EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI

President

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

Frankfurt, 10 January 2014
L/MD/14/18

Re: Your letter of 6 December 2013

Dear Ms Bowles,

Thank you for your letter of 6 December in relation to the ECB's internal preparations for the Single Supervisory Mechanism (SSM). A number of the issues raised in your questions remain under discussion. On other aspects, this letter provides relevant information, complementing my letter of 15 November 2013, now that more information is available.

Let me first address your questions pertaining to organisational and HR-related issues.

The process for the nomination by the Governing Council of the four ECB representatives for the Supervisory Board (question 7) is on-going. I can already confirm that these representatives will not be engaged in matters of monetary policy in line with the provisions to ensure an effective separation between monetary policy and supervisory decisions.

In reply to question 1, you will find in the Annex to this letter a tentative draft organigramme for the SSM. In addition to the four new Directorate Generals and the Secretariat unit that will support the Supervisory Board, the new 'supervisory function' of the ECB will rely on the support of business areas providing 'shared services', whilst fully respecting the principle of separation (question 8). These business areas will notably include the Directorates General 'Administration', 'Information Systems', 'HR, Budget & Organisation', 'Communications & Language Services', 'Legal Services' and 'Statistics' and the Directorate 'Internal Audit'.[1]

---

[1] The full list of divisions comprised in these Directorate Generals is available on the ECB website at http://www.ecb.europa.eu/ecb/orga/orgachart/bas/html/index.en.html.

Regarding the involvement of the Supervisory Board Chair in the recruitment process of senior staff (question 4), Ms Nouy has been very much involved. She was one of the nine high-level National Competent Authorities' representatives that participated as full members in the panels for the selection of the senior managers.

Concerning your question on career paths within the ECB (question 3), it should be noted that formally separated career paths are not foreseen by the SSM Regulation. The example of several National Competent Authorities demonstrates that this is not required to ensure an effective separation of monetary policy and supervisory functions. First and foremost, at the ECB the separation at task level will be ensured through the exclusive reporting of supervisory issues to the Supervisory Board. Furthermore, an ECB member of staff switching from supervision to another function remains an ECB employee. While the statutory objectives and priorities may vary depending on the function, the member of staff must always act in the interests of the ECB, amongst others implying the duty to observe strictly the separation between supervision and monetary policy. ECB staff members are bound by secrecy and confidentiality obligations and should not divulge sensitive information, including when moving to another role within the ECB. Finally, ECB rules include a general conflict of interest clause which may be used, if needed, on a case-by-case basis to relieve members of staff from specific duties. More generally, at the ECB the option of internal mobility is an important tool for the professional development of staff and thus an asset to attract good supervisors. In addition, internal mobility is considered crucial in fostering a common corporate culture, avoiding silo mentalities, and delivering a flexible organisation with adaptable human resources.

Concerning the work streams that were formed to prepare for the establishment of the SSM (question 2), these correspond to the five work streams mentioned in my previous letter. They focused on the following matters: (i) the initial mapping of the euro area banking system; (ii) legal considerations in establishing the SSM; (iii) the development of the supervisory model; (iv) the preparation of the supervisory reporting framework; (v) the preparation of the comprehensive assessment. For data protection-related reasons, we cannot share with you further personal details of the members of these structures, beyond the institutional information. The Supervisory Board will decide on the relevant follow-up to the work of these groups which are of a transitional nature.

Another part of your questions concern issues that will be further discussed in the context of the Framework Regulation.

Concerning the language regime (question 5), as I have indicated in my letter of 15 November, the supervised entities may address the ECB in any one of the official languages of the EU. Based on an explicit agreement of the supervised entity, however, a derogation is possible and it can be agreed to use, until further notice, English only. The first templates in the context of the comprehensive assessment were sent to the national competent authorities in English. Where credit institutions request a version in another language, such requests will be addressed. The details of the language of communication between the ECB and supervised entities will be included in the Framework Regulation. As foreseen by the Interinstitutional Agreement between the European Parliament and the ECB on the SSM (IIA), the ECON Committee will receive the draft Framework Regulation ahead of the launch of the public consultation, which is foreseen following the establishment of the Supervisory Board.

Concerning accounting rules (question 6), the SSM cannot and will not impose new or different accounting standards than those existing in international and national legislation. The vast majority of banks undergoing the assessment (well over 90 per cent in terms of assets) report their accounts under International Financial Reporting Standards (IFRS). It is foreseen to use templates based on IFRS for the purpose of regular supervisory reporting for banks using IFRS and, for banks using national Generally Accepted Accounting Principles (GAAPs), to use the specific templates provided in the EBA Implementing Technical Standards on supervisory reporting. This is consistent with their objective: "*In order to ensure consistency and comparability of information, where competent authorities require institutions using national accounting standards to report financial information by virtue of Article 99 (6), these institutions should report financial information in a manner similar to that of institutions using IFRS*". Moreover, for the asset quality review, a qualitative questionnaire that was collected from the banks along with the quantitative template will allow for an informed overview of the bank specific differences throughout the exercise. For the institutions under national GAAPs, further support at each stage of the process is being delivered through the assistance of an on-going help desk.

