

# *ECB's Single Supervisory Mechanism*

Results of the ECB's Comprehensive Assessment, lessons learned, and the new SSM

11 November 2014



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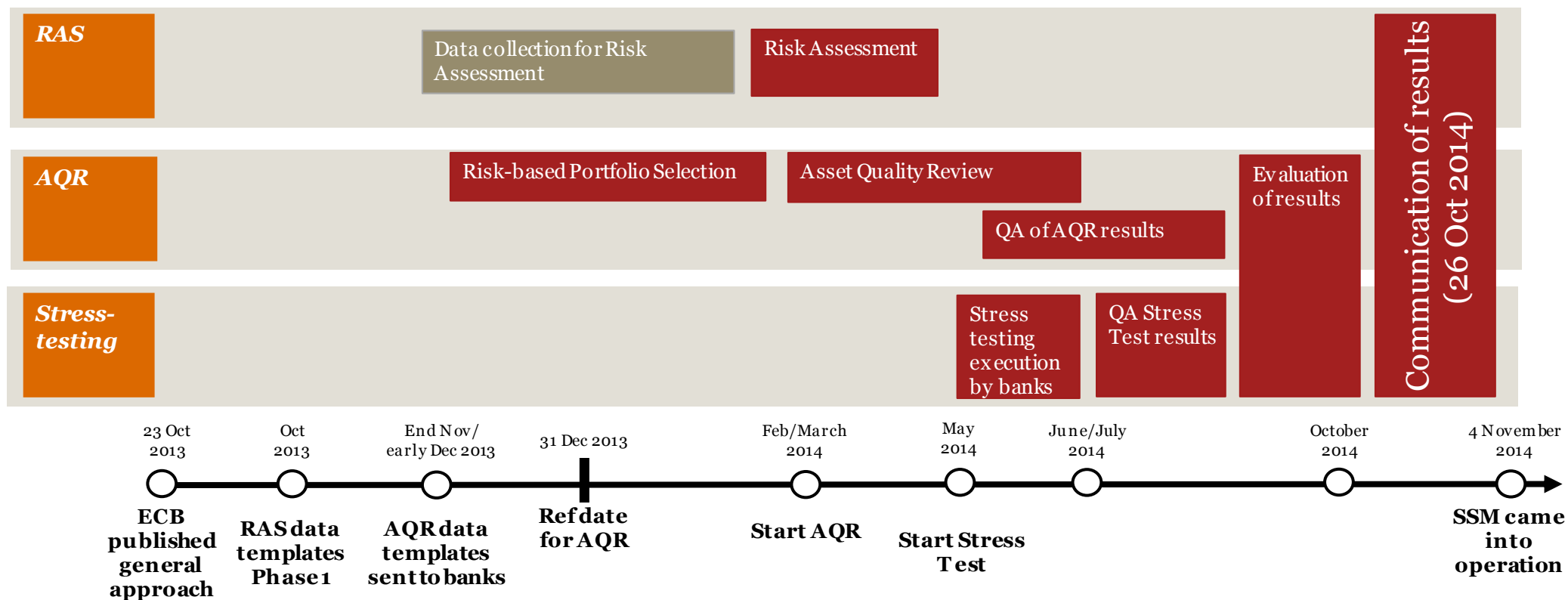
# *Results of the ECB's Comprehensive Assessment and lessons learned*

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## *The results of the Comprehensive Assessment were published on 26 October 2014*

- ❖ Conducted on **130 largest banks in the Eurozone**, consisting of an Asset Quality Review (AQR) and a Stress Test. A further 20 non-Eurozone banks were subject to the stress test only
- ❖ **11 banks failed** and need to raise **€7bn additional capital**
- ❖ **Another 14 banks “technically” failed** but do not have to raise additional capital due to restructuring efforts (2 banks) and sufficient capital raised since Jan 2014 (12 banks)
- ❖ **€40bn net capital raised during the period Jan – Sept 2014** due to capital actions undertaken by participating banks
- ❖ AQR resulted in aggregate **adjustments of €48bn to participating banks' asset carrying values** as of 31 December 2013;
  - ❖ Adjustments in accrual accounted assets, particularly to specific provisions on non-retail exposures
  - ❖ Non-performing exposure (NPE) stocks were increased by an aggregate **€136bn**
- ❖ **Aggregate capital impact of €263bn** under the **adverse scenario** of the stress test

