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European Banking Union A: The Single Supervisory Mechanism\textsuperscript{1}

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Abstract

At the peak of the Global Financial Crisis in fall 2008, each of the 27 member states in the European Union (EU) set many of its own banking rules and had its own bank regulators and supervisors. The crisis made the shortcomings of this decentralized approach obvious, and since its formation in January 2011, the European Banking Authority (EBA) has been developing a “Single Rulebook” that will harmonize banking rules across the EU countries. In June 2012, European leaders went even further, committing to a banking union that would better coordinate supervision of banks in the then 18-country Eurozone. A key component of the banking union was the Single Supervisory Mechanism (SSM), which brought banks in the Eurozone under supervision of the European Central Bank (ECB), with day-to-day assistance from existing national authorities. This case reviews the changes in Eurozone bank regulation and supervision resulting from the Single Supervisory Mechanism.

\textsuperscript{1} This case study is one of four produced by the Yale Program on Financial Stability (YPFS) considering the European Banking Union. The following are the other case studies in this case series:

- European Banking Union B: The Single Resolution Mechanism
- European Banking Union C: Cross-Border Resolution—Fortis Group
- European Banking Union D: Cross-Border Resolution—Dexia Group

Cases are available from the Journal of Financial Crises.

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1. Introduction

On November 3, 2013, the Single Supervisory Mechanism (SSM) went into effect. The SSM provided for a system of supervision of the largest, systemically important banks in the then 18 European Union (EU) member states that used the euro as their central currency (the Eurozone) and other participating EU members.

The SSM radically altered bank supervision in participating countries. While many regulations affecting commerce in the EU had been harmonized since the 1950s, each member state continued to have its own bank regulator and supervisor. Each country made many of its own banking rules and followed its own procedures when a bank within its borders failed and needed to be rescued (subject to review and approval by the European Commission). However, the recent crises highlighted the shortcomings of this decentralized approach.

The SSM introduced a shared pan-European bank regulatory system. As of November 4, 2014, the European Central Bank (ECB) had ultimate authority over all banks subject to the SSM. The ECB also continued in its previous role as the central banking authority regarding the euro and responsible for monetary policy.

The ECB supervised systemically important banks deemed “significant” under the SSM. Those banks deemed “less significant” under the SSM (approximately 6,000) would continue to be supervised on a daily basis by their national supervisory authorities (NSAs) with ECB oversight. (In the majority of member states, the NSA was the central bank.) Uniformity of supervision under the SSM was further enhanced by the fact that both the ECB and the NSAs would apply the Single Rulebook of harmonized banking regulations being drafted by the EBA.

Prior to November 4, 2014, when ECB supervision began, the ECB was charged with performing numerous implementation tasks and with conducting a “Comprehensive Assessment” of the likely significant banks. The Comprehensive Assessment was intended to provide an early assessment of the banks’ financial condition and an opportunity to increase their stability, for example, by requiring increased bank capital, prior to the commencement of ECB supervision.

The rest of this module is organized as follows. Section 2 describes circumstances giving rise to the EU bank reform of which the SSM is a part. Section 3 describes the institutions that are covered by the SSM and how they will be supervised. Section 4 discusses the Supervisory Model that has been developed. Section 5 discusses the Comprehensive Assessment being undertaken by the ECB. Section 6 explains the structure created to govern the SSM. Section 7 covers the Single Rulebook and its interface with the SSM, and Section 8 addresses the related Deposit Guarantee Schemes.

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5 See ECB Report: AGGREGATE REPORT ON THE COMPREHENSIVE ASSESSMENT for a list of the significant banks. As of January 1, 2015, Lithuania began using the euro and became a participating member state under the SSM. Accordingly, the number of banks directly supervised by the ECB increased by three to include the three largest banks in Lithuania (ECB 2014A).
Questions

1. Could there be a conflict between the ECB’s monetary policy tasks and its new bank supervisory role, and how does the SSM attempt to mitigate these potential conflicts?

2. Does a shared supervisory structure that vests primary supervision in the ECB, but outsources monitoring and supervision of smaller banks to the NSAs, pose any challenge to a system of “single” supervision?

