



EUROPEAN CENTRAL BANK

EUROSYSTEM

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President

Ms Sharon Bowles  
Chairwoman of the Committee  
on Economic and Monetary Affairs  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt, 15 November 2013  
L/MD/13/665

**Re: Your letter of 28 October 2013**

Dear Ms Bowles, *Dear Sharon,*

In relation to your letter of 28 October 2013, you will find in attachment answers to the questions relating to the ECB's internal preparations to set up the Single Supervisory Mechanism (SSM).

There will shortly be further opportunities to address this topic during the regular ECON hearing of 16 December and my envisaged participation in Parliament's plenary of 12 December. Thereafter, the Chair of the Supervisory Board, once appointed, will take up all relevant questions and requests for information in line with the Inter-institutional Agreement between the EP and ECB.

Yours sincerely,

## **Reply to the questions by the ECON Chair to the ECB President on preparations of SSM**

**1. The ECB has advertised several key jobs (Director General/Deputy Director General for DG Micro-Prudential Supervision I, II, III; Director General/Deputy Director General in DG Micro-Prudential Supervision IV).**

**a. Who will prepare the appointment decisions?**

For the purpose of the SSM senior managers, the ECB has established specific selection panels which also include a substantial number of high-level representatives from National Competent Authorities (NCAs; at Governor/Executive Board level), who will thus be present in all steps of the selection procedure until and including the preparation of the final proposal for the ECB Executive Board.

**b. Who will take the appointment decisions?**

The ECB Executive Board will take the appointment decisions.

**c. Will the ECB take these decisions before the Chair and Vice-Chair of the Supervisory Board are appointed? What is the time schedule?**

Our working assumption is that decisions on the appointment of the Supervisory Board Chair and Vice-Chair and the senior managers will be taken around the same period, i.e before the end of the year.

**d. How will it be ensured that the new Chair is not bound by these decisions?**

In view of the significant time pressure to get on with the SSM preparations, the ECB had to proceed as much as possible with the selection procedures of the SSM senior managers. In case the SSM senior managers are appointed earlier than the Chair, the above-mentioned selection procedure, with substantial involvement of high-level NCAs representatives, should help to ensure that the candidates will have the required supervisory competencies and that the appointment decisions will be sound and acceptable to the future Chair.

**2. How will the ECB ensure appropriate diversity of banking and supervision skills as well as geographical and gender balance in the recruitment process of the SSM staff, especially the lead staff that will directly assist the Chair and the Vice-Chair of the Supervisory Board?**

All SSM positions, starting with the ones for the senior management of the SSM, have been or will be posted on the ECB's external recruitment website and are therefore widely available. In addition, the ECB's Directorate General Human Resources, Budget and Organisation has conducted numerous roadshows at the NCAs (National Central Banks or Supervisory Agencies) throughout Europe and media ads were placed in all European countries for the senior management positions.

Regarding the gender aspect, the vacancy notices mention that applications of female candidates are particularly welcome. This is in line with the ECB's gender diversity policy aiming at increasing the share of female colleagues in high-level positions, as announced earlier this year.

**3. Will the ECB provide or coordinate training activities for the staff of national supervisory authorities to ensure that all staff performing supervisory tasks as part of the SSM share common knowledge and**

**best practice and act independently from their home authorities with a European mandate, and what is the volume of financial resources made available for and the planned frequency of such trainings?**

The ECB, in collaboration with NCAs, is working on the design and development of an SSM training curriculum that will address the needs of staff involved in supervision across the different institutions. This training curriculum shall address all new aspects related to the governance and supervisory methodologies necessary for the efficient and effective implementation of the SSM. Preparing an appropriate budget and reflecting about the frequency of such training are part of this design phase.

**4. A number of working groups have been created to prepare the SSM. Please provide us with: (i) a list of these working groups, (ii) a full list of the respective members, and (iii) an outline of their mandates and agendas.**

In order to prepare for the new supervisory responsibilities, the ECB has set up an internal structure. The respective NCAs participate at all levels and are thus closely involved in the preparatory work at a technical level, as well as the decision making level. Specifically, preparations are being guided by a high-level group, chaired by the President of the ECB. At the technical level, a supervisory task force has been charged with the preparatory work. The taskforce is chaired by the Director General Financial Stability. All competent national authorities are represented in both groups.