# Overall timeline of the Comprehensive Assessment



**RAS:** Risk Assessment

**AQR:** Asset Quality Review: Prudential exercise, Point-in-time assessment (31 Dec 2013), EBA definition of Non Performing Exposures and Forborn Loans

**Stress Test:** CET 1 minimum target of 5.5% after the adverse scenario and 8% for the baseline scenario

## *The CA provided more transparency on the quality of the banks, but there were some limitations*

Benefits	Limitations
<ul style="list-style-type: none"><li>✓ <b>Enhanced transparency</b> of banks' asset quality across the Eurozone and basis for harmonisation of bank supervision</li><li>✓ Established AQR as the basis for a more <b>consistent view of non-performing exposures</b> and significant increase in NPE</li><li>✓ <b>More credible than previous stress test</b> with a more severe scenario and strong central quality control resulting in a significantly higher impact</li><li>✓ <b>Enhanced insight for bank supervisors</b> in portfolio-specific characteristics due to thorough assessment of loan classifications and provisions</li><li>✓ The exercise identified a number of data quality issues, which should <b>incentivise banks to improve their data management</b> capabilities</li></ul>	<ul style="list-style-type: none"><li>× Only a test of solvency, <b>no review of the viability</b> of the business models of banks</li><li>× CA provides <b>no guarantee for the performance of the banking sector going forwards</b>, as some risks were not stress-tested (e.g. liquidity, strategic and non-financial)</li><li>× Impact on bank capital was lower than expected by some market participants and <b>only the banks that failed can be forced to increase their capital</b></li><li>× <b>Results depend on the specific methodology</b> determined for the AQR, on national regulation (e.g. treatment of tax credits) and by the assumptions in the stress test</li></ul>

Source: Strategy& analysis: The ECB's Comprehensive Assessment; What can we learn from the results

ECB's comprehensive assessment and SSM

PwC

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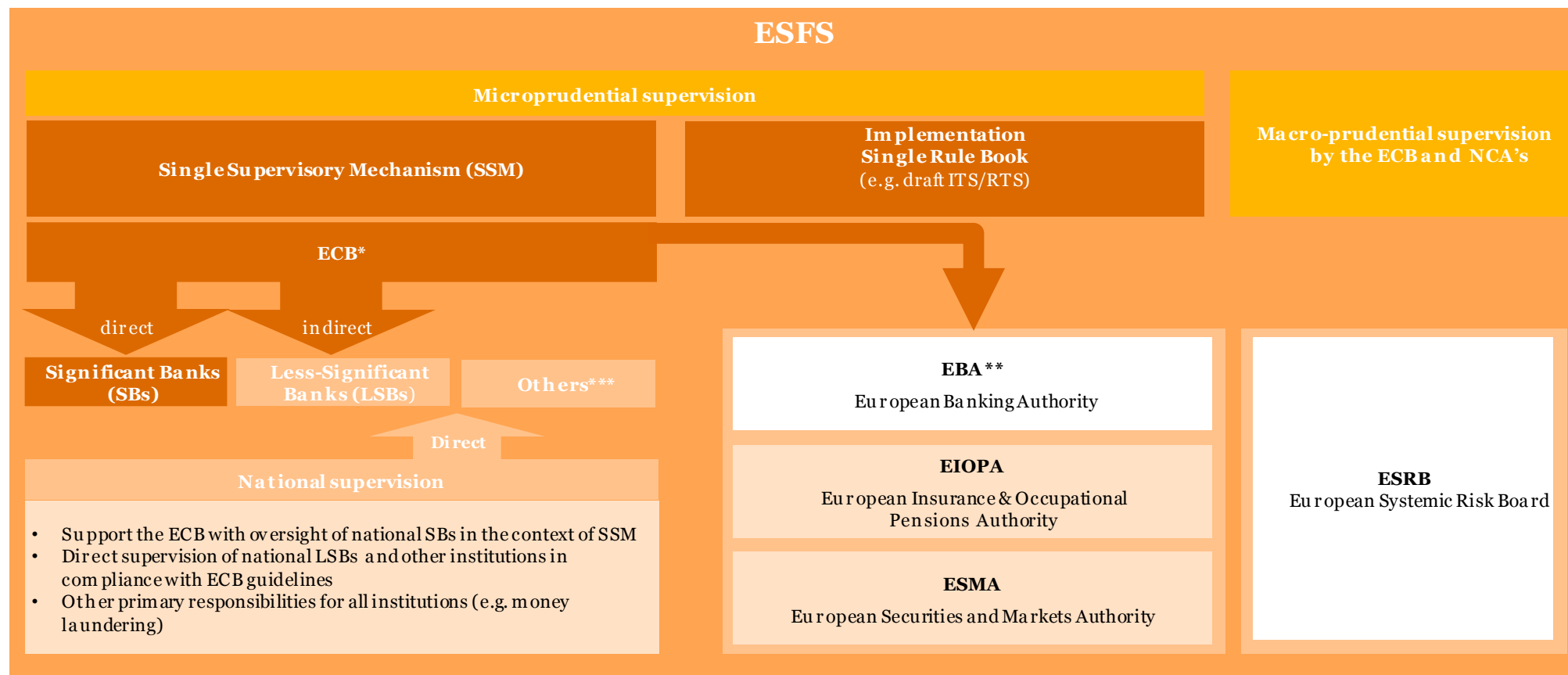
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# *SSM- the future supervisory landscape*

