EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Danièle NOUY
Chair of the Supervisory Board

Mr Enrique Calvet Chambon
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 4 April 2016

Re: Your letter (QZ-028)

Honourable Member of the European Parliament, dear Mr Calvet Chambon,

Thank you for your letter, 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 10 March 2016.

In your first question, you enquired about differences between the results of the stress tests conducted by the Federal Reserve and the ECB.

In line with its macroprudential and microprudential responsibilities, the ECB employs stress tests to assess banks' resilience to adverse macroeconomic and financial developments in a forward-looking manner. The Federal Reserve also conducts stress tests. However, the results of the stress tests conducted by the ECB and the Federal Reserve cannot be directly compared. First, the scope of both exercises is different, so that euro area banks participating in the US exercise are not assessed at the same level of consolidation as in the ECB exercise. Second, the US exercise incorporates a standalone qualitative assessment which can lead to the rejection of a bank's capital plan. Third, the ECB and the Federal Reserve exercises stress banks using different methodologies. Inter alia, they adopt different macroeconomic and financial scenarios, apply different assumptions regarding the evolution of banks' balance sheets and consider forward stress test horizons of different lengths.

You also asked about debt accumulation and the financial results of small regional banks in Germany, and about the systemic nature of small regional banks for the euro area.

For less significant institutions (LSIs), the ECB is in charge of indirect supervision. This means that national competent authorities (NCAs) remain responsible for the supervision of LSIs (establishing the supervisory strategy, conducting day-to-day supervision and taking supervisory actions).

The ECB aims to ensure high quality supervision through the Single Supervisory Mechanism (SSM). In performing this task, the ECB (i) supports the consistent application of supervisory processes and procedures by NCAs, (ii) ensures effective information-sharing between NCAs and the ECB, (iii) addresses high-impact and high-visibility differences between NCAs, and (iv) may take over the supervision of LSIs when all other measures are not sufficient.

Within the SSM, banking supervision is performed through a combined impact- and risk-based approach. Thus, the supervisory strategy does not only consider the size of the banks but also their riskiness and interconnections with other banks. This sectoral approach ensures that banks which are connected with each other because of contractual agreements, business relationships or similar business models are not monitored only at the individual level. The sector as a whole is also considered in order to assess and address risks related to the whole sector and not just to a single bank. Hence, small banks, too, can be of high significance from a supervisory perspective. Within the banking union, a considerable number of small regional banks are participating in institutional protection schemes (IPSs). As these networks link a number of institutions, they give rise to a need to assess the institutions themselves, and their linkages, from a broader perspective. For IPSs consisting of significant and less significant institutions, the ECB and the respective NCA are responsible for granting permissions according to Article 113(7) of the Capital Requirements Regulation (CRR)[1] and the ongoing monitoring of the IPS concerned. In this context, in order to ensure a consistent banking-union-wide supervisory treatment of the institutions belonging to IPSs, the ECB recently published a draft guide for public consultation, developed in close cooperation with the NCAs, which defines common criteria to be used by the ECB and the NCAs. This document also provides guidance on how new IPS applications will be assessed.

ECB Banking Supervision is aware that the low-interest-rate environment is putting pressure on the profitability of European banks, especially in the LSI sector, where the business model is mainly based on granting loans and taking deposits. Profitability risk has been identified as a high-level priority for 2016 and is closely monitored by NCAs and the ECB, according to the established division of tasks regarding significant institutions (SIs) and LSIs, in ongoing supervision and with ad-hoc assessments. When necessary, vulnerabilities are addressed through specific supervisory measures.

You asked, too, about the situation of the German financial system more generally, its implications for the real economy and growth, and possible revisions to the rules of Economic and Monetary Union (EMU).

The ECB monitors the stability of the financial sectors in all euro area countries on an ongoing basis. This encompasses the non-financial private sector, financial markets, and the bank and non-bank sectors. Given the importance of bank lending for financing the economy, the banking sector and the 129 directly supervised SIs are the focus of the ECB's attention. Microprudential supervision is conducted by the ECB in its supervisory function, in full respect of the principle of separation. Against this background, it is not for me to respond to questions on monetary policy matters, or on possible revisions to the legal rules governing EMU.

Lastly, you raised a question on the equal treatment of supervised credit institutions.

Supervisory principles and procedures are applied to credit institutions across all participating Member States in an appropriately harmonised and consistent way by the ECB and the NCAs in order to avoid any fragmentation or unequal treatment. In particular, ECB Banking Supervision practices are commensurate

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council.

with the systemic importance and risk profile of the credit institutions under supervision and are applied consistently, irrespective of the Member State in which the credit institution is established.

Yours sincerely,

[signed]

Danièle Nouy