3. Does the SSM go far enough in creating a uniform EU banking sector even though its application is limited to Eurozone banks?

4. Will the SSM enable the ECB to protect the euro in the event of another sovereign debt crisis?

2. The SSM and EU Bank Reform

The origins of the EU can be traced back to the 1950s, when Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands joined in a Common Market. By the peak of the global financial crisis in the fall of 2008, the EU had grown to 27 members, and a 28th country (Croatia) joined after that.

A central goal of the EU is the continuing development of a single market involving the free movement of goods, services, capital, and people across the borders of the EU member states. However, within the EU there are differences as to the level of integration into the union. Nineteen of the EU countries (referred to as the Eurozone) use the euro as their common currency, while other EU member states, most notably the United Kingdom (UK), continue to use and manage their own currencies (see Figure 1).

Figure 1: Eurozone and EU Countries

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Figure does not reflect Lithuania’s new status. Source: www.stratfor.com.
The global financial crisis of 2007-09 and the sovereign debt crisis that began in 2009 highlighted the challenges of responding to market events that impacted the euro and trying to protect a common currency when the banking sector was highly decentralized and governed by a variety of rules. Member states’ regulations varied greatly and did not provide common remedies for early intervention or resolution. Also, critical definitions and processes differed.

As a result, the EU proposed several reforms to stabilize financial institutions and markets. The earliest reforms included the Single Rulebook, to be developed by the newly formed (2011) European Banking Authority, enhanced capital requirements (Capital Requirements Directive and Regulation [CRD]), a common framework to manage recovery and resolution of troubled and failing banks (Bank Recovery and Resolution Directive [BRRD]), and enhancement of depository guarantees to a minimum of €100,000 per depositor/per bank (See the directive on Deposit Guarantee Schemes [DGS]). These reforms established uniform prudential standards applicable to all banks in the 28 EU member states.

As the financial crisis evolved into the sovereign debt crisis, it became clear that additional actions were needed to place the banking sector in the Eurozone on a sounder footing and to restore confidence in the euro. In June 2012, a proposal was floated to create a single EU Banking Union to ensure common implementation of the new banking standards in the Eurozone. The Banking Union consisted of three pillars: a Single Supervisory Mechanism, a Single Resolution Mechanism with a Common Resolution Fund, and Harmonized Deposit Guarantee Schemes (See Figure 2).7

3. Which Institutions Are Covered by the Single Supervisory Mechanism?

Under the SSM, the ECB was granted area-wide supervisory authority over the approximately 6,000 European banks operating in participating member states, a group which encompassed only those member states that utilized the euro as their central currency, but which could expand at any time to include members not using the euro. Compliance with the SSM by Eurozone member states was mandatory. Countries that were candidates for EU membership were required to adopt the euro as their central currency once they qualified to become member states and, at such time, would become subject to the SSM. This was the case with Lithuania, which began using the euro and became subject to the SSM as of January 1, 2015.
EU member states that did not use the euro as their central currency could opt to participate in the SSM by entering into a Close Cooperation Agreement (CCA) with the ECB and voluntarily agreeing to be subjected to SSM supervision. Without a CCA in place, banks located in the UK and other non-Eurozone member states would not be subject to the SSM or supervised by the ECB. Banks of all sizes situated in these countries would continue to be supervised by their NSA.

Decision ECB/2014/5 prescribing the procedure for entering into a CCA became effective on February 27, 2014. In June of 2014, it was rumored that Bulgaria might request a CCA, following a financial crisis in the country that included runs on many of its banks (Kostantinova 2014). However, the ECB reported in its August 2014 SSM Quarterly Report that it had not yet received any formal requests to enter into a CCA, but the ECB did comment that it had received “informal expressions of interests from some member states” (which it did not name) and that it was meeting with these member states (ECB, SSM Quarterly Report 2014/3, 13).

**Credit Institutions**

Under the SSM, ECB supervision was limited to “credit institutions,” which were defined by the SSM as:

Any institution that is either (i) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credit for its own account, or (ii) an undertaking or any other legal person, other than those under (i), which issues means of payment in the form of electronic money (ECB EU Glossary).

