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Functioning of the Single Supervisory Mechanism

Conference on Completing the Banking Union

Wednesday, 14 February 2018

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Deputy Governor

Agenda

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1. General information on Banking Union and SSM
2. Integration of Slovenian banking system and Bank of Slovenia in SSM
3. LSI supervision
4. Experience of work in JST
5. Licencing process
6. On-site process
7. Conclusions

1 Current status of the EU Banking Union

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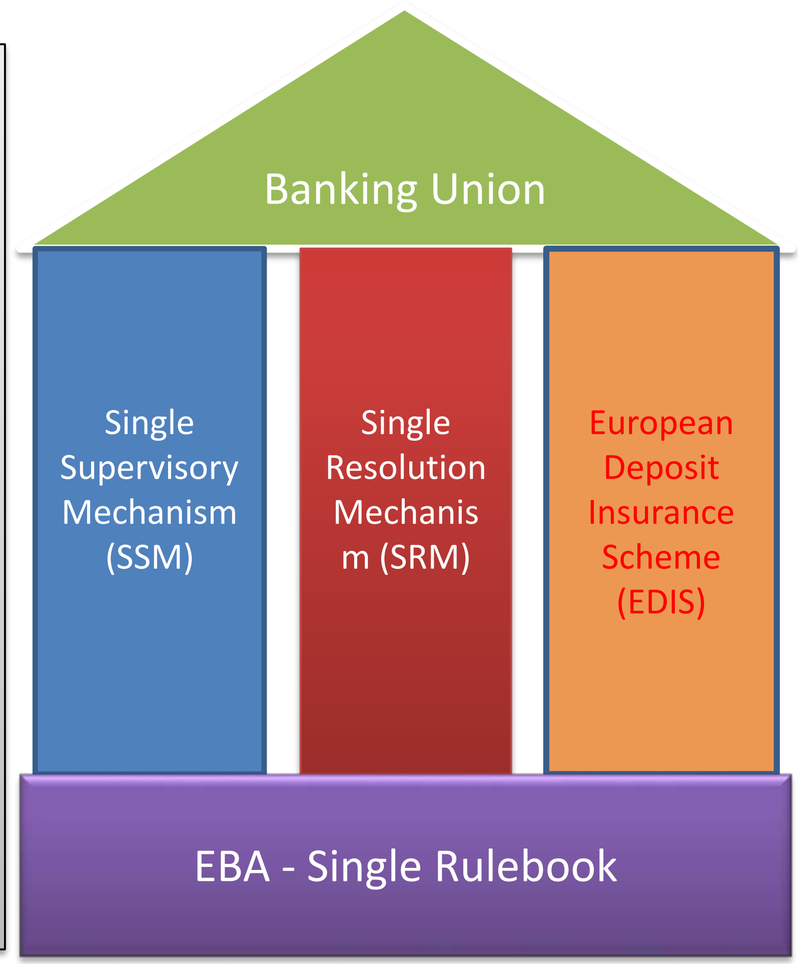
- **Single Supervisory Mechanism (SSM):**
  Operating since November 2014

- **Single Resolution Mechanism (SRM):**
  National Resolution Authorities established
  Single Resolution Board and Single Resolution Fund operating since January 2016

- **European Deposit Insurance Scheme (EDIS):**
  Deposit Guarantee Scheme Directive 2014
  not implemented yet

- **Single Rulebook (EBA)**
  CRD IV / CRR / BRRD
  Implementing standards prepared by EBA



1 SSM is response to financial crises

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Causes of recent financial crises

Banks' behaviour
Weaknesses in banking regulation
Weaknesses in banking supervision
- Supervision was too reactive
- Insufficient cross-border cooperation
- Different supervision of same risks across countries
- No macro prudential view

Reforms to prevent future crises

Global reform of banking regulation
European banking supervision-SSM
- Fair and tough European supervisor
- Early identification and addressing of cross-border problems
- Supervision across the euro area using the same high standards

- **Most goals of SSM have been achieved, but would this prevent potential further crises ?**

