



Committee on Economic and Monetary Affairs
The Chairwoman

321208 06.12.2013

Mr Mario Draghi
President
European Central Bank
Kaiserstrasse 29
D-60311 Frankfurt am Main

Dear President,

I thank you for your letter of 15 November in which you provide replies to the questions raised in our letter of 28 October on the way the ECB is preparing the upcoming take up of its supervisory tasks.

Nevertheless, I feel that some of the questions are not fully answered. In particular, I would like to ask you to:

- 1) provide us with a draft organigramme, even if provisional, of the supervisory structure. In your reply to question 5 you do provide an overview of the structure but we would also like to have the full picture.
- 2) provide us with a list of the working groups, their composition and their respective mandates. Again in your reply to question 4 you do provide an overview of the groups but not with a proper list including the specific tasks attributed to the respecting working groups.
- 3) provide detailed explanations with regard to the management of the career paths referred to in question 6. In particular, how will you ensure that the monetary side on the one hand and the supervisory side on the other hand take independent human resources (HR) decisions with regard to people that would eventually work on both sides?
- 4) explain how you will ensure that the Chair to be appointed in the coming weeks will have his/her say on the recruitment process of the senior staff, if the latter is carried out in parallel to the appointment of the Chair.

In addition, I would like to have your feedback on the following questions:

- 5) In relation to the language regime:
 - a. It was reported in a meeting with German banking CEOs in Frankfurt that the ECB has announced that the language of communication between supervised banks and the ECB will be English. Can the ECB confirm this information?

- b. How will the ECB make sure that all smaller banks can communicate with the ECB in their own language? Is this ensured for the risk profile reporting that is planned in the coming months?
 - c. According to our information, first templates addressed to banks by the ECB in the context of the comprehensive assessment are drafted in English. How does this fit in the legal framework of Article 3 of Regulation 1/1958?
- 6) In relation to accounting rules:
- a. How does the ECB plan to ensure that all banks can continue to apply the accounting framework applicable pursuant to other acts of Union and national law (cf. Recitals 19 and 39 of the SSM Council Regulation)?
 - b. In particular, how does the ECB plan to ensure comparability of the data provided by banks in the context of reporting obligations without prompting them to change the accounting framework applied by them?
- 7) The ECB has to nominate four representatives for the Supervisory Board. How will they be selected? Will it be ensured that they are not engaged in matters of monetary policy?
- 8) The ECB intends that some units (e.g. international, legal and HR) are used by the monetary and by the supervisory arm. Please, list in detail all units that will be shared by both arms.
- 9) Smaller banks which are not directly supervised by the ECB are also asked to report directly to the ECB, for example in the just prepared risk profile reporting. How does the ECB intend to avoid that two reporting lines are burdening small institutions? Which efforts are made in order to achieve integrated reporting procedures with national supervisors?
- 10) In relation to the Comprehensive Assessment:
- a. How does the ECB intend to consider sovereign risk in its balance sheet assessment?
 - b. It seems that the Asset quality review (AQR) will coincide or overlap with the credit institutions' annual financial statements. For example in Germany special auditors will temporarily check risk portfolios in parallel with external auditors. Chinese walls appear as a theoretical construction since the institutions may need to compare the findings of the special auditor with those of the external auditor and may need to take them into account in the financial statements for 2013. Thus, not only the year-end closing schedule ahead of the annual meeting of shareholders could be affected, but also the issuance of comfort letters for the issue of securities or the drafting of prospectuses for planned capitalization measures. This could result in legal uncertainties.

Hence the question: How will the ECB avoid repercussions of the AQR on the regular financial statements as of 31.12.2013?
 - c. How will the ECB ensure that findings from the AQR do not get public?

- d. The documents published by the ECB regarding the Supervisory Risk Assessment and regarding phase 1 of the AQR indicate that the IFRS rules are the basis for the assessment and that, in addition, for non-performing loans and forbearance the target EBA/ITS/2013/03 applies. Thus, the ECB deviates from IFRS requirements and extends them.

Hence the question: Will the AQR be carried out in accordance with the relevant accounting standards IFRS or national GAAP?

- e. For institutions under the German HGB (commercial code), there are a number of difficulties in interpretation, for example in relation to the categorization of financial instruments. The same applies to the allocation of income statement items in accordance with the HGB to IFRS/FINREP items. It seems doubtful that an HGB institution will be able to deliver those data, including in a derived manner. How does the ECB intend to solve this problem?
- f. How will the ECB ensure the comparability of findings from the AQR for the banks? At the end of phase 1 of the AQR there will be a selection of risk portfolios per institution for a subsequent sampling examination. In-depth inquiries by the ECB or by special auditors are possible.

To take the example of real estate financing: To what extent can real estate loans in Germany, for example, be compared with those in France, Italy, the Netherlands or Spain? Is the property valuation of the collateral identical or equivalent? What are the requirements applying to real estate collateral? Which countries, for example, use the "Beleihungswert" (mortgage lending value)? How do those countries interpret "fair value"? To what extent are national or regional real estate markets comparable?

We would be grateful if the ECB could send its response in writing within 2 weeks after receipt of this letter.

I would like to stress that a good cooperation between our two institutions already in the building-up phase of the SSM is in the interest of both our institutions. I am therefore confident that you will make sure that our questions are fully answered.

Yours sincerely,



Sharon Bowles