The preparatory technical work has been divided into five areas. The focal points of the respective work streams are: the creation of a “map” of the banking system of the euro area, discussion of legal issues, development of a single supervisory model, preparation of a future model for supervisory reporting for the SSM, and preparation of the comprehensive assessment of credit institutions. The preparatory work is carried out jointly by NCAs and ECB staff.

The operational conduct of the comprehensive assessment is governed by a Comprehensive Assessment Steering Committee (CASC). The CASC is chaired by the ECB and is composed of 4 ECB representatives and 8 high-level representatives of NCAs. The CASC is assisted by a Comprehensive Assessment Programme Office responsible for the central project planning, coordination and management and, in addition, quality assurance, as well as for preparing decisions of the CASC.

**5. Has the ECB or the preparatory working group produced a draft organigramme of the SSM? If so, we would ask you to please share the draft organigramme with the EP.**

The ECB, together with the established SSM preparatory workgroups, have defined an organizational structure for the new supervisory function that fits the operational model for supervision being developed. A total of four new Directorates General (each organised in Divisions) plus a Secretariat unit will be established. In detail:

(a) Two Directorate Generals (Directorate General Micro-Prudential Supervision I & II) will be responsible for the direct supervision of significant banks. Individual banking groups will be allocated among the two Directorates General distinguishing by size, business model and risk profile.

(b) A Directorate General (Directorate General Micro-Prudential Supervision III) will be responsible for the indirect supervision of less significant banks. This Directorate General will monitor these institutions as well as perform quality checks on the functioning of the SSM as a whole.

(c) A Directorate General (Directorate General Micro-Prudential Supervision IV) will be responsible for the conduct of horizontal functions (such as supervisory quality assurance and benchmark, supervisory policies, methodology and standards development, authorisation, enforcement and sanctions, crisis management, planning and coordination of the Supervisory Examination Programme and on-site inspections) and other specialised functions (such as risk analysis and internal models). This Directorate General will support the other Directorates General in the performance of their functions.

(d) A devoted Secretariat unit will support the Supervisory Board, Chair and Vice-Chair and related SSM structures for the preparation of the Supervisory Board's meetings on a full-time basis. In addition, the Secretariat will provide the organisational support for the Mediation Panel, the Administrative Board of Review, as well as any other technical sub-structures.

**6. How is the ECB planning to ensure that monetary and supervisory policy are strictly separated in terms of staff, reporting lines and career paths in the ECB?**

To avoid any possible conflict of interest, the ECB is committed to strictly respect the principle of separation between monetary policy and banking supervision, as foreseen in the SSM Council Regulation. Such separation will ensure that the ECB will continue to fulfil its primary mandate of price stability in complete independence, in line with the Treaty. In line with the Regulation, work has started on drafting internal rules to ensure the separation, namely through measures combining organisational separation and the segregation of information flows.

Organisational separation will be applied both at the decision making level and at staff level. An independent Supervisory Board - separate from the Governing Council - will be created to draft and enforce decisions. Its deliberations of the Governing Council on supervisory matters will be strictly separated, including separated agendas and meetings. At staff level, the four new directorates general and the Secretariat of the Supervisory Board which form part of the supervisory function will report to the Chair of the Supervisory Board.

Concerning the segregation of information flows, the ECB has experience in developing & delivering solutions that securely segregate information (e.g. to ensure the separation/Chinese wall between the ECB & ESRB related information). For the separation between monetary and supervisory policy, the 'internal rules' will draw in particular on (i) the ECB's document & records management systems which provide security features (such as access groups/rights) to grant/restrict access to documents and folders, as well as (ii) the ECB's Confidentiality Regime, which defines how to classify and handle sensitive ECB information.

**7. How will the ECB ensure that the planned asset quality review covers the whole part of the banking system under the supervisory responsibility of the SSM and not only the 130 institutions cited in the note regarding the comprehensive assessment? What arrangements including the framework as foreseen in Article 6 of the ECB regulation, will be made to guarantee the coherence with the exercises carried out by the EBA and other supervisory authorities in the EU?**

On the basis of article 33 paragraph 4 of the SSM Council Regulation, the ECB shall carry out such a comprehensive assessment, including a balance sheet assessment at least in relation to the credit institutions it will directly supervise. In line with this regulatory provision and given the unprecedented scale of the exercise, the comprehensive assessment that the ECB is carrying out is expected to cover 128 credit institutions. These credit institutions cover a large part of the euro area banking system, notably approximately 85% of all euro area bank assets. These banks could plausibly be considered as the 'significant' banks from the SSM Council Regulation, although that list will only formally be finalised at the end of 2013.