Investment companies, hedge funds, and insurance companies were therefore not covered. This could result in anomalies such as the insurance arm of a financial institution being supervised at the national level, when the banking arm was supervised at the European level.
However, it should be noted that risks arising from participation in entities included in the consolidated group but not supervised as credit institutions under the SSM (i.e., supervised by other authorities, such as insurance supervisors, or not supervised at all) were also to be considered by the supervisory authority.

Moreover, the SSM left “non-prudential” supervisory tasks to the national regulators, rather than transferring them to the ECB. Notably, these tasks included supervision of markets in financial instruments and consumer protection.

**Significant and Less Significant Institutions**

As of November 4, 2014, the ECB directly supervised those credit institutions deemed “significant” under the SSM. A credit institution/bank was deemed to be significant if it met one of the following five conditions based on total assets (SSM Framework Regulation, Article 39[3]):

- The value of its assets exceeded €30 billion.
- The value of its assets exceeded both €5 billion and 20% of the gross domestic product of the member state in which it was located.
- The bank was among the three most significant banks of the member state in which it was located.
- The bank had large cross-border activities.
- The bank received assistance from a Eurozone bailout fund.

The SSM provided that significant banks were to be supervised at the highest level of consolidation within the Eurozone, which would include their parent holding companies. Banking groups which encompass several banks were counted as one institution.

On September 4, 2014, the ECB published its final list of credit institutions determined to be significant and that it would directly supervise as of November 4, 2014. Based on updated data, as of January 15, 2015, the ECB directly supervised 123 bank groups in 19 member states, which collectively represented 82% of total banking assets in the Eurozone (ECB FAQs).

Supervision of all other banks subject to the SSM—those deemed “less significant”—was delegated to the NSAs of the respective member states in which the banks were located. The NSAs would continue to supervise these entities but would apply a harmonized regulatory regime, the Single Rule Book. The ECB, however, retained final supervisory authority over these banks and might, at any time, assume a direct supervisory role on its own initiative or on the request of a member state. The NSAs retained all supervisory tasks not specifically conferred on the ECB by the SSM (SSM Regulation, Article 28). Given the shared supervisory scheme, the SSM recognized that the success of the overall scheme depended on a high level of cooperation between the ECB and the NSAs.

A bank might change status from significant to less significant by failing to meet the definition of significant (on a singular or consolidated basis) for three consecutive years, in which case it would become subject to direct supervision by its NSA. Also, a less significant bank could become subject to direct supervision by the ECB at any time due to an acquisition or merger of assets, or through organic growth, which caused it to satisfy the definition of significant.

**Banks Not Subject to the SSM**
While the ECB would directly supervise banks holding 82% of the assets held by Eurozone banks, this represented only 56.7% of total assets held by EU banks. A large share of EU bank assets was held by UK banks (23.6%), which were not subject to the SSM (See Figure 3). Therefore, the banking union’s reach did not extend across the entire EU. However, as discussed below, the Single Rulebook and other bank reform directives, which were mandatory in all member states, did mitigate this regulatory gap.

**Figure 3: Total Assets of Credit Institutions in EU Member States (June 2011)**

4. **The SSM Supervisory Model**

Pursuant to the SSM, the ECB’s duties included all functions critical to ensuring microprudential stability of the banks supervised, which included: authorizing banks, branches, and extensions of services, or withdrawing existing authorizations; approving mergers and acquisitions; requiring and monitoring that banks maintain robust governance procedures, risk-management processes and other internal controls; conducting stress tests; supervising parent organizations on a consolidated basis; and supervising recovery plans and instituting early intervention as required (SSM Framework Regulation, Article 35). The ECB was also responsible for ensuring coordinated functioning of the SSM and harmonization among the NSAs.

SSM regulations state that the SSM was committed to maintaining high supervisory standards and that it was intended that the SSM would be benchmarked against international standards and best practices. Equally important, the SSM was intended to ensure consistency within the framework of the European System of Financial Supervision (ESFS) and the Single Rulebook.

