

## BRIEFING

# ECA's Special Report on the Single Supervisory Mechanism

### A summary of the main findings

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*This briefing is prepared in view of the joint CONT-ECON meeting on 13 February 2017 from 20:30 to 21:30 in Strasbourg (room WIC 200) on the European Court of Auditors' Special Report "[Single Supervisory Mechanism – Good start but further improvements needed](#)" of 18 November 2016.*

The Special Report by the European Court of Auditors (ECA) focuses on the operational efficiency of the Single Supervisory (SSM), its governance structure, and the organisation, resourcing and procedures of banking supervision teams, both for off-site and on-site supervision.

It concludes, inter alia, that (p. 134, emphasis added)

- *“...a complex **supervisory structure** was put in place relatively quickly but the complexity of the new system is a challenge especially since the new mechanism remains **too heavily dependent on the resources of the national supervisors**. Thus, despite its overall responsibility, the ECB has insufficient control over some important aspects of banking supervision.”*

Due to some restrictions regarding the access to information, the ECA said it was not in the position to fully assess whether the ECB is managing efficiently the SSM. The report states that (p. 9, emphasis added):

- *“We [ECA] became aware, however, of an important obstacle in all areas of our intended audit – namely, the emergence of **disagreement with the ECB over the exact terms of our mandate and right to access documents**.”*

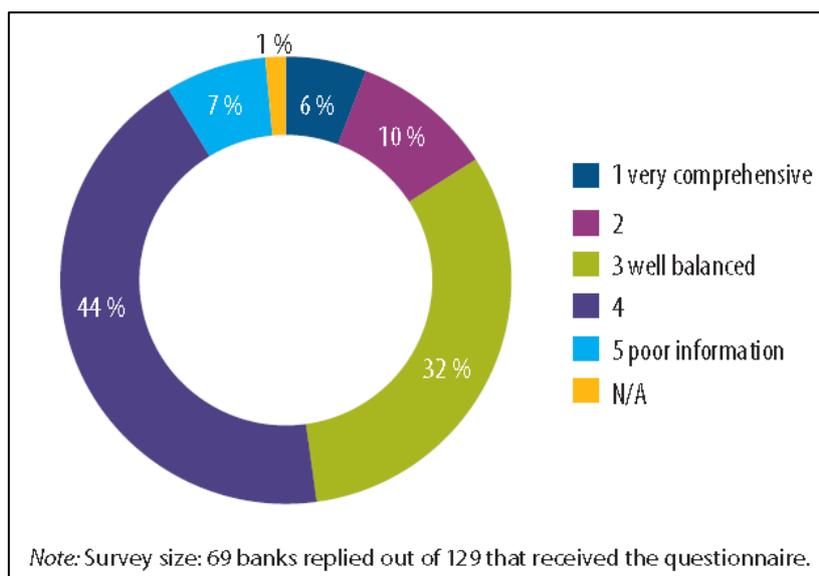
The ECA argues that as a result of the transfer of certain supervisory responsibilities to the ECB/SSM, an **audit gap** has emerged in those countries where previous audit mandates of national supreme audit institutions (SAIs) over banking supervisors were not replaced by a similar level of audit by the ECA over the ECB's supervisory activities. This aspect was already raised in a [Statement](#) by the Contact Committee on 25 September 2015.

As regards the SSM's accountability arrangements, the ECA's report points out that the ECB has so far **not developed a formal performance framework** for the SSM (though formal performance indicators are a common part of the supervisory function in other jurisdictions), and that an internal benchmark tool (the SSM Supervisory Dashboard Pilot) is only available to the Supervisory Board and to senior management. The report concludes that the ECB's efforts to ensure transparency and **accountability for the SSM towards the European Parliament** and the general public are potentially **weakened** by the lack of a proper mechanism for assessing and then reporting on supervisory effectiveness.

As regards the organisational set-up of the SSM, the report concedes that the ECB managed swiftly to establish a new organisational structure to host the supervision function (p. 22), and that recruitment were effective given the time constraints (p. 24). The report is, however, critical as regards the current **decision-making procedures that are complex**, with many layers of information exchange and significant involvement of the Supervisory Board Secretariat (p. 26). An overburdening of the Board could be avoided by delegating ‘routine’ decisions, giving more time to focus on more sensitive, material and discretionary issues.

Another critical point mentioned in the report is the limited transparency of information for supervised banks, as the ECB is said to have taken a selective approach on disclosure. As a result, the supervised banks are unable to fully comprehend the outcome of the Supervisory Review and Evaluation Process (SREP). The ECA sent a questionnaire to the supervised banks and found that about half of them expressed **concern about the lack of transparency**.

**Figure 1: Banks’ perceptions on the disclosure of the SREP**



Source: European Court of Auditors' Special Report "[Single Supervisory Mechanism – Good start but further improvements needed](#)", p. 49

Other critical points in ECA’s report refer in particular to shortcomings regarding the **staffing**, planning and execution of on-site inspections which are carried out by the Joint Supervisory Teams (JSTs). The report highlights that **JSTs depend very much on resources from national competent authorities** (NCAs) over which the ECB has little control (p. 59, emphasis added):

- *“To staff the JSTs, the ECB is heavily reliant on the participating NCAs. However, there is no formal procedure for the ECB to request additional resources from an NCA. The process for assigning NCA staff to the JSTs is **dependent** on bilateral ad hoc agreements and **on the good will of the NCAs**. While the NCAs have a duty to cooperate in good faith, the number of NCA staff to be made available to the ECB is not specified in a legally binding manner. Moreover, NCAs are free to move or otherwise deploy their supervisory staff as they see fit”*

Referring to recital 47 and Article 12(1) of the [SSM Regulation](#), the ECA expected to find that ECB staff should play a pivotal role in on-site inspections - that expectation was not confirmed by the audit. The report hence critically remarks that (p. 70, emphasis added):

- “...the current level of **ECB’s involvement is surprisingly low** and not in keeping with the spirit of the Regulation. Moreover, the Supervisory Manual states that ‘on-site inspection teams are, as a rule, led by NCA staff’, which is **not consistent with the text of the Regulation.**”

In fact, an **analysis of the on-site inspections** carried out up to October 2015 showed that out of 235 on-site inspections, only twenty-nine or 12% of the total were led by the ECB (specifically by its Centralised On-site Inspection division COI), while the **majority were led by an NCA.**

The report hence gives inter alia the recommendation that the ECB should supplement or redeploy its staff to allow it to **substantially strengthen its presence** in on-site inspections of significant banks based on a clear prioritisation of risks.

The European Court of Auditors' Special Report on the Single Supervisory Mechanism was also one of the topics in the **Eurogroup meeting** of 26 January 2017. Following that meeting, J.Dijsselbloem remarked that

- *“Finally, we exchanged views on the recommendations of the European Court of Auditors' Special Report on the Single Supervisory Mechanism. We fully agree with the overall assessment of the Report. And I have to say that the ECB has been very effective in setting up the SSM in a very short period of time. Really great work. The Report does deliver a number of recommendations for further improvements and the ECB has been very clear that they will take on those recommendations and work on those improvements and we will take stock of the follow-up in the coming months in the framework of our regular dialogue with the SSM.”*

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