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SSM Quarterly Report

The ECB published the fourth Single Supervisory Mechanism (SSM) Quarterly Report

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The European Central Bank (ECB) is obliged, according to the SSM Regulation, to publish, on a quarterly basis, a report related to the progress in the implementation of the Single Supervisory Mechanism (SSM). This week together with the effective launch of the SSM, on the 4th of November, the fourth report has been released and the final outcome is the impressive advance done by the European authorities in terms of internal organization and legal developments. However, there are still some challenges ahead.

Main steps taken up to now

Organizational features

In the past months, the actions taken to build up the SSM have been remarkable. In this regard, from the organizational view, the members of the Administrative Board of Review were appointed by the Governing Council. This body together with Supervisory Board, the Governing Council and the Mediation Panel form the internal structure of the SSM.

Graph 1: SSM organizational structures

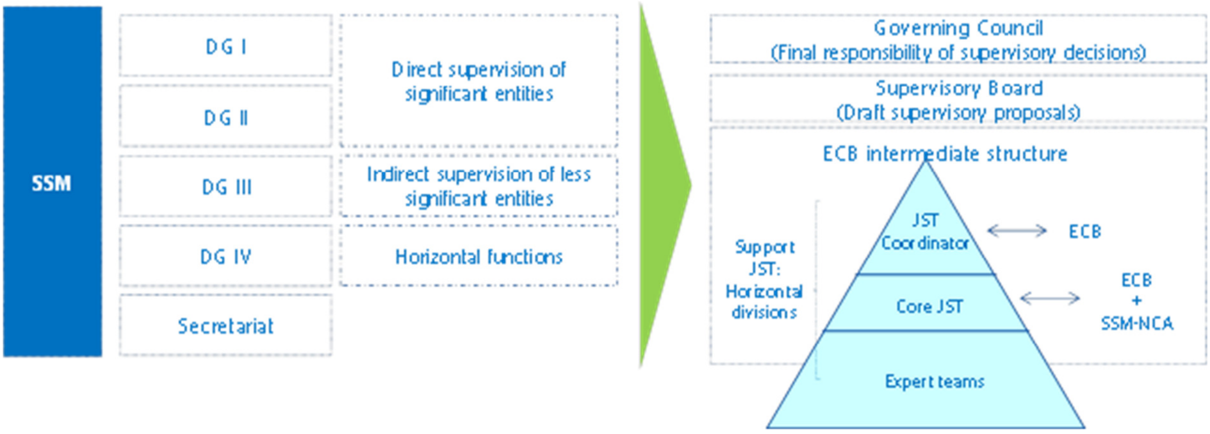
		SSM related functions	Members
Under normal circumstances	Governing Council	Main body in charge of supervisory decisions. It accepts or rejects proposals coming from the Supervisory Board	i) Draghi; ii) Constancio; iii) Coure; iv) Lautenschläeger; v) Mersch y vi) Praet Governors of Central Banks coming from euro zone countries
	Supervisory Board	Planning and execution of supervisory activities. Drafting proposals for the Governing Council	i) Nouy; ii) Lautenschläger; And ECB representatives: i) Dickinson; ii) Hämäläinen A representative of each Participating Member State
Under extraordinary circumstances	Mediation Panel	Differences resolution in case the Governing Council has rejected or presented objections to a Supervisory Board´s proposal	A member of each of participating member states chosen among members of the Governing Council and the Supervisory Board
	Administrative Board o Review	Ensures that every supervisory decision is done in compliance with ECB processes and rules	Full members: Aríztegui; Brescia; Camillieri; Meister and Redouin Alternates: Janari and Smits

Source: BBVA Research

In addition, it is noteworthy the non-negligible recruiting effort, with close to 1,000 hires between staff and inspectors that will be part of the SSM. The Joint Supervisory Teams (JST) are the basic operational structures for the conduct of supervision by the SSM. Each JST will be managed by a coordinator working for the ECB and will comprise a number of supervisors from both the ECB and the National Competent Authorities (NCA). In this regard, NCAs will still play a significant role in the daily supervision not only for indirect supervision but also for direct supervision.