As required by the SSM regulations, on April 16, 2014, the ECB adopted a regulation (the SSM Framework Regulation) setting out the practical arrangements of implementing the SSM and further delineating the tasks prescribed to the ECB. Figure 4 describes how these duties were
distributed among the ECB and the NSAs under the SSM, with respect to the significant and less significant banks, respectively.

**Figure 4: SSM Distribution of Competencies**

<table>
<thead>
<tr>
<th>Significant supervised entities (SSE)</th>
<th>Less significant supervised entities (LSE)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ECB</strong></td>
<td><strong>Indirect supervision</strong></td>
</tr>
<tr>
<td>Direct supervision</td>
<td></td>
</tr>
<tr>
<td>(consolidated + solo supervision of any credit institution established in a participating MS)</td>
<td></td>
</tr>
<tr>
<td>Exceptions: payment services, markets in financial instruments, anti money laundering, consumer protection, etc. = national remit</td>
<td></td>
</tr>
<tr>
<td><strong>NCAs</strong></td>
<td><strong>Direct supervision</strong></td>
</tr>
<tr>
<td><strong>Source: European Central Bank.</strong></td>
<td>(on-site inspections incl.)</td>
</tr>
</tbody>
</table>

The Supervisory Board (the body responsible for the ECB’s supervisory duties, as discussed below) would provide additional procedural details in the SSM Supervisory Manual, an internal SSM staff document. However, the ECB also published a Guide to Banking Supervision that was publicly available. Collectively, the SSM Framework Regulation and the SM Supervisory Manual set forth the supervisory model for the SSM and specified the procedures to be followed by the ECB and NSAs in supervising significant and less significant banks, as well as many other related elements of SSM operations. It was yet to be seen, however, how the SSM Supervisory Manual would interact and possibly overlap with the Single Rulebook.

**Joint Supervisory Teams**

A hallmark of the SSM supervisory model is that each significant banking group would be assigned a Joint Supervisory Team (JST) composed of an ECB Coordinator and members from the ECB and NSA staffs from the member states in which the group operates. This structure would allow the ECB to make optimal use of existing local expertise, while at the same time, ensuring consistency across SSM supervised banks. According to a 2014 article in the SSM Quarterly Report:

Both in terms of size and expertise, each JST will be set up and staffed in a way that is tailored specifically to suit its supervised institution’s business model, risk profile and geographical distribution, involving all of the ECB and NCA supervisors working on the supervision of a
specific bank. This allows for a highly integrated approach to the supervision of cross-border banks, enabling the JST to conduct its activities with a view to the institution’s specific risk profile and to ensure that the institution complies with the legal and prudential framework on an ongoing and forward-looking basis (SSM Quarterly Report 2014/1, 9).

The JST would be responsible for coordinating all aspects of the supervised entity or group’s compliance with the SSM: planning and implementing the SSM Review and Evaluation Process (SSM REP), monitoring compliance with any corrective measures prescribed, and ensuring compliance with decisions made by the supervisory board and the governing council (SSM Framework Regulation, Articles 3-6). The JSTs would be supplemented and aided by subject matter specialists from the ECB.

**Methodologies and Processes**

The SSM SREP contained in the SSM Framework Regulation and SSM Supervisory Manual would guide supervision and review of both significant and less significant institutions. It was the SSM “playbook” and provided detailed procedures regarding a wide variety of operational issues, including:

**SSM Risk Assessment System (RAS).** A system that would be “rooted in quantitative indicators and qualitative inputs” and would utilize methodologies for assessing risk by individual categories (i.e., business risk, credit risk, liquidity risk) and would also evaluate internal governance and risk management procedures.

**SSM SREP Quantification.** A methodology for the evaluation and review of capital assessment, liquidity buffer qualification, stress testing, and supervisory measures and communications.

**An approach to integrate the RAS, the SREP quantification and the stress test outcomes.** The SSM designed its SREP as an integrated approach, which combined these elements in a meaningful way to determine its outcomes. Depending on this outcome, supervisors could impose a wide range of measures on institutions, including changes to their risk management practices and processes, as well as capital and liquidity changes to requirements above the minimum obligations under the Capital Requirements Regulation (commonly called “Pillar I requirements”) (SSM Quarterly Report, 2014/1, 10-11).

