EUROPEAN CENTRAL BANK

EUROSYSTEM

Another step towards a better Europe: building banking supervision

Opinion piece by Danièle Nouy, Chair of the Supervisory Board of the Single Supervisory Mechanism (SSM), published in various European newspapers on 30 September 2014

In a few weeks – as part of the establishment of the banking union – Europe will embark on a new era of banking supervision: on 4 November the European Central Bank (ECB) will start directly supervising the 120 biggest banking groups of the euro area, covering more than 85% of banking assets, and indirectly supervising roughly 3,400 smaller institutions. Working together with national supervisory authorities, as part of a Single Supervisory Mechanism, our aim is to boost the confidence of citizens and markets in the resilience of the banks under our supervision. We also want to help the financial sector fulfil its most important role in a modern society: financing the real economy, financing growth and ultimately fostering job creation. Only healthy banks that enjoy the confidence of the people and the markets can perform this role properly.

We at the ECB know that we can only help to improve the confidence of citizens and markets in the banks if everybody understands how we operate and what guides our work. This is why we have published a guide which spells out in detail the principles and procedures for carrying out banking supervision. Let me outline a few of the guide's central elements.

Personally, I can promise you that our supervision will be tough and fair. And we will not shy away from being intrusive if we feel this is necessary. We will be a truly pan-European supervisor operating without national bias or prejudice. We will "live" this spirit at all levels of our organisation, but especially at the core of the new Single Supervisory Mechanism, the Joint Supervisory Teams (JSTs). These teams will supervise the banks on a daily basis. Each one is led by an ECB coordinator who, as a rule, cannot come from the country where the bank concerned is headquartered. For example, Crédit Agricole's chief supervisor will be German, Unicredit's from France, ABN AMRO's from Spain. This is to help address issues from a new angle and avoid national bias. As a whole, the JSTs will bring together the staff and know-how of the national supervisors, also known as the national competent authorities, and the ECB. This means they will draw on the experience of the 18, soon to be 19, countries of the euro area. Over time, JST members will rotate between teams, another measure to ensure that every bank is treated equally and that we share experiences from all Member States.

Independent audit teams, referred to as on-site inspection teams, will support the work of the JSTs by gathering in-depth information directly from the offices and branches of a bank. The

ECB will also establish a reporting mechanism in order to encourage and enable persons with knowledge of potential breaches of relevant EU law by banks to report such breaches to the ECB. Such reports on violations are an effective tool for bringing incidents of business misconduct to light.

Our enforcement and sanction experts will investigate – in the spirit of transparent investigation and decision-making – alleged breaches by banks of directly applicable EU law, national law transposing EU directives or ECB regulations and decisions that have been observed by a JST during day-to-day supervision. If regulatory requirements are shown to have been breached and credit institutions or their management need to be penalised, we may impose administrative penalties on banks of up to 10% of their total annual turnover in the preceding business year.

All national competent authorities of all Members States have a seat and a vote on the Supervisory Board. And all votes carry equal weight. This also ensures equal treatment of all banks across the system according to one single rule book and without national bias. So, in return for now being part of a pan-European supervisory system, the national supervisors can influence the supervision of banks in other countries and shape decision-making by the Governing Council. More importantly, they will gain an insight into the developments and trends surfacing in other countries' banks before they potentially arrive in their home market. At the ECB in Frankfurt, we have teams dedicated solely to analysing such horizontal data, enabling us to operate an early warning system.

This is a benefit of single supervision that is already materialising: in the comprehensive assessment – which is the balance sheet check and stress test we are conducting in the run-up to 4 November – we are gaining an insight into cross-border trends within the entire European banking system. These would be much harder to spot for an individual national supervisor who, by definition, looks at a much narrower set of data.

There are already encouraging signs from several countries that do not have the euro as their currency in that they are considering requesting that their banks also be supervised by the ECB, a possibility foreseen in the SSM Regulation. While this development is at a very early stage, it shows that we are already in the process of winning the trust of stakeholders across Europe.

Can I promise that the ECB can once and for all eliminate the risk of another financial crisis? Unfortunately, I cannot. But I strongly believe that there has never before been a European institution better equipped to minimise this risk. As part of the ECB, the Single Supervisory Mechanism provides for a strong and independent force at the centre of the European banking system. And when I see supervisors from 28 different countries working together to set up the organisation, it further strengthens my belief that we are building something historic which will make Europe a better place to do business, a place that fosters success.

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