BRIEFING

The Single Supervisory Mechansim - Main Features, Oversight and Accountability

Overview

The Single Supervisory Mechanism (SSM) is, along with the Single Resolution Mechanism, one of the pillars or the Banking Union (the third pillar, the common deposit guarantee scheme, still pending completion). It comprises the European Central Bank, in its supervisory capacity, and the national supervisory authorities (NCAs) of participating Member States.

All **euro area Member States** automatically participate in the SSM. Non-euro area EU Member States can choose whether to participate in the SSM by entering into "close cooperation" with the ECB, the procedures for which are set out in the ECB decision of 31 January 2014. As for the rest (non-participating EU Member States), the ECB and the respective competent authorities will conclude a memorandum of understanding describing how they intend to cooperate in the course of their supervisory tasks. The ECB will also sign a memorandum of understanding with the competent authority of each EU country that is home to at least one global systemically important institution.

Two "SSM regulations" entered into force in November 2013, one conferring supervisory powers on the ECB, the other amending the regulation on the European Banking Authority (EBA) with respect to the new supervisory powers of the ECB. During a one-year transitional phase, the ECB prepared for the full take-up of its new supervisory tasks. In particular, the ECB carried out a **Comprehensive Assessment** (comprising an asset quality review and a stress test) of all banks that are now under direct supervision by the SSM. On 26 October 2014, the ECB published the results of the Comprehensive Assessment in an Aggregate Report. The SSM became fully operational on 4 November 2014.

Mandate

In the context of the SSM, the ECB is responsible for the direct supervision of the most **significant banks** (also referred to as "significant institutions"), which hold almost 85% of total banking assets in the euro area, and for indirect supervision, through the NCAs, of all other banks (referred to as "less significant institutions"). ECB is, thus, ultimately responsible for the whole banking sector. The

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list of significant and less significant institutions is regularly updated and disclosed. The ECB can, at any time, decide to directly supervise any institution.

The ECB is responsible for granting or revoking authorisation ("licencing") any bank established in a participating Member State and for assessing acquisions and disposals of major holdings in such

Box 1: Significant institution

A bank is considered **"*significant*"** based on:

- its total value of assets;
- its importance for the economy of the country in which it is located or the EU as a whole;
- its scale of cross-border activities;
- whether it has received public financial assistance from the European Stability Mechanism (ESM) or the European Financial Stability Facility (EFSF).

In each participating country, at least the three most significant credit institutions will be subject to direct supervision by the ECB, irrespective of their absolute size.

institutions. The conducts supervisory reviews, on-site inspections and investigations, assesses compliance with prudential rules and governance requirements and sets capital requirements. The

ECB also has the power to impose penalties. The SSM Framework Regulation sets out the legal structure for cooperation with NCAs within the SSM.

Banks within the banking union pay fees to finance the supervisory functions.

Structure and decision making

Box 2: Appointments

The ECB shall provide the EP's competent committee with the **shortlist** of candidates for the position of the Chair of the Supervisory Board.

A **public hearing** of the proposed Chair and Vice-Chair of the Supervisory Board shall be held in the EP's competent committee.

The EP shall decide on the **approval** of the candidate proposed by the ECB for Chair and Vice- Chair through a vote in the competent committee and in plenary.

For further information on appointments see EGOV paper "Single Supervisory Mechanism (SSM) - Accountability arrangements and legal base for hearings in the European Parliament".

The planning and execution of tasks conferred to the SSM is entrusted to an ECB internal and independent body - the Supervisory Board - composed of a Chair and Vice Chair, four representatives appointed by the ECB and one representative of each national competent authority of the participating Member States.

The decisions are adopted by the Governing Council under a non-objection procedure (meaning that if the Governing Council does not object within a defined period of time, the decision is deemed adopted). The Commission can be invited as an observer but has no access to confidential information pertaining to individual institutions. The Supervisory Board is assisted by a permanent Secretariat. A subset of Supervisory Board members compose a Steering Committee, responsible for supporting and preparing the Boards' meetings.

