EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY
Chair of the Supervisory Board

Mr Sven Giegold
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 20 November 2015

Re: Your letters (QZ146-148)

Honourable Member of the European Parliament, dear Mr Giegold,

Thank you for your letters, which were passed on to me by Mr Roberto Gualtieri, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 15 October 2015.

Your first question relates to the **proportionality of accounting requirements** for less significant institutions (LSIs).

Regulation (EU) 2015/534 of the European Central Bank of 17 March 2015 on reporting of supervisory financial information (ECB/2015/13) ensures that the Single Supervisory Mechanism (SSM) receives the financial accounting data of supervised groups and entities regardless of their accounting standard. The Regulation does not affect the accounting standards of supervised groups and entities applied in their financial statements, nor does it change the accounting standards applied for supervisory reporting. For example, the Regulation does not force groups and entities reporting under national GAAP to convert accounting figures into IFRS. The Regulation is fully consistent with applicable law, including Council Regulation (EU) No 1024/2013 (the SSM Regulation).

With respect to supervised entities applying national GAAP, Regulation (EU) 2015/534 requires reporting based on templates set out in Annex IV of Implementing Regulation (EU) No 680/2014, which were specifically designed by the EBA for national GAAP reporters[1]. This Implementing Regulation stipulates that figures shall be reported in these templates in accordance with the relevant national GAAP. The use of common templates for national GAAP reporters allows banks to continue to report according to their national GAAPs while also achieving some comparability between different national GAAP frameworks (within the SSM itself there are several different national GAAP frameworks), . In line with the proportionality principle, less significant institutions are subject to reduced reporting requirements (e.g. reporting only of a sub-set of

[1] Reporting requirements for significant institutions are defined in Articles 5, 6(4), 7(4) and 9(1) while reporting requirements for less significant institutions are defined in Articles 11(4), 13(4), 13(5), 14(4) and 14(5) of Regulation (EU) 2015/534.

templates or only selected fields) and have been given more time for implementation. The ECB is collaborating with the relevant NCAs to facilitate national GAAP banks' reporting in the dedicated national GAAP reporting templates. In particular, this strand of work is intended to clarify how to interpret the reporting instructions.

Your second question relates to the **proportionality of thematic reviews of LSIs**.

Within the SSM, Joint Supervisory Teams (JSTs) are responsible for the supervision of significant institutions (SIs), while national competent authorities (NCAs) are responsible for the supervision of LSIs. The ECB is entrusted with an oversight responsibility to ensure that supervisory activities carried out by NCAs are of the highest quality and that supervisory requirements for all credit institutions covered by the SSM are consistent.

In this context, thematic reviews are one of the tools available to the ECB to help it oversee the functioning of the system, including the supervision on LSIs in various forms. Thematic reviews may focus on specific groups or categories of credit institutions, provide a horizontal assessment of a specific sector (e.g. mortgage banks) or cover particular types of financial activity (e.g. non-performing loans) to address specific risks. They allow comparative analysis and benchmarking of best supervisory practices, approaches and/or models in order to ensure the consistency of supervisory approaches and supervisory outcomes across SSM credit institutions.

For LSIs, thematic reviews developed by the ECB are performed in close cooperation with NCAs, and their modalities are coordinated between the ECB and participating NCAs. I can assure you that both the ECB and the NCAs are very much aware of the specificities of small LSIs, and we design the thematic reviews in such a way that the burden on small LSIs, for instance in terms of reporting and the resources involved, is kept to a minimum.

Your third question relates to the **proportionality of the Supervisory Review and Evaluation Process (SREP)** and in particular to supervisory benchmarks and peer group analyses.

Benchmarks are being developed by the ECB for the most material risk types. The goal is to have the best possible quantification tools given the data constraints. Fully in line with the European Banking Authority's SREP guidelines, our objective is to establish a toolset that allows us to quantify an institution's main risks independently of its own evaluations in the Internal Capital Adequacy Assessment Process (ICAAP) and thus to support our supervisors in independently challenging ICAAP outcomes where necessary. Regarding peer group analyses, one of the benefits of the SSM is that it allows such analyses to be performed much better and more frequently than in the past. Peer groups can be assembled on the basis of business models, geographies, and types of activity. However, benchmarks and peer group analysis are just two among many inputs underpinning the ECB's supervisory judgement in the SREP.

Finally, you inquired how the ECB ensures that supervisory discretion is not abused when setting capital requirements.

The ECB's capital requirement determination process is based on supervisory expert judgment, while ensuring full consistency of processes and outcomes across SIs. Fully in line with the EBA SREP guidelines, the ECB approach uses a range of inputs, including ICAAPs, supervisory benchmark results, outcomes of risk assessments, business model analyses, peer group comparisons and stress test results. The institution-specific Pillar 2 capital requirements are based on all of these inputs, following common internal guidance and processes designed to ensure that supervisory actions are proportionate to the size and systemic importance of the institution concerned, taking into account the nature, scale and complexity of its activities. A particular focus lies on the justification of capital decisions and the documentation of the underlying considerations. The ECB process therefore includes several rounds of internal reviews aimed at challenging the supervisory discretion exercised, both bank-by-bank and across banks. In this regard, we are conducting extensive horizontal analyses of SREP assessments and decisions – including decisions on capital requirements. In addition, draft decisions on capital requirements are discussed with the institutions themselves before they are finalised. This approach ensures the consistent and fair treatment of all banks subjected to the SREP.

Yours sincerely,

[signed]

Danièle Nouy