Regarding your question on the less significant institutions (LSI) (question 9), Article 6(6) SSM Regulation stipulates that with the exception of common procedures which are a joint responsibility of the ECB and the NCAs, NCAs remain responsible for the day-by-day supervisory activities, but the ECB retains important strategic functions, including regarding initial licensing, withdrawals of licenses and the assessment of acquisitions of qualifying holdings, which are handled jointly by the NCAs and the ECB.

As regards the oversight responsibility of the ECB to ensure that the supervisory activity carried out by the NCAs is of the highest quality and in line with EU and SSM requirements, the ECB will exercise this responsibility with due regard to the principles of proportionality and subsidiarity. These principles stipulate that an intervention of the ECB should only take place when it is necessary, and be as light as possible to address the shortcomings in an adequate way. An example of a direct intervention by the ECB could be in the case that a further detailed assessment is needed with respect to a bank that may be considered to become directly supervised by the ECB.

Finally, you raised questions in relation to the comprehensive assessment.

Concerning question 10a, sovereign exposures are within the scope of the comprehensive assessment. This entails the possible inclusion of this asset class in the asset quality review, although given the nature of these exposures, the risk of an adverse AQR finding is relatively low. Sovereign exposures, both held-to-maturity and available-for-sale exposures, will be included in the stress test, although it is not foreseen that HTM portfolios will be marked-to-market. Further details concerning the stress test will be announced in late January or early February.

It is not expected that the asset quality review will impact the regular financial reporting processes related to the closure of year-end accounts. Furthermore, the process of file reviews, to be undertaken in the context of the comprehensive assessment, and by external third parties in close cooperation with NCAs, will not overlap with the regular year-end audit processes. While some elements of the asset quality review may progress in parallel through the bank results reporting season, it is not envisaged that the processes will overlap in any way. The ECB also maintains an on-going dialogue with the audit industry and with ESMA on such matters. More generally, as the results of the asset quality review will only be available in Q4 2014, there is no expectation that the 2013 reporting cycle will be disrupted and there is no expectation that the 2013 results may need to be restated by the banks. Findings from the comprehensive assessment should be carried forward into the 2014 results statement, although precise details in this respect remain under consideration. A possible exception may arise in the unlikely case that the AQR uncovers serious issues that must be addressed according to local law, such as, for example, the identification of accounting irregularities.

Given the high degree of interest in the comprehensive assessment, the demand for information is significant. The risk of leaks through the process is also not inconsiderable, given the scale of the exercise and the number of institutions involved. As a result, very cautious information management processes will be adhered to throughout the process to mitigate the risk of such leaks (question 10.c). Thorough confidentiality rules will apply to the comprehensive assessment in order to ensure that the results are not leaked.

Regarding the question on the relevant accounting standards and the Supervisory Risk Assessment, in Phase 1 of the AQR - similarly to the answer to question 6 - the SSM will not impose IFRS for the banks that report under national accounting standards (question 10.d). We see no inconsistency between the use of consistent definitions of non-performance and forbearance, drawing on the EBA's ITS/2013/03 definition, and reiterate that current regulations, international or European, will be adhered to in the comprehensive assessment.

For the institutions under the German HGB (question 10.e), as well as for the institutions under other national GAAPs, additional guidance on how to fill in the templates for the previously launched data collections was provided. Support at each stage of the process is being delivered through the assistance of an on-going 'help desk' function, managed centrally by the ECB, but with input from each National Competent Authority. Feedback on questions received from the banks has been circulated on a frequent basis to the National

Competent Authorities. For the German HGB, specific equivalents and explanations for accounting standards were provided.

Concerning comparability of the findings (question 10.f), consistency and comparability of results is a key aim of the exercise. But that aim should not be interpreted to suggest that a mechanical approach will be applied to each bank under review and that at a portfolio level, the same treatment will be applied across the system. The exercise aims to provide a consistent outcome for each bank and a consistent set of results. This may require that bank-specific and country-specific details will be taken on-board where appropriate, but in keeping with the aims of ensuring consistent and comparable outcomes for the exercise as a whole.

Going forward, and further to this reply and to the communication on the comprehensive assessment, the dialogue between the Parliament and the now appointed Supervisory Board Chair will provide ample opportunity to share further relevant information.

Yours sincerely,

[signed]

Mario Draghi

Annex: Organisation of the SSM (tentative)