

## BACKGROUND NOTE

# Ad hoc Exchange of Views with Danièle Nouy, Chair of the Single Supervisory Mechanism

ECON on 4 February 2014

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*This is a note prepared in advance of the presentation of the **first quarterly report on progress** in the operational implementation of the SSM (referred to in Regulation [1024/2013](#)), in particular on the state of play of internal preparation, organisation and planning of the SSM, as in line with the [Interinstitutional Agreement](#) between the EP and the ECB.*

## I. Recent developments

Ahead of the first quarterly report on progress in implementation of the Single Supervisory Mechanism (SSM), the ECOFIN was briefed by the ECB on the SSM implementation on [28 January 2014](#). The ECB stated to be ready to take up supervisory tasks under the SSM **on 3 November 2014**, subject to operational arrangements.

The SSM supervisory board (the Board), in charge of planning and execution of the supervisory tasks conferred on the ECB, held its first meeting on 30 January 2014. Thereafter, the ECB will submit **the first Quarterly Report** on the progress in the operational implementation of the SSM to the EP, the Council and the COM (to be published on 4 February 2014).

At the end of January and ahead of publication of the Quarterly Report, the ECON Chair addressed [26 questions](#) to the SSM Chair on the SSM set up, the AQR and various staff issues.

On [3 February 2014](#) the ECB published a **note on comprehensive assessment** with overview of the recently agreed key building blocks of the stress test, an outline of the progress made to date on the AQR, more details of the AQR methodology and a summary of the approach with respect to quality assurance.

## II. Set up of the SSM

The SSM will be responsible for the euro area as well as non-euro area Member States that choose to participate. It will be in charge direct oversight of banks, although in a differentiated manner and in close cooperation with national supervisory authorities.

Concerning the significant banks, the SSM will exercise direct supervision, while for the **less significant institutions (LSI)**, National Competent Authorities (NCAs) remain responsible for the day-by-day supervisory activities, but the ECB retains important strategic functions, including regarding initial licensing, withdrawals of licenses and the assessment of acquisitions of qualifying holdings, which are handled jointly.

The ECB is currently drafting internal rules on **separation between monetary and supervisory policy** applied both at decision making level as well as staff level.

As stated in the letters of the ECB President of [15 November 2013](#) and [10 January 2014](#), there are **five work streams** (working groups) in the process of establishment of the SSM:

- Initial mapping of the euro area banking system;
- Legal considerations for establishing the SSM;
- Development of the supervisory model;
- Preparation of the supervisory reporting framework;
- Preparation of comprehensive assessment.

After the EP's approval, the Council appointed Ms Danièle Nouy as the first-ever Chairperson of the Board on [16 December 2013](#). She was appointed from 1 January 2014 for a **five-year term** of office.

Prior to this nomination, Ms Nouy was Secretary General of the French Prudential Supervision and Resolution Authority. She formerly held the positions of Deputy Secretary General and Secretary General of the Basel Committee on Banking Supervision.

On [22 January 2014](#), the ECB Governing Council proposed **Sabine Lautenschläger as Vice-Chair** of the Board, thereupon confirmed by ECON and the EP plenary. The process of nomination of the four ECB representatives of the Board by the ECB Governing Council is on-going.

Organisationally, the SSM will have **four General Directorates** and a **Secretariat**. Business areas of administration, IT, HR, budget, organisation, communication, languages, legal service, statistics and internal audit will be shared by the entire ECB. On [9 January 2014](#), the ECB Executive Board appointed the four Directors General: *Stefan Walter*, currently Principal of Global Regulatory and Supervisory Policy at Ernst & Young (DG Micro I responsible for significant banking groups), *Ramón Quintana*, currently Director General of Banking Supervision at the Banco de España (DG Micro II responsible for significant banking groups), *Jukka Vesala*, currently Deputy Director General at the Finnish Financial Supervisory Authority (DG Micro III responsible for LSIs) and *Korbinian Ibel*, currently Divisional Board Member, Group Risk Controlling and Capital Management, at Commerzbank (DG Micro IV responsible for horizontal supervision and specialised expertise).

As to the **language**, the supervised entities may address the ECB in any of the EU official languages. First comprehensive assessments tables will be however sent in English unless a bank requests otherwise.

### III. Comprehensive Assessment

The process of comprehensive assessment (risk assessment + asset quality review + stress test) concerns all of the 128 banks deemed significant under SSM over which the ECB will have direct oversight as of November 2014. These banks cover approximately 85% of euro area bank assets.

In its [note on comprehensive assessment](#), the ECB presented recent progress in **Asset Quality Review** (AQR) methodology to be finalised in the coming weeks as well as in completion of data collection for the AQR portfolio selection, with collection of other data under way.