# 2

# Distribution of supervisory tasks

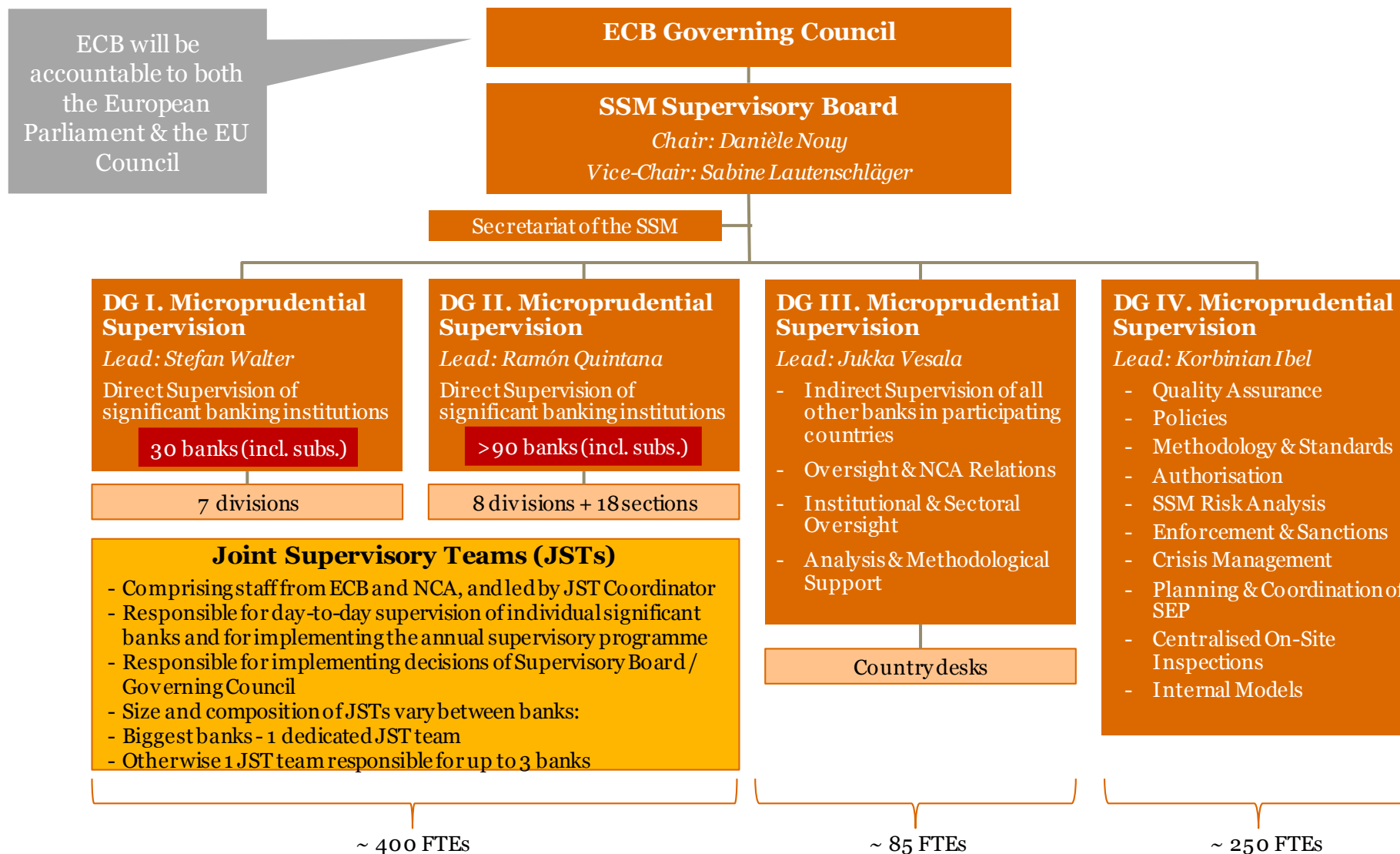


\* **ECB Supervisory Board:** EBA observes if invited

\*\* **EBA Board of Supervisors:** ECB observes

\*\*\* For example, smaller subsidiaries of directly supervised Significant Banks (by size and risk profile) may in practice be supervised by NCAs