The SREP was designed to allow for maximum integration of SSM resources at the centralized ECB level and fluid deployment as needed for each supervised institution.

The SSM Framework Regulation also described procedures for on-site inspections, which would generally be conducted on an ad hoc basis. These might be initiated by the ECB or at the request of an NSA.

**5. The Comprehensive Assessment**

Prior to assuming full supervision of the significant banks, the ECB undertook a comprehensive review of such banks’ balance sheets and risk profiles, the “Comprehensive Assessment.” The Comprehensive Assessment had three main goals:

- **Transparency**—enhancing the quality of information available concerning the condition of banks;
• **Repair**—identifying and implementing necessary corrective actions, if and where needed; and

• **Confidence building**—increasing confidence that banks are fundamentally sound and trustworthy.

On October 26, 2014, the ECB published the results of the Comprehensive Assessments on 130 financial groups in 18 member states, which included the 120 significant banks subject to ECB supervision. The assessment included detailed information regarding each bank reviewed, including any corrective recommendations required (ECB 2014B).

**Asset Quality Review**

The Comprehensive Assessment consisted of two parts: (1) an asset quality review and (2) a stress test (ECB 2013). The Asset Quality Review evaluated the quantity and quality of banks' capital assets against a threshold of 8% Common Equity Tier 1 capital. Banks failing to meet this threshold would be required to adopt corrective measures, including the requirement to raise additional capital, which the ECB had the authority to monitor and enforce (Ibid., 2).

This total Common Equity Tier 1 ratio of 8% was applicable to all of the banks covered by the Comprehensive Assessment. It was calculated as a ratio to risk-weighted assets, derived from the Asset Quality Review, including any necessary adjustment to the risk weights (ECB 2014B) (See European Central Bank, Note: Comprehensive Assessment, October 2013, for details regarding the asset review. Also see ECB Press Release: ECB publishes manual for asset quality review, 11 March 2014.).

**Stress Tests**

Originally instituted in response to the financial crisis, the EBA had conducted stress tests since 2009. However, the results had not been well-received, as many criticized them for being too lax.

In 2010, amid the early stages of the sovereign debt crisis, questions abounded regarding the test’s rigor. Just 7 of 91 banks failed the tests, the results of which indicated that the failed banks required an infusion of only €3.5 billion in additional capital to be able to withstand a serious downturn. Notably, Ireland’s banks were given a clean bill of health only to be bailed out four months later (See YPFS case studies: Zeissler, et al 2014A and Zeissler, et al. 2014B).

Similarly, in July 2011, as the sovereign debt crisis battered the region, only 8 of 90 tested banks (in 21 countries) failed. The tests indicated that the failed banks needed only €2.5 billion in additional capital to survive a serious downturn. Another 16 banks passed, with capital ratios barely above the then-required threshold of 5% but were advised to also raise additional capital. Notably, the Franco-Belgian bank Dexia10 passed, seemingly a turnaround success story after having been bailed out in 2008. But just three months later, the bank had

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8 On September 4, 2014, the ECB published a final adjusted list of the 120 significant institutions that it will directly supervise as of November 4, 2014 (ECB 2014C).

9 This threshold was composed of a baseline Common Equity Tier 1 ratio of 4.5%, plus a 2.5% capital conservation buffer. An add-on of 1% was added to take into account the systemic relevance of the banks considered significant under the SSM Regulation.

10 Dexia, which was being wound down, was exempted from the 2014 stress tests but would be directly supervised by the ECB as of November 4, 2014.
to request government assistance due to huge exposures to Greek sovereign bonds (further discussed in YPFS case study Wiggins, et al. 2014).

By comparison to the original €2.5 billion estimate of capital shortfall indicated by the stress tests, the International Monetary Fund later estimated that the EU banks might require as much as an additional €300 billion to withstand the effects of the sovereign debt crisis (Rastello 2011).

