comprehensive assessment, the ECB or the BNB?

The ECB will lead the comprehensive assessment. The BNB will be involved in the quality assurance process and will support the ECB in the conduct of the assessment.

9 Will the methodology be similar to the one used by the ECB for the comprehensive assessment of European banks in 2014? Will it be a bottom-up or top-down approach?

The methodology to be used for the asset quality review component of the comprehensive assessment is set out in the ECB's manual for the asset quality review of banks. The methodology to be used for the stress test component of the comprehensive assessment will be the methodology applied to the banks subject to the 2018 EBA-led stress test (i.e. bottom-up). Both methodologies are public and up to date and take account of the changes introduced by IFRS 9. Both are available on the ECB's website ([link](#)).

10 How does the stress test interact with the asset quality review?

The results of the asset quality review and of the stress test are combined through a join-up process in order to reach the final combined outcome of the comprehensive assessment.