1 Scope of the SSM

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• **ECB** is responsible for the **supervision *of all banks in the euro area*** (licencing, qualifying holdings, corporate governance (Fit&Proper, …)

• Supervision within the SSM is **a decentralised system involving the NCAs**

•**Actual** performance of duties by ECB **depends on banks being classified** as

- ***Significant institutions ("SIs")*** *(large banks):* ***8 banks in SI***
- ***Less significant institutions ("LSIs")*** *(smaller and regional banks): all CIs, that are not classified as "significant";* ***6 banks in Slovenia (3 banks and 3 savings banks)****;*

Classification is based on

- **Balance sheet size (> EUR 30 bn)**,
- **Significance** of the bank within a country (Top 3) ,
- The proportion of its **cross-border** business and
- **Qualitative** criteria (based on SSM judgement)

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1 SSM objectives

A resilient banking system through tough and forward-looking supervision

- Identification of relevant risks
- Fair and consistent assessment of risks
- Timely and tough intervention in cases where risks and deficiencies are identified

Resilient financial integration by creating a supervisory level playing field

- Development of harmonised supervisory methodologies and approaches
- Consistent application of the regulatory and supervisory frameworks across the euro area

SSM is only responsible for prudential banking supervision

- Conduct, AML/TF, insurance, market supervision remain national

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Key implementing principles of the SSM

Best practices

- Orientation towards the best proven procedures of national supervisory authorities to further develop the European model of supervision

The principle of decentralisation

- Supervision in the SSM is organised in a decentralised manner, which includes the national supervisory authorities

The principle of proportionality

- Supervisory practices are exercised in an appropriate manner based on the risk profile and systemic relevance of the respective bank

Direct supervision by the national supervisory authority or the ECB dependent on the classification of banks

2 Slovenian banking system

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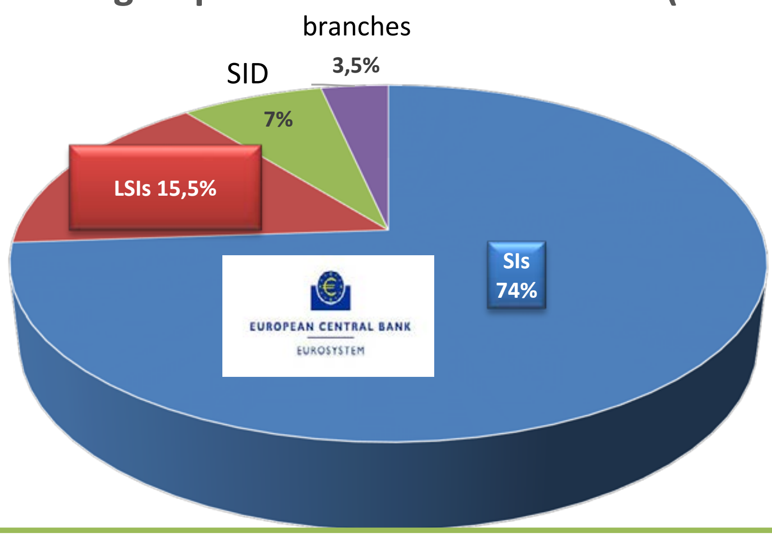
31 Dec 2017

Shares of different groups of banks in Total Assets (31 Dec 2017, in %)



8 SI banks
Top 3 banks (NLB, NKBM, Abanka)
5 Subsidiaries of EU banking groups (UCSI, Intesa Sanpaolo, SKB, Sberbank, Sparkasse)
6 LSI banks
Addiko, Gorenjska banka, DBS, Delavska hranilnica, LON, Primorska hranilnica Vipava
3 branches
SID Export Development bank – non SSM bank

3 Small banks (LSI) remain under the direct supervision of the BoS

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- **The BoS continues to be the primary competent supervisory authority for other local banks:**
  - The BoS is responsible for ongoing supervision and takes legally binding decisions
  - Exception: *"Common Procedures"* (i.g. qualifying holding procedures) fall under the direct competence of the ECB for **all** banks!
  - The intensity of the dialogue between the BoS and the ECB are based on the principle of **proportionality**

- **ECB - general systemic oversight:**
  - Has an "oversight" function over national supervisory authorities and the system as a whole
  - To ensure uniform and consistent supervision

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4 Experience of work in JST

Joint Supervisory Teams (JSTs) are one of the main forms of cooperation between the ECB and the national supervisors.

