



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

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Vice-Chair of the Supervisory Board

Single Supervisory Mechanism

Achievements after one year

**Eleventh High-level Meeting for the Middle
East & North Africa Region:**

**Global Banking Standards and Regulatory
and Supervisory Priorities**

Why do we need the SSM?

Root causes of recent financial crises

1. Weaknesses in the regulatory framework

- Inadequate requirements for capital / liquidity
- Limited supervisory powers
- Poor resolution framework

2. Banks behaviour

- Excessive risk taking
- Capital optimisation
- Regulatory and supervisory arbitrage

3. Weaknesses in supervision

- Not pre-emptive but reactive
- Box-ticking
- Same banks, same risks – differing supervision



Reforms to prevent reoccurrence

1. New regulatory framework

- Higher standards for capital / liquidity
- Comprehensive set of rules
- More tools to deal with ailing banks

2. Banking Union (SSM, SRM & SRF)

- Independent supervision → more objective supervision and less regulatory capture
- Bigger sample for comparisons → superior benchmarking and identification of risks but also best practices
- European Level Playing Field → deeper financial market integration

Banking union provides basis for tougher, more harmonised supervision

The SSM has two key objectives

Article 1 SSM Regulation

“This Regulation confers on the ECB specific tasks [...] relating to the prudential supervision of credit institutions, with a view to

contributing to the safety and soundness of credit institutions and the stability of the financial system within the Union and each

Member State, with full regard and

duty of care for the unity and integrity of the internal market based on equal treatment of credit institutions with a view to

preventing regulatory arbitrage.”



SSM objectives

1. Resilient banking system

- Identification of relevant risks
- Fair and consistent assessment of risks
- Timely and tough intervention in case of identified deficiencies
- Tough and forward-looking supervision of credit institutions

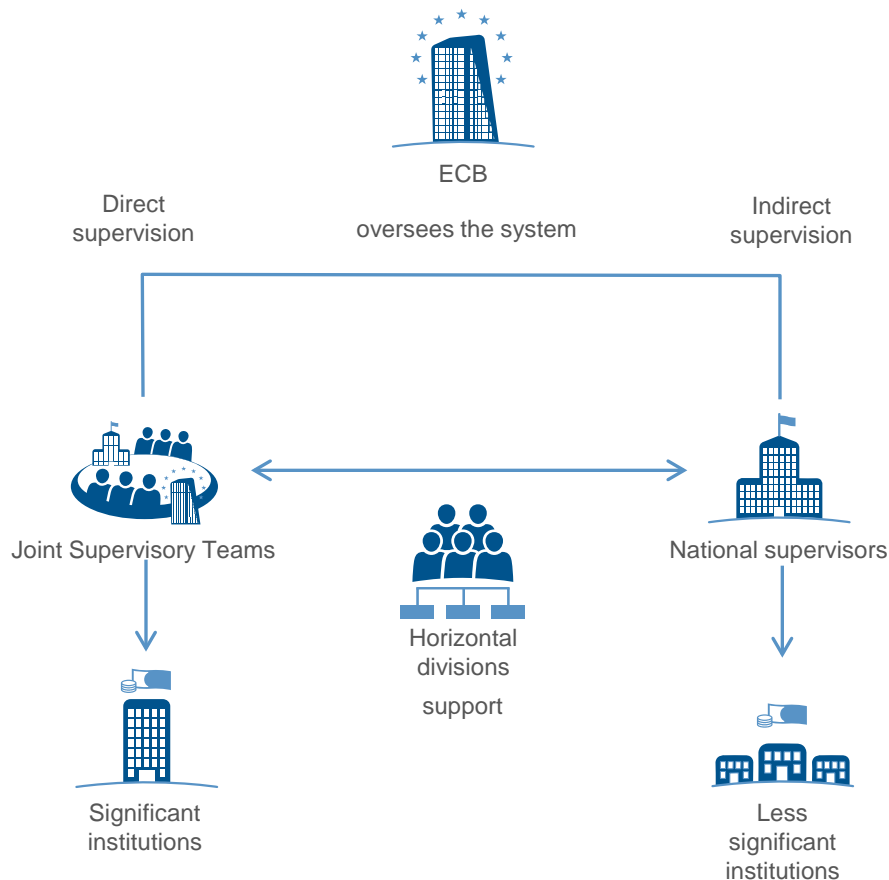
2. Financial Integration

- Development of harmonised supervisory methodologies and approaches
- Consistent application of the supervisory framework across all participating countries
- Creation of a supervisory level playing field

2. SSM approach to supervision

The SSM is an integrated system based on co-operation between national supervisors & the ECB

Distribution of tasks within the SSM



Key SSM facts

1. The SSM is one of the **world's largest banking supervisors**.
2. Currently **123 banking groups** (soon to be 129) in 19 countries under direct ECB supervision – including 9 out of 30 G-SIBs.
3. More than **80 %** of Euro Area Banking Assets under direct ECB supervision.
4. **C. 3,500 smaller institutions** are directly supervised by the national competent authorities (NCAs), with the ECB being responsible for the system at large.
5. Banking assets under direct and indirect SSM / ECB supervision amount to **more than 26 trillion Euros**.