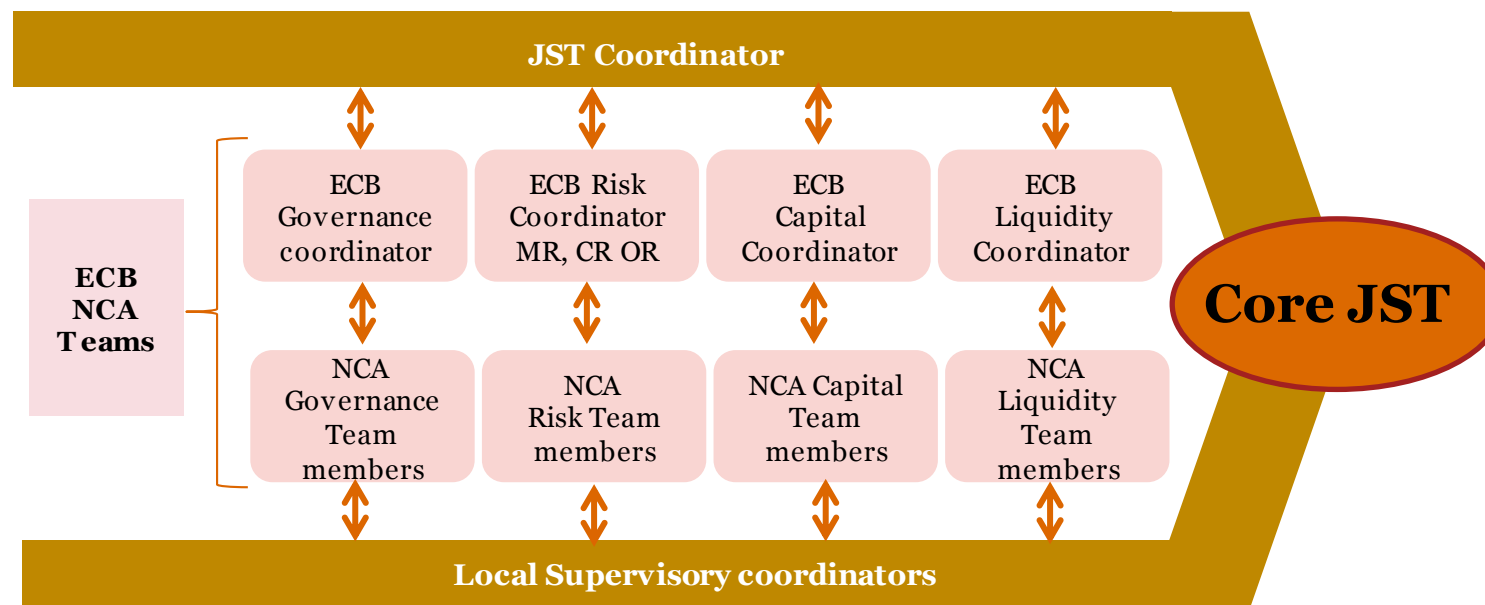
# Planned organisation of SSM



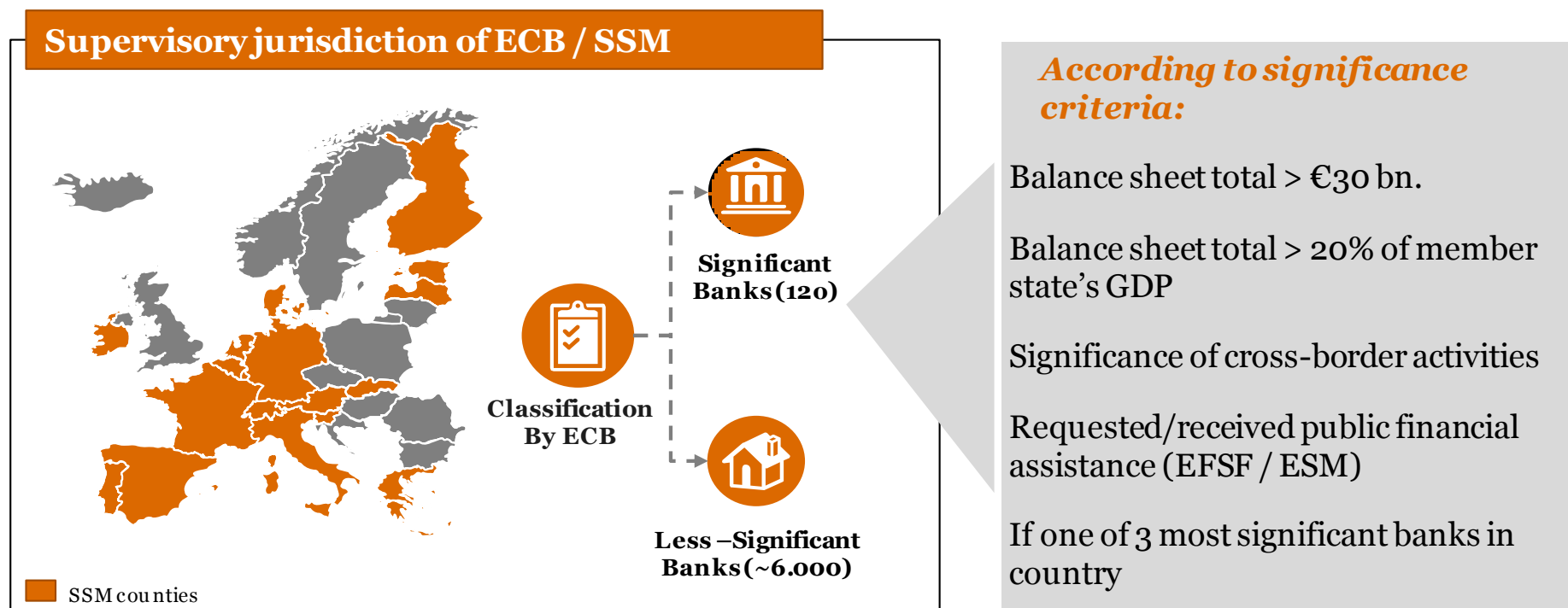


## Composition and tasks of the Joint Supervisory Team

- Joint Supervisory Team (JST-) coordinator fully empowered with clear lines of accountability.
- Strong ECB/NCA teams integrated by major risks across groups.
- JST-coordinator and Local Sub Coordinators into core JST structure.
- Local Sub Coordinators manage JST locally and operationally under responsibility of ECB.