For the **stress test component** of the comprehensive assessment, the ECB announced to cooperate closely with the European Banking Authority (EBA), and to apply the methodology and parameters agreed and announced by EBA on [31 January 2014](#). The latter will conduct an EU-wide stress test on a **sample of 124 EU banks** which cover at least 50% of each national banking sector, and will be run at the highest level of consolidation. The ECB will in parallel conduct a **stress test of 128 banks under the SSM**, incorporating results of the on-going AQR.

The stress test will cover credit, market, funding and securitisation risks. As announced by the EBA, **sovereign exposures** in held-to-maturity portfolios will be treated in the same way as other credit exposures in that portfolio, i.e., the impact of the scenarios on the default and loss parameters will be calculated and will result in larger provisions. Sovereign exposures in the available-for-sale and held-for-trading portfolios will be marked-to-market, in line with the scenarios employed.

In case of shortfalls, **the order of claims** under comprehensive assessment will be as follows: private resources, national public funds, and only then European public funds. As in line with the European Council Conclusions of [June 2013](#), all Member States participating in the SSM will have appropriate arrangements in place, including **national backstops** as soon as possible.

## ANNEX (2)

1. Legal Base for Hearings/Meetings of the SSM with the EP
2. Financial institutions included in the comprehensive assessment

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## ANNEX 1: Legal Base for Hearings/Meetings of the SSM with the EP

Accountability	
<b><u>Regulation (EU) 1024/2013</u> conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions</b>	
Art.20	<p>1. The <i>ECB shall be accountable to the EP</i> and to the Council for the implementation of this Regulation. [...]</p> <p>3. The Chair of the Supervisory Board of the ECB shall present that <i>report</i> [on the execution of the tasks conferred upon it by this Regulation] <i>in public</i> to the EP [...].</p> <p>5. At the request of the EP, the Chair of the Supervisory Board shall participate in a <i>hearing</i> on the execution of its supervisory tasks by the competent committees of the EP.</p> <p>6. The ECB shall reply <i>orally or in writing to questions</i> put to it by the EP [...].</p> <p>8. Upon request the Chair of the Supervisory Board shall hold <i>confidential oral discussions</i> behind closed doors with the Chair and Vice-Chairs of the competent committee of the EP concerning its supervisory tasks where such discussions are required for the exercise of the EP's powers under the TFEU. [...]</p> <p>9. The ECB shall <i>cooperate sincerely</i> with any investigations by the EP, subject to the TFEU. [...]</p>
<b><u>Interinstitutional Agreement</u> between the EP and the ECB</b>	
Part I	<p>1. The ECB shall submit every year a <i>Report to the EP</i> (“Annual Report”) on the execution of the tasks conferred on it by Regulation (EU) No 1024/2013. The Chair of the Supervisory Board shall present the Annual Report to the EP at a <i>public hearing</i>. [...]</p> <p>2. The Chair of the Supervisory Board shall participate in <i>ordinary public hearings</i> on the execution of the supervisory tasks on request of the competent committee of the EP. The EP's competent committee and the ECB shall agree on a calendar for two such hearings to be held in the course of the following year. [...]</p> <p>In addition, the Chair of the Supervisory Board may be invited to <i>additional ad-hoc exchanges of views</i> on supervisory issues with the EP's competent committee.</p> <p>Where necessary for the exercise of EP's powers under TFEU and the EU law, the Chair of its competent committee may request <i>special confidential meetings</i> with the Chair of the Supervisory Board in writing, giving reasons. [...]</p> <p>On a reasoned request by the Chair of the Supervisory Board or the Chair of the EP's competent committee, and with mutual agreement, the ordinary hearings, the ad hoc exchanges of views and the confidential meetings can be attended by the <i>ECB representatives in the Supervisory Board or senior members of the supervisory staff</i> (Director Generals or their Deputies).</p> <p>The ordinary hearings, ad-hoc exchanges of views and the confidential meetings can cover all aspects of the activity and functioning of the SSM covered by the SSM Regulation. [...]</p> <p>Only the Chair of the Supervisory Board and the Chair and the Vice-Chairs of the EP's competent committee may attend the confidential meetings. [...]</p>

## Appointment procedures

### Regulation (EU) No 1024/2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions

Art. 26	3. After <i>hearing</i> the Supervisory Board, the ECB shall submit a proposal for the <i>appointment</i> of the Chair and the Vice-Chair to the EP for approval. [...]
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### Interinstitutional Agreement between the EP and the ECB