In order to avoid a potential conflict of interest, clear rules govern the organisational and operational **separation of the ECB roles** in the area of supervision and of monetary policy. The ECB decision of 17 September 2014 sets out the arrangements to separate the monetary policy function from its supervisory function: the operation of the Governing Council is separated as regards monetary and supervisory functions, a strict separation of meetings and agendas is applied. ECB staff carrying out supervisory tasks is separated from those involved in other tasks. Professional secrecy and ECB's confidentiality regime are to be applied strictly. Nevertheless, information may be exchanged between the policy functions, subject to internal governance and procedural rules.

The ECB has published a Guide to banking supervision ("Supervisory Manual") which explains how the SSM actually functions. At the core of operations are Joint Supervisory Teams (JSTs), which comprise staff from both NCAs and the ECB and conduct the day-to-day supervision of each of the directly supervised banking groups. The size, overall composition and organisation of a JST varies depending on the nature, complexity, scale, business model and risk profile of the supervised credit institution. JST are led by a coordinator at the ECB who is generally not from the country where the supervised institution is established. JSTs review inter alia the arrangements, strategies, processes and mechanisms implemented by significant institutions and evaluate the risks to which the institutions are or might be exposed, the risks that those institutions pose to the financial system in general, and the risks revealed by stress testing.

Oversight and accountability

The ECB is in its supervisory role accountable to the European Parliament[1] and to the Council. Details of its accountability towards Parliament (and the Council[2]) are laid down in Regulation (EU) No 1024/2013 and in an Interinstitutional Agreement (IIA) between the European Parliament and the ECB:

The Chair of the Supervisory Board shall present the **annual report** in public to the EP.

- The Chair of the Supervisory Board shall, upon EP request, participate in ordinary public **hearings** on the execution of its supervisory tasks twice a year, in additional to ad-hoc exchanges of views on invitation and in special confidential meetings where necessary for the exercise of EP's powers.
- Upon EP request, the Chair of the Supervisory Board shall hold **confidential oral discussions** behind closed doors with the Chair and Vice- Chairs of the competent committee of the EP where such discussions are required for the exercise of the EP's powers under the TFEU.
- The ECB shall reply orally or in writing to **EP's questions**[3].
- The ECB provides ECON with records of proceedings of all Supervisory Board meetings, including a comprehensive and meaningful account of the Supervisory Board's discussions and an annotated list of its decisions.

For further information on accountability see EGOV paper "Single Supervisory Mechanism (SSM) - Accountability arrangements and legal base for hearings in the European Parliament". For an

[1] The ECB is also accountable to national parliaments (article 21 of the SSM regulation). National parliaments receive the ECB annual report and may direct reasoned observations the ECB has to reply to, can address questions to the ECB and may invite the Chair or a member of the Supervisory Board to participate in an exchange of views in relation to the supervision of credit institutions in that Member State together with a representative of the national competent authority.

[2] Accountability of the ECB towards the Council is detailed in a memorandum of understanding between the two institutions.

[3] The ECB makes available in its website the responses to such questions.

overview of external expertise provided during the 8th legislatibe term in advance of hearings in the competent Committee of the EP, see this separate EGOV paper.

Review

As set out in article 32 of the SSM regulation, by 31 December 2015, and **every three years** thereafter, the Commission shall publish a report on the functioning of the SSM. The report should address, inter alia, the functioning of the SSM, the ECB relationship with NCAs, the effectiveness of the ECB's supervisory and sanctioning powers, accountability and independence, the appropriatness of governance arrangements and the cost efficiency of the ECB. The Commission published a first report in October 2017 where it concluded that the SSM has been fully implemented, is functional and has improved level playing field and confidence. Althought the Commission noted that there is scope to further improving the functioning of the supervisory framework, no amendments to the SSM Regulation were proposed.

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