The 2014 Stress Tests

On April 29, 2014, the EBA published the final methodology, adverse scenarios, and templates to be used by the banks involved in yet another round of stress tests. The 2014 baseline scenarios relied on EU gross domestic product (GDP) forecasts, but the adverse scenarios were adjusted to cover a wide range of risks, including credit risks, market risks, exposures to securitization, and sovereign and funding risks.11

To pass the test, banks had to show that their Common Equity Tier 1 capital wouldn’t fall below 8% of risk-weighted assets if the EU economy followed the baseline scenario. Banks were required to maintain a buffer of Common Equity Tier 1 capital of at least 5.5% of risk-weighted assets in the adverse scenario (EBA April 2014, 14). As shown in Figure 5, the 2014 tests incorporated adverse scenarios more severe than those used in previous years.

11 The 2014 adverse scenarios reflect the systemic risks that were viewed as then currently representing the greatest threats to the stability of the EU banking sector: “(i) an increase in global bond yields amplified by an abrupt reversal in risk assessment, especially towards emerging market economies, (ii) a further deterioration of credit quality in countries with feeble demand, (iii) stalling policy reforms jeopardizing confidence in the sustainability of public finances; and (iv) the lack of necessary bank balance sheet repair to maintain affordable market funding” (EBA April 2014). The shocks include stress in the commercial real estate market and foreign exchange shock in Central and Eastern Europe.
The 2014 tests also altered the treatment of sovereign debt held by banks. Unlike in prior years, sovereign debt securities held in a bank’s trading book would have to be marked to market, and any losses would have to be immediately realized. “Those sovereign assets held as hold to maturity would be subject to a shift in the risk weights based on internal model assessments of changes in credit risk. The treatments of securities that were held as available for sale were marked to market too, but the capital impact would depend on choices made by supervisors” (EBA FAQs April 2014) (Additional details regarding the stress test can be found in EBA January 2014A.).

**Results of the 2014 Comprehensive Assessment**

On October 26, the EBA published the final results of the 2014 comprehensive assessment and stress tests. The key results were:

- Capital shortfall of €25 billion detected at 25 participant banks.
- Banks’ asset values needed to be adjusted by €48 billion, €37 billion of which did not generate capital shortfall.
- Shortfall of €25 billion and asset value adjustment of €37 billion implied overall impact of €62 billion on banks.
- Additional €136 billion found in nonperforming exposures.

*Source: Speech: Ignazio Angeloni: Stress-testing banks: are econometric models growing young again? (08/01/2014).*
• Adverse stress scenario would deplete banks’ capital by €263 billion, reducing median CET1 ratio by four percentage points from 12.4% to 8.3% (see ECB 2014A and ECB 2014D).

The results were generally viewed as more stringent and transparent than in previous years and a successful preparation for the new SSM regime. Since the Comprehensive Assessment was announced in July 2013, 30 of the largest banks had taken measures to strengthen their balance sheets by more than €200 billion, including raising €60 billion in capital. Many banks had already covered a capital shortfall revealed by the test (The assessment was completed as of December 31, 2013). The 25 banks that failed the test had two weeks to submit a proposal for increasing their required capital and nine months to cover the shortfall.12

6. Governance and Administration

By treaty, only the Eurozone countries have decision-making authority within the ECB. A new decision-making process was created to accommodate non-Eurozone countries that choose to join the SSM. A new ECB entity, the Supervisory Board, will act to make most decisions under the SSM and recommend decisions to the ECB’s ultimate decision-making body, the Governing Council. The new process also effectuates the SSM’s mandate for the ECB to separate its supervisory function from its monetary policy duties. Consistent with this mandate, the Governing Council will hold separate meetings to consider Supervisory Board recommendations or other supervisory matters. The SSM governance structure and decision-making structure are outlined in Figure 6.

The Supervisory Board

The Supervisory Board was to be made up of representatives from the ECB and all NSAs from participating member states. The Supervisory Board would make most decisions under the SSM, with Supervisory Board rulings becoming final unless vetoed by the Governing Council within ten days (SSM Quarterly Report 2014/1, 4-5). A Steering Committee composed of a chair, a vice chair, an ECB member of the Supervisory Committee, and five members of the Supervisory Committee from NSA member states would be charged with supporting the activities of the Supervisory Board (SSM Quarterly Report 2014/2, 4).