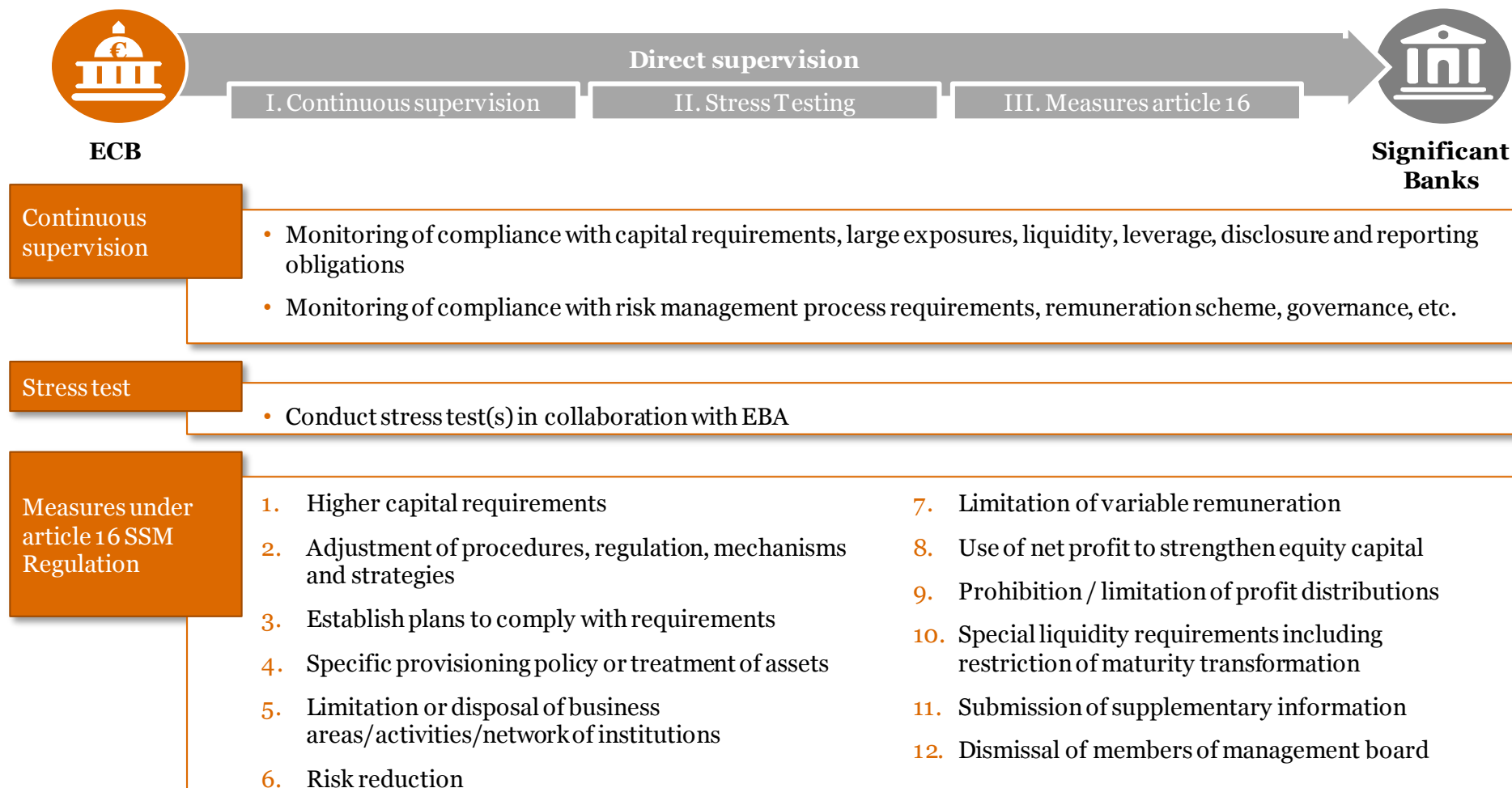
# Which banks are directly supervised by the ECB/SSM?