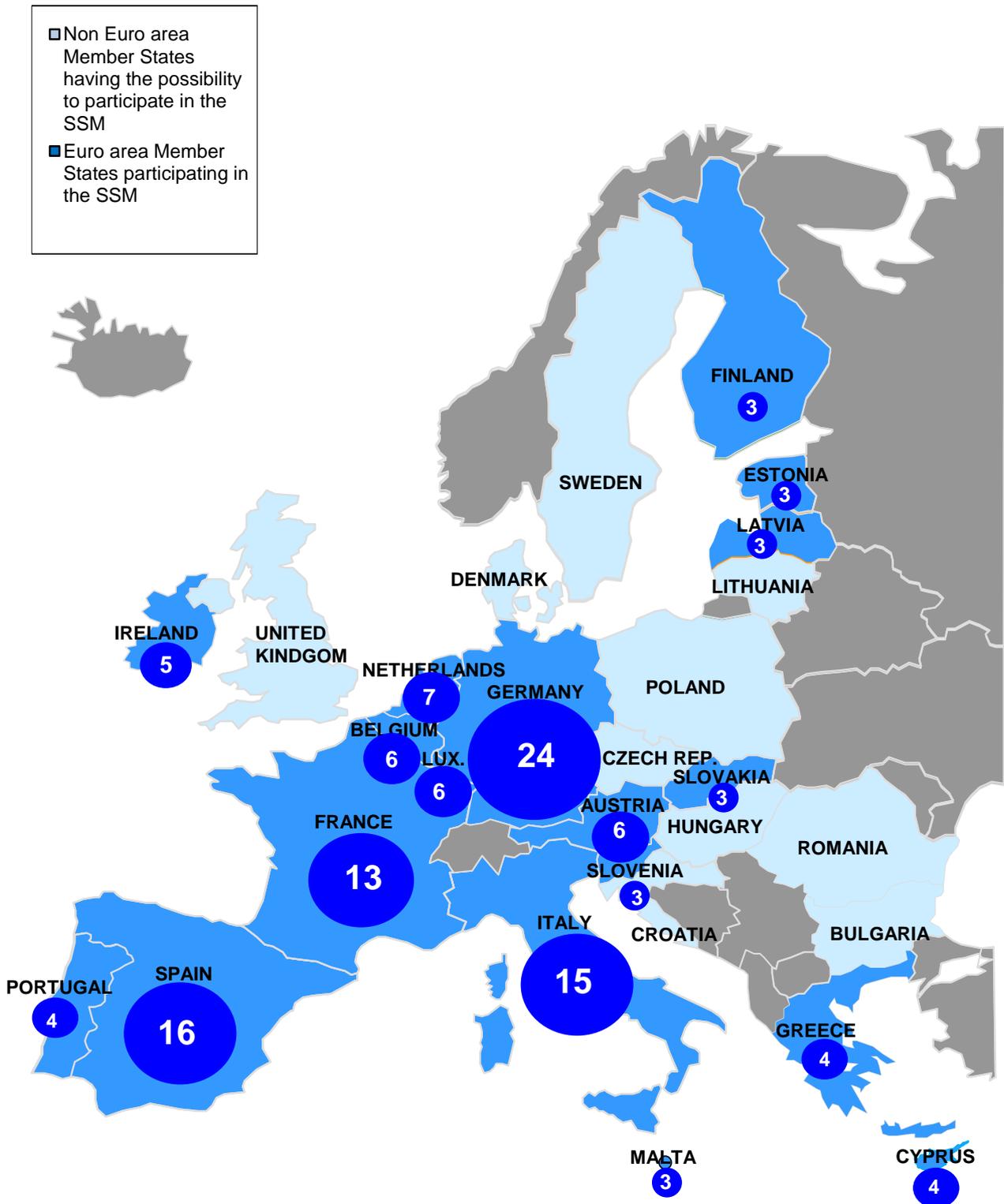
Part II	<p>The ECB shall provide the EP's competent committee with the shortlist of candidates for the position of the Chair of the Supervisory Board. [...]</p> <p>A <i>public hearing</i> of the proposed Chair and Vice-Chair of the Supervisory Board shall be held in the EP's competent committee.</p> <p>The EP shall decide on the <i>approval</i> of the candidate proposed by the ECB for Chair and Vice- Chair through a vote in the competent committee and in plenary [...].</p>
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## Committee of Inquiry

### Interinstitutional Agreement between the EP and the ECB

Part III	Where the EP sets up a <i>Committee of Inquiry</i> [...] the ECB [...] shall assist a Committee of Inquiry in carrying out its tasks in accordance with the principle of sincere cooperation.
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## ANNEX 2: Financial institutions included in the comprehensive assessment



Source: ECB