- well structured work
- focus on priorities
- manual gives a good support
- thematic reviews and deep dives
- clear allocation of resources
- clear distinction with on-site
- constructive discussion within JST
- support from other Bank of Slovenia staff (regulation, management, …)
- opportunities for training
- sharing knowledge and approaches

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- lack of consistency across all JSTs
- different engagement in case of subsidiaries
- in case of subsidiaries main focus only on group level
- Small JST don't have enough expertise to cover all topics
- in some cases inefficient support from horizontal functions (e.g. Policy)
- extensive standardizations vs. priorities

Licencing within SSM (1)

Legal basis and competences over granting of authorisations and cross-border provision of services

- Council Regulation (EU) No 1024/2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions
- SSM Framework Regulation (establishing the framework for cooperation within SSM between the ECB and NCAs)
- Banking Act

ECB competence	BoS competence
authorisations and withdrawals of authorisations to provide banking services (common procedure: LSI and SI)	/
authorisations of mergers/demergers (common procedure: SI and LSI)	/
authorisations of status changes-absorption/spinning-off (SI)	authorisations of status changes-absorption/spinning-off (LSI)
authorisations of acquisitions of qualifying holdings in banks (common procedure: LSI and SI)	/
authorisations to perform the function as a member of a bank's management body (SI)	authorisations to perform the function as a member of a bank's management body (LSI)
notifications of cross-border provision of banking services and mutually recognised financial services outside SSM	notifications of cross-border provision of banking services and mutually recognised financial services within SSM

common procedures: the procedures which are ultimately decided on by ECB, regardless of the significance of the credit institution concerned

5 Licencing within SSM (2)

Granting of authorisation procedure

→ **pre-application phase -** generally for complex procedures: qualifying holdings, licencing of credit institutions

→ **submission of a request -** entry point: BoS; communicating the request to ECB and NCA if an applicant is a supervised entity

→ **assessment of the fulfilment of legal requirements -** cooperation between BoS and ECB

→ **BoS decision proposal**

1. approval by the relevant Commission of the Governing Board and by the Governing Board itself;
2. submission to the ECB

→ **ECB decision -** following the decision-making procedures involving SB and GovC

a) positive decision;

b) negative decision → right to be heard (if is still negative decision → most appropriate way is to achieve a withdrawal of a request by an applicant)

6 On-site inspections (OSI)

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Objectives of on-site inspections

- In-depth analysis:
  - within a pre-defined scope and timeframe
  - at the premises of the legal entity
  - in an independent manner

Principles:

- risk-based, proportional, intrusive, forward-looking, action-oriented

Goals:

- Level, nature and features of inherent risks
- Quality of corporate governance and internal control framework
- Control system and risk management process
- Quality of the balance sheet and the financial situation
- Business model
- Compliance with banking regulation