The list of Significant Banks (SBs) and Less-Significant Banks (LSBs (specifying responsible NCAs) **published on 4 Sept**

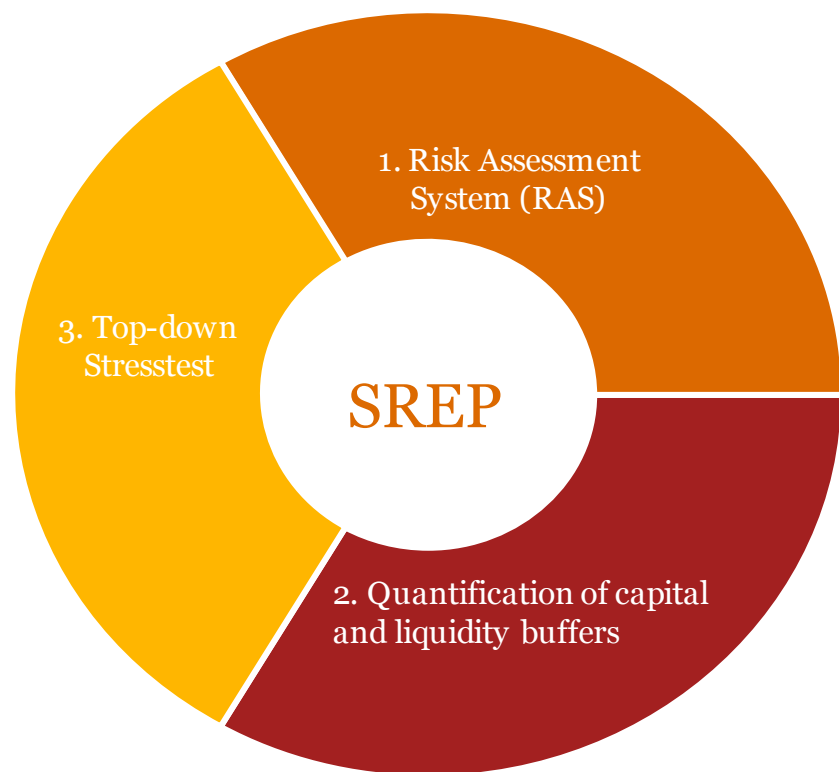
- └ If SBs does not meet significance criteria in 3 consecutive calendar years → direct supervision handed to responsible NCA
- └ If LSBs meets any of the significance criteria → direct supervision by SSM

# Powers of SSM in supervision of Significant Banks



# *SSMs Supervisory Review and Evaluation Process (SREP)*

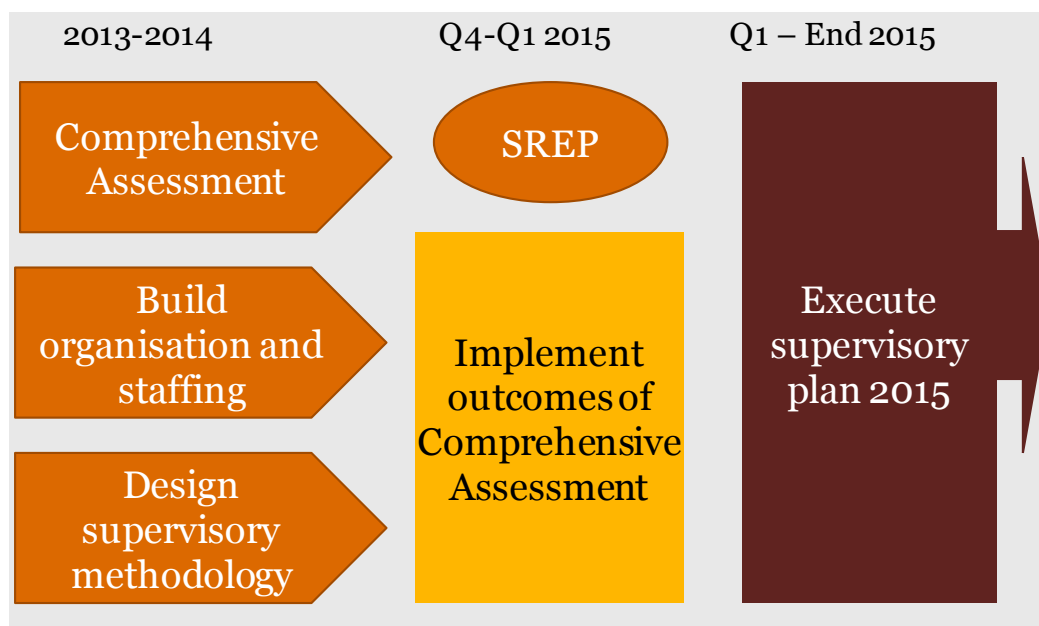
**There is a paradigm shift in the supervision of banks; from a static analysis of risks to a *dynamic assessment of risks and their impact on solvency***