The SSM has accomplished a lot in its first year of existence



SSM organisation

- More than 1,000 **SSM-related staff recruited**
- **SSM methodological and legal framework** implemented
- Key supervisory **infra-structures** set up and made operational
- **Joint Supervisory Teams (JSTs)** set up and made operational
- **Collaboration with NCAs** operationalised



Supervision

- **Comprehensive Assessment** and supervisory follow-up tasks completed
- **Key risks** within European banking sector identified and supervisory **priorities** defined
- **Supervisory programmes** for 123 SIs defined and implemented
- First SSM **Supervisory Review and Evaluation Process (SREP)** completed
- **Thematic reviews** on governance & risk appetite, leverage finance and IT Cyber risks security conducted



Harmonisation

- Harmonised **methodology for SSM SREP** developed and implemented
- Harmonisation of **Options and National Discretions (ONDs)**: 150+ ONDs identified, draft ECB policy package on c.120 ONDs prepared
- Official **SSM guidance** on dividend payouts published
- **Uniform supervisory practices** implemented in several areas (e.g. fit & proper assessments)

4. Outlook for 2016

The 2016 priorities build on an assessment of key risks faced by SSM banks

SSM Priorities

Business models & profitability drivers

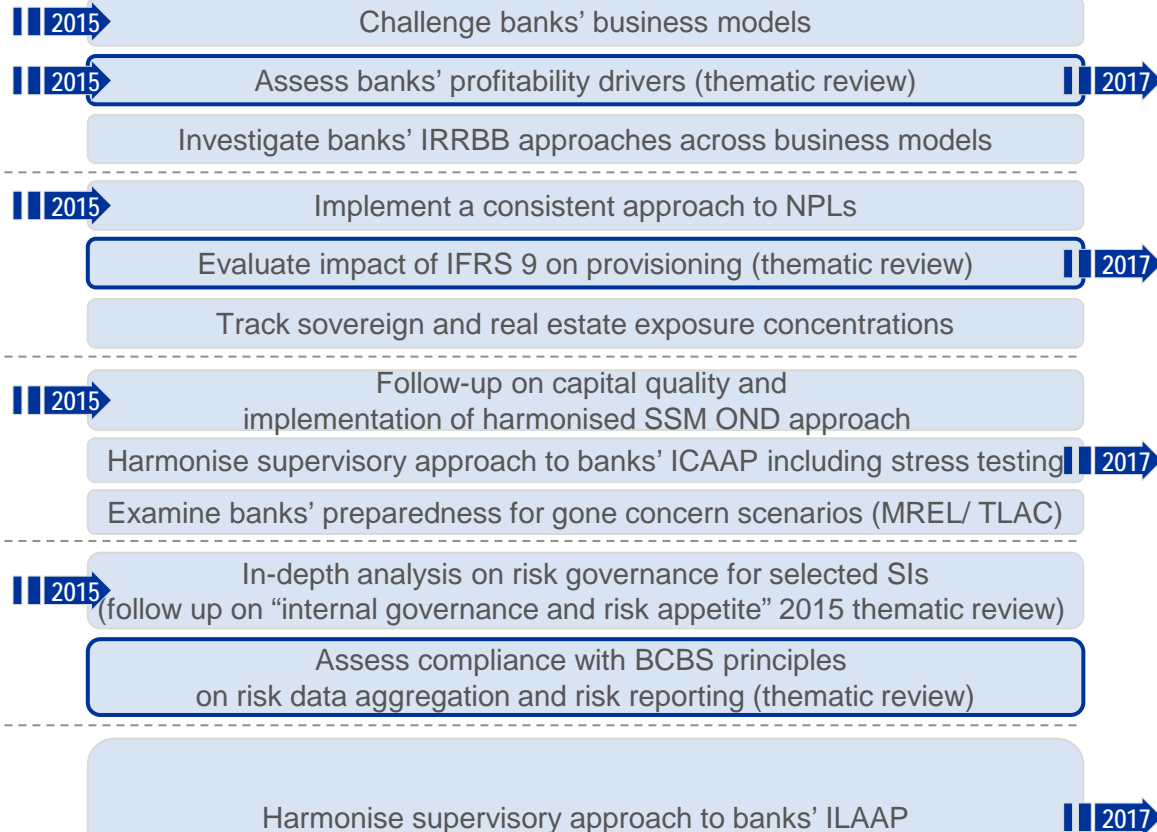
Credit risk focus on NPLs and concentrations

Capital adequacy

Risk governance & data quality

Liquidity

Activities



Conclusions

- We are proud that the SSM is a truly integrated system with the NCAs assisting the ECB in the exercise of its supervisory tasks.
- The SSM is looking back on a **successful first year**: We have successfully started to deliver on our key objectives of tough supervision and harmonisation.
- However, there is still a lot to do: Euro area banks are faced with numerous **challenges** which will require **close supervisory attention** in 2016.
- In addition, we **promote supervisory harmonisation** and **regulatory convergence** across SSM countries. We are working hard to take the next steps on this goal, and it will continue to be one of our key priorities throughout the year 2016 and beyond.