An Administrative Board of Review composed of five persons with sufficient experience in the fields of banking and finance would review internal decisions by the ECB to ensure that they were in compliance with SSM Regulations. In the event of disagreement, any NSA could appeal a Governing Council’s blocking of a Supervisory Board decision to a high-level mediation panel, comprised of one member from each SSM participating member state, chosen from among members of the Governing Council and the Supervisory Board (Ibid. 5).

Lastly, the mediation panel would resolve, if requested by an NSA, differences of views regarding an objection by the Governing Council to a draft decision prepared by the

12 See ECB 2014D for the results of the 2014 Comprehensive Assessment, including detailed results, which can be assessed at http://www.ecb.europa.eu/press/pr/date/2014/html/pr141026.en.html; See also ECB 2014E, the transcript of the comprehensive assessment press conference (with Q&A) is available at http://www.ecb.europa.eu/press/pressconf/2014/html/is141026.en.html.
Supervisory Board. The mediation panel would be comprised of one member per participating member state (SSM Quarterly Report 2014/2).

Figure 6: Decision-Making Process of the SSM, Non-Objection Procedure

Source: European Central Bank

Administrative Organization

In order to perform its new supervisory function and also to maintain separation from its monetary policy functions, the ECB established four new Directorates General with an estimated total headcount of 770. The Directorates General Macro-Prudential Supervision I and II (DGs MPS I and II) would be responsible for the day-to-day supervision of the 120 significant institutions, with the 30 most systemic banks being assigned to DG MPS I, and the balance to DG MPS II. Directorate General Macro-Prudential Supervision III would be responsible for indirect supervision of the less significant banks. Directorate General Macro-Prudential Supervision IV would provide horizontal and specialized services, such as planning, modeling, and crisis management expertise, to support the other functions. Lastly, a dedicated directorate-level secretariat would support the Supervisory Board in carrying out its responsibilities (SSM Quarterly Report 2014/2, 6-7).

7. The Single Rulebook

The ECB and NSAs would utilize the Single Rulebook in implementing the SSM and in supervising the Eurozone credit institutions. This would help to ensure that all banks met a similar standard for critical supervisory elements regardless of which member state they operated in.

The EBA was charged with developing the Single Rulebook in 2011 as part of the ESFS reforms adopted in response to the financial crisis. At the time, the then 27 EU member states maintained separate supervisors and separate bank regulatory regimes under a system of minimal harmonization. Previous European banking legislation was based on a Directive,
which required national and/or local governments to adopt laws to further implement them. This resulted in widely divergent national standards across the EU, characterized by regulatory competition and local favoritism. Moreover, a large cross-border financial institution operating in the EU would have to separately comply with each country’s laws. This regulatory patchwork enabled institutions to exploit regulatory loopholes and distort competition. It was burdensome for firms to operate across the single market represented by the EU.

To address these divergences, the Single Rulebook would be based on regulations, which were directly and uniformly effective once enacted, requiring no national or local rulemaking. It was expected to result in a more resilient, transparent, and efficient European banking sector. Under the Single Rulebook, prudential safeguards would not stop at the border, and institutions’ financial stability could be compared across the region or, for example, by applying a common definition for classification of instruments as Common Tier 1 capital and use of a common financial reporting platform (See Enria 2011 for a discussion of the rationale put forth by the EBA for the Single Rulebook.).

8. Deposit Guarantee Schemes

In April 2014, the European Parliament adopted amendments to the directive regarding deposit guarantee schemes (DGSs) that ensured that deposits in all member states would be guaranteed up to €100,000 per depositor, per bank. The regulation also called for faster payouts gradually reducing the required period from 20 to 7 working days. It also sought to strengthen the guarantee by requiring a minimum level of ex-ante funding (0.8%) to be met in ten years, and to arrange for backup funding sources. Banks would make contributions based on their risk levels, with riskier banks being required to contribute more (See European Commission MEMO/14/296 for further details.).

Member states had a year to fully implement the requirements, which fell short of a proposed broader overhaul that would have achieved EU harmonization and improved financing of schemes.

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