## ***Key objectives of SREP:***

- to provide a **coherent assessment** of the risk profile of an institution
- to design the **supervision plan** and
- if, necessary, to propose **corrective measures...**

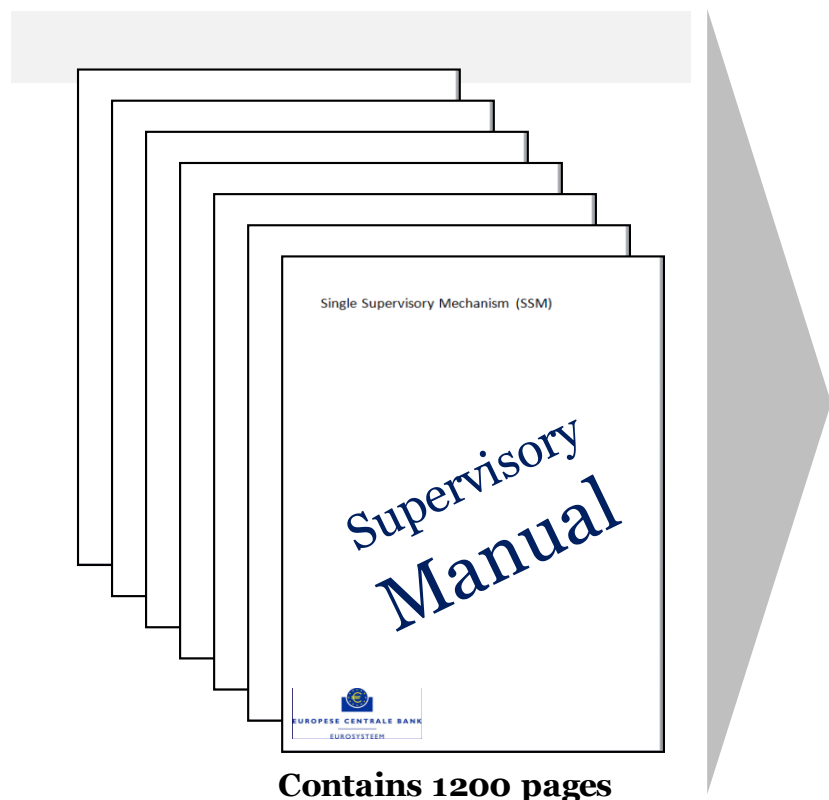
## *Expected short term supervisory priorities of the ECB*



### **Supervisory plan 2015**

- Execute RAS-2015
- Execute SREP 2015
- Capital planning and top-down stress testing
- Funding profiles and liquidity stress testing
- Supervision reporting broadened and deepened
- Revalidation of internal models for RWA calculations
- Remediation of AQR lessons learned wrt data quality and availability
- Data quality and IT/reporting capabilities
- Risk strategy (risk appetite framework)
- Governance structure

# General principles for the functioning of the SSM



**Contains 1200 pages**

**+ Guide published  
with 47 pages**

## According to the SSM Manual:

- Use of best practices
- Integrity and decentralisation
- Homogeneity within the SSM
- Consistency within the single market
- Independence and accountability
- A risk-based approach
- Proportionality
- Adequate level of supervisory activity for all institutions
- Effective and timely corrective measures

# *Achieving SSM readiness*

- 1 Implement CA outcomes (capital/provisioning)*
- 2 Remediation of AQR lessons learned regarding data quality and availability*
- 3 Develop stress testing and capital planning*
- 4 Assess quality of - re-validate - internal risk models for RWA calculation*
- 5 Adapt the ILAAP-SREP and ICAAP-SREP methodology*
- 6 Assess and improve data quality and reporting capability of the bank*
- 7 Develop a Risk appetite framework*
- 8 Reconsider the current Internal governance framework*
- 9 Set up Recovery & Resolution planning in relation in the context of SRM/BRRD*
- 10 Design a pro-active approach for the bank to deal with EU regulatory changes*

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# *Thank you*



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