

The Single Supervisory Mechanism (SSM):

Costs and Financing

In his foreword to the first Annual Report on supervisory activities 2014, Mario Draghi, President of the European Central Bank, wrote *'the setting-up of European banking supervision has been the greatest step towards deeper economic integration since the creation of Economic and Monetary Union'*¹.

The Single Supervisory Mechanism (SSM) is composed of the European Central Bank (ECB) and the national competent authorities² (NCAs). The ECB is responsible for the effective and consistent functioning of the SSM and oversees the system as set out in Regulation (EU) No 1024/2013³.

The Single Supervisory Mechanism became **operational** on **4 November 2014**. Before that date, new organisational structures had been built and integrated into the overall organisation of the European Central Bank.

Functioning

To perform efficient supervision, credit institutions are classified as **significant or less significant banks**. Categorisation is based on the size of the bank, its importance in the economy of the Member State where it is located, the importance of its cross-border activities and if the bank has received financial assistance from the European Stability Mechanism (ESM) or the European Financial Stability Facility (EFSF). The **ECB assumes direct supervision of the significant banks**.

The ECB may decide at any time, on its own initiative, to assume direct supervision of less significant credit institutions after consulting with national authorities (NCAs) or at the request of the NCA. In this specific case, the ECB may perform a comprehensive assessment of a bank's balance sheet, including an asset quality review

The supervisory function has been organised into **five new business areas** within the ECB: four Directorates-General and a Secretariat to the Supervisory Board. The first two Directorates-General deal with the direct supervision of significant banks, a third Directorate-General is responsible for the overseeing the direct supervision of less significant institutions by the NCAs. All horizontal and specialised expertise services of supervision are hosted by the fourth Directorate-General. On 16 December 2013 the EU Council has appointed Mrs. Danièle Nouy as Chair of the Supervisory Board of the SSM; her five-year term started on 1 January 2014.

Currently, there is a budget available for approximately 1000 additional posts for this new structure; around 960 people were recruited by the end of 2014.

This specific structure dedicated to the supervisory tasks contributes to the **separation between monetary policy and supervisory tasks**. Moreover, the ECB's Rules of Procedures clarify the separation of decision-making for the two policy functions.

¹ ECB Annual Report and supervisory activities 2014, March 2015.

² All Member States of the euro area and some EU Member States not in the euro area which have chosen to participate.

³ Council Regulation No 1024/2013 of 15 October 2013 conferring specific tasks to the European Central Bank concerning policies relating to the prudential supervision of credit institutions. OJ L 287, 29.10.2013.

Financing

The costs of the ECB supervisory tasks are covered by levying an **annual fee⁴ on all supervised banks**. The fee is calculated according to the bank's importance and its risk profile. Big banks with high risk profile pay higher fees.

The anticipated expenditure for the **prudential supervision** of the euro area for the full **2015 year** amounts to **€ 296 million**. The **123 significant banks** directly supervised by the ECB⁵ cover **89% of the supervisory costs** while the 3,500 less significant banks cover the remaining 11%.

The ECB built up its resources for supervisory tasks throughout 2014. For the full 2014 year, total costs of € 156.9 million were incurred by the ECB in relation to its new supervisory role. This amount can be broken down into € 68.9 million (45%) for salaries and benefits, € 13.2 million (8%) for rent and building maintenance and € 74.8 million (48%) for other operating expenditure⁶.

November 2014 is the official date when the ECB assumed operational responsibility for supervision. Expenditure 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, but are borne by the ECB. Therefore, the annual supervisory fee for 2014 covered the period from November to December only and amounted to € 30 million which can be broken down into € 18.5 million (62%) for salaries and benefits, € 2.2 million (7%) for rent and building maintenance and € 9.3 million (31%) for other operating expenditure. This amount will be collected from the supervised entities in 2015, in addition to the € 296 million due for 2015.

Accountability

The SSM Regulation sets out a comprehensive and robust accountability framework⁷ which is clarified in an **Interinstitutional Agreement⁸** between the European Central Bank and the European Parliament and a **Memorandum of Understanding⁹** between the European Central Bank and the EU Council.

Channels of accountability include regular hearings and exchanges of views with the European Parliament, in particular the Committee on Economic and Monetary Affairs and written questions from MEPs. In addition, the ECB submits annual reports on how its supervisory tasks were carried out.

In the preparatory year before the official launch, the ECB submitted quarterly reports¹⁰ describing the progress made in the setting up of Single Supervisory Mechanism.

⁴ Article 30 Council Regulation No 1024/2013, OJ L 287, 29.10.2013.

⁵ List of significant and less significant banks as of August 2015 can be found at this address: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/list_sse_lsi.en.pdf?0ca6b710966e9f8621d648c0ba5d0afc

⁶ Source: ECB Annual Report and supervisory activities 2014, March 2015.

⁷ Article 20 Council Regulation No 1024/2013, OJ L 287, 29.10.2013.

⁸ Interinstitutional Agreement between the European Parliament and the European Central Bank on the practical modalities of the exercise of democratic accountability and oversight over the exercise of the tasks conferred on the ECB within the framework of the Single Supervisory Mechanism, OJ L 30.11.2013.

⁹ Memorandum of Understanding between the Council of the European Union and the European Central Bank on the cooperation on procedures related to the Single Supervisory Mechanism (SSM), OJ L 287 29.10.2013.

¹⁰ <https://www.bankingsupervision.europa.eu/press/publications/date/2014/html/index.en.html?skey=quarterly>.

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