In the past months, JST kick-off meetings with home NCAs of significant institutions have taken place, as well as several follow-up meetings. Furthermore, JSTs have improved their knowledge of the supervisory history and risk profile of the respective banks. This is of utmost importance and it is a pre-requisite before any supervisory decision is taken.

Graph 2: JST organization



Source: ECB (2014)

In addition to these activities, in the past quarter, the JSTs have developed the following actions, among others: i) support the comprehensive assessment exercise; ii) start to prepare the Supervisory Examination Program (SEP) for 2015 for each significant bank (in close collaboration with DG IV); iii) conduct a field test of the risk assessment system (RAS) and of the methodology and procedure for the SSM Supervisory Review and Evaluation Process (SREP) and iv) test the Information Management System (IMAS), the infrastructure tool used to manage the workflow and business processes, as well as the vehicle for JST members at the ECB and NCAs to communicate with each other in a secured fashion.

Separation of monetary and supervisory policies

The SSM Regulation requires the ECB to adopt and publish any required internal rules to ensure the separation of the supervisory function from the monetary policy function. On the 18th October 2014 entered into force an ECB Decision (ECB/2014/39) on the implementation of separation between both functions as well as rules governing the exchange of information between the ECB's supervisory and monetary policy areas. This is of utmost importance to ensure the lack of influence between both duties.

Legal framework

From the legal stand point, the publication of the Guidelines for Supervision and the Regulation of Supervisory fees complete the regulatory framework of the SSM. The Guidelines for banking supervision, published in September 2014, are an important milestone in the implementation of the Single Supervision Mechanism (SSM). They explain how the supervisory pillar will function and give some guidance of the SSM's supervisory practices. These guidelines represent a practical tool and will help to define a common supervisory culture within the euro area. Some of the content is already covered in current SSM regulations however; it gives a very interesting hint of how the supervision will be pursued from November the 4th onwards.

In addition to these Guidelines, the ECB staff has also worked on the Supervisory Manual which is an internal document and covers different areas such as composition and staffing of the JSTs; supervisory processes and procedures; roles and responsibilities within the SSM; methodology for on-site inspections; methodology and process for the SSM SREP.

Apart from this, the ECB released in October the Regulation on supervisory fees. This rule establishes the methodology for: i) determining the total amount of the annual supervisory fee ; ii) computing the amount to be paid by each supervised bank or banking group, and ; iii) collecting the annual supervisory fee. The first fee notice is expected to be issued in late 2015, covering 14 months (November and December 2014, and the full year 2015). Finally, it is now open to public consultation a draft Regulation on reporting of supervisory financial information.

Solution to the legacy assets problem

As a previous step to the launch of the SSM, in 2014 and part of 2013 the ECB together with NCA and external experts pursued the comprehensive assessment whose results were published on the 26th October.

The assessment of this exercise is positive in general terms. In fact, this exercise increased the transparency of financial institutions with an extraordinary amount of information being released and showed the resiliency of the European financial sector with very manageable capital needs (€9.5bn). Due to this exercise, the banks that will be covered by the SSM show a high degree of balance sheet robustness.

Assessment and next steps

In a nutshell, the progress in the implementation of the SSM has been impressive. The SSM is not a project but rather a reality. However, there are some challenges ahead, among others, the need to define a new supervisory culture and integrate so many different supervisory authorities in one. As such the launch of the SSM should ensure that financial institutions of the participating member states will have just one supervisor but not one more. Moreover, in the coming months the JSTs will start the supervisory cycle, approving the Supervisory Examination Program per bank and implementing the principles of the Supervisory Review Examination Program (SREP). This represents the real kick-off of the new supervisory domain.

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