The comprehensive assessment is one exercise, consisting of three elements: (i) supervisory risk assessment, (ii) asset quality review, (iii) stress test. In order to ensure the coherence between the three elements, there will be a strong central governance structure at the ECB, responsible for establishing the methodologies, overseeing the execution phases and assuring the quality of the results. The NCAs will execute the exercise at the national level, on the basis of the centrally developed data requirements and methodology, thereby effectively harnessing local knowledge and expertise, while at the same time ensuring a coherent approach. To ensure consistency of execution across both countries and banks, quality assurance measures will be fully integrated into all processes. As regards the stress test, the ECB and the EBA have agreed to perform the next EU-wide stress testing exercise in close cooperation. Furthermore, the ECB is fully committed to liaise with all the relevant European authorities such as ESMA, ESRB and EIOPA to ensure consistency of action and communication.

**8. In the absence of common backstop mechanisms and in order to ensure a smooth transition to a full-fledged Banking Union, what is the view of the ECB regarding the measures to be taken in the case that potential needs for capital arise from the asset quality review?**

The ECB has always emphasised the need for backstop commitments to be in place in advance of the commencement of the comprehensive assessment, in order for the exercise to be deemed credible. Backstops will be essential for the success of the comprehensive assessment in case of a need for a restructuring or recapitalisation of banks after the conduct of the exercise. On 15 November, the Council confirmed the commitment taken by the June 2013 European Council that all Member States participating in the SSM will have appropriate arrangements in place, including backstops as soon as possible.

In case of capital shortfalls under the comprehensive assessment, the pecking order should be clear: first private resources, second national public funds and as last resort European public funds.

**9. How does the ECB plan to ensure that all rule-making and communication including reporting processes with banks are done in the home languages of the respective countries?**

Supervised entities can use, in line with Reg. 1/1958, their national language in their communication with the ECB and, subject to an agreement by the supervised entities, English can be used. Details of the language of the communications between the ECB and supervised entities would be included in the Framework Regulation which will be sent to the competent committee of the European Parliament before the beginning of the public consultation procedure. Legal acts of general application will be published in all official languages, in line with Reg. 1/1958.

**10. When will the ECB convene a first meeting of the Supervisory Board?**

A first meeting of the Supervisory Board will be convened once the members of that body have been appointed. The recruitment procedure for the Chair and Vice-Chair of the Supervisory Board is currently underway. On 12 September, the EP and ECB Presidents declared that the EP and ECB intend to progress rapidly with the first selection procedure for the appointment of the Chair of the Supervisory Board. Both institutions have already covered the first steps of the procedure. At the same time, the precise timing of the finalisation of this procedure is not in the hands of the ECB. Following the conclusion of this selection and appointment procedure, the ECB will appoint its representatives and will invite the participating Member States to appoint the representatives of the national competent authorities responsible for the supervision of credit institutions in their jurisdictions. Once the full membership has been clarified, a first meeting will be convened, upon the initiative of the newly appointed Chair.

**11. Will the ECB explain the relationship with the European Parliament concerning the SSM on the SSM section of its website?**

Yes. The ECB is currently adding information on a dedicated section of the ECB website entitled "*Banking Supervision*". These pages have been established as an interim solution while the ECB builds a new web presence for the SSM which will go live when the SSM assumes fully its role as single supervisor on 4 November 2014. In the meantime, web content on the preparation for SSM will be added to this section. For example, links to the SSM Regulation and the Inter-institutional Agreement (IIA) with the European Parliament are already provided through a time-line entitled "Key steps towards the single supervisory mechanism".

A section that deals specifically with the accountability framework of the SSM vis-à-vis the European Parliament will be developed as part of the SSM web presence project. The answers to questions addressed to the Chair of the Supervisory Board will feature in a dedicated section for Parliamentary Questions and Answers from MEPs. In addition, relevant provisions of the IIA, such as a guide to the SSM's supervisory practices, and an explanation of how supervisory fees are calculated will be published as they become available.