



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, 8 May 2018

Re: Your letter (QZ-035)

Honourable Member of the European Parliament, dear Mr Giegold,

Thank you for your letter on on-site inspections and the targeted review of internal models, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 4 April 2018.

On-site inspections (OSIs) are an important supervisory tool for conducting in-depth investigations of risks, risk controls and governance at a bank. They are undertaken at the request of the joint supervisory teams (JSTs) but carried out independently of the ongoing, day-to-day supervision performed by the JSTs. For each on-site mission, the head of mission receives a precise mandate and has a focused objective that is approved in advance by the ECB's Supervisory Board. On-site inspections are planned and staffed as a result of close cooperation between the ECB and the national competent authorities (NCAs), which continue to provide most of the heads of mission and team members.

In 2017, a high level group set up by the Single Supervisory Mechanism (SSM) explored ways of fostering a stronger SSM-wide approach to on-site missions at significant institutions. The group found that promoting a common SSM on-site culture is likely to be a key element in the further harmonisation of on-site practices. Clearly, cross-border missions (defined as inspections where the head of mission and at least one team member do not come from the relevant NCA) and mixed-team missions (defined as inspections where the head of mission comes from the relevant NCA and at least two team members do not come from the relevant NCA) are an effective means of developing a common European on-site culture. Therefore, the group recommended that the share of cross-border and mixed-team missions within the SSM should be increased over the coming years. Following the group's proposal, ambitious quantitative targets for raising the number of cross-border missions in 2018 were set. Those targets may be reviewed and possibly further increased over the coming years. This year, 2018, is to be regarded as a pilot phase for the new approach. Accordingly, the ECB has stepped up coordination and staffing efforts related to cross-border and mixed-

team on-site missions and has enhanced the support it provides to NCA on-site inspectors willing to participate in such missions.

Let me now turn to your question on the supervisory follow-up within the targeted review of internal models (TRIM). TRIM is the largest project that ECB Banking Supervision is currently running (and one of our supervisory priorities in 2017 and 2018). The main objective of the project is to assess the adequacy and appropriateness of the approved Pillar I internal models used by the significant institutions in the euro area. Focusing on the correct and consistent implementation of the applicable regulatory requirements and aiming to harmonise supervisory practices related to internal models, TRIM enhanced banks' solvency, ensures a level playing field across significant institutions and, as a consequence, enhances the credibility of internal models.

To achieve its objectives, TRIM is scheduled to run over several years (2016-2019). The review of general topics contained in the applicable internal models regulation, i.e. aspects that are not model-specific such as model governance or model validation, was initiated in 2016 and finalised in 2017, thus allowing us to launch a systematic follow-up at the end of 2017, as stated in the ECB Annual Report on supervisory activities (Chapter 1.5)¹. The follow-up resulted in the issuance of 21 supervisory decisions addressing cases of non-compliance with the existing regulation, as well as 55 feedback letters listing, for each institution, potential issues identified during the general topics review. More information on the outcome of this review will be communicated to the industry after finalisation of the ongoing public consultation on the corresponding chapter of the ECB guide to internal models.

The TRIM on-site investigations dedicated to the review of model-specific aspects were launched at a later stage in the process, namely in 2017. Against this background, and with the aim of gathering a sufficiently representative sample of finalised assessment reports to ensure consistency in decisions, the supervisory follow-up on TRIM on-site investigations was initiated only in 2018. With the first supervisory decisions issued recently, it is premature to provide statistics on the outcome of the follow-up at this point in time. However, the ECB will publish information on this review in due course, as appropriate.

Yours sincerely,

[signed]

Danièle Nouy

¹ <https://www.bankingsupervision.europa.eu/press/publications/annual-report/html/index.en.html>