6 On-site Inspections process - Overview

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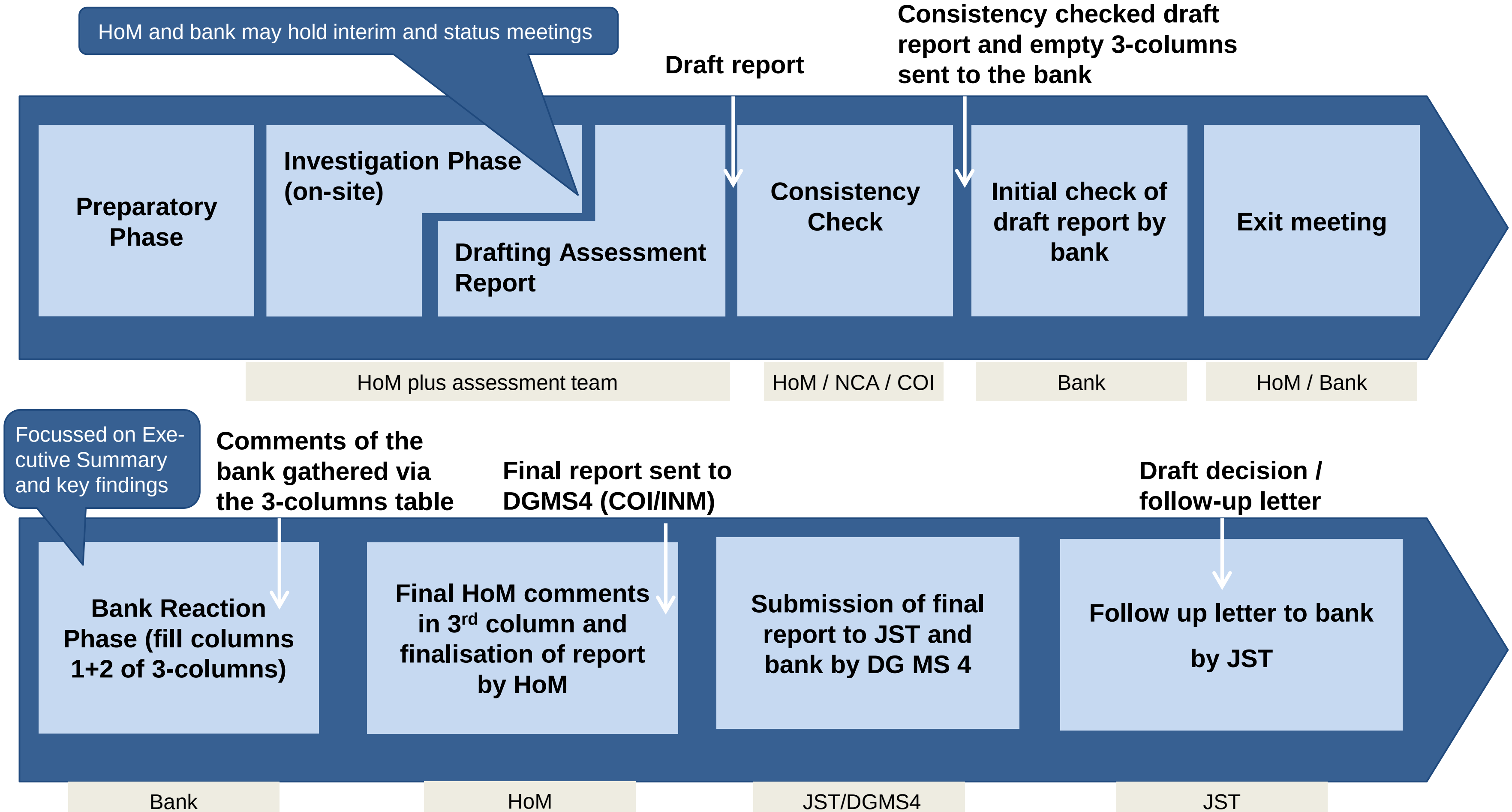

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7 Three years of SSM - What has been achieved

Harmonized large parts of the supervisory cycle for significant institutions

- Harmonized the annual SREP – the Supervisory Review and Evaluation Process which results in the capital and liquidity requirements for each institution.
- The main risks in the banking sector are identified, supervisory priorities are specified in collaboration between the ECB and the national authorities. These translate into the supervisory programme for each bank.
- Agreed on the uniform exercise of about 122 options and discretions (ONDs) in the European regulatory framework.
- Broadening knowledge to LSI universe

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7 What still needs to be done in the SSM

Further developing the SSM

- Further developing the methodologies of the entire supervisory cycle (from SREP to Internal Capital Adequacy Assessment Process (ICAAP)). Harmonisation needs, however, to be restricted to areas where it is reasonable and necessary.

- The proportionality principle will need to be further specified and implemented in how we supervise and regulate banks. Strengthening of cooperation with non-SSM EU countries and with third countries.

- Generate greater efficiencies by broader mutual information sharing and analysis supported by strong IT systems across the SSM

- Lengthy decision-making processes should be streamlined and delegation options should be pursued for less material decisions.