EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Andrea Enria
Chair of the Supervisory Board

Mr Sven Giegold
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 16 April 2020

Re: Your letter (QZ-014)

Honourable Member of the European Parliament, dear Mr Giegold,

Thank you for your letter on the supervision of less significant institutions (LSIs), which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 20 March 2020.

Within the Single Supervisory Mechanism (SSM), the ECB, assisted by the national competent authorities (NCAs), directly supervises all institutions that are classified as significant (SIs) in Joint Supervisory Teams. The NCAs directly supervise LSIs, subject to the oversight of the ECB, to ensure the effective and consistent functioning of the SSM. Furthermore, Article 6(5)(b) of the SSM Regulation[1] provides that the ECB, when necessary to ensure the consistent application of high supervisory standards, may at any time decide to take over the direct supervision of LSIs, upon the request of the NCAs or at its own initiative after consulting the NCAs. In the event that the ECB takes over an LSI, it is categorised as an SI directly supervised by the ECB.

With regard to your first question, the criteria triggering the takeover of direct supervision by the ECB are defined in Article 6(5)(b) of the SSM Regulation, for the interpretation of which Article 67 of the SSM Framework Regulation[2] sets out further criteria.[3] The reasons why these criteria were, in the case of an

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, OJ L 287, 29.10.2013, p. 63-89 (SSM Regulation).

[2] Regulation ((EU) No. 468/2014 of the ECB of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities, OJ L 141/1, 14.05.2014 (SSM Framework Regulation).

[3] The (non-exhaustive) criteria mentioned in Article 67(2) of the SSM Framework Regulation taken into account by the ECB are: (i) whether or not the LSI or less significant supervised group is close to meeting one of the criteria contained in Article 6(4) of the SSM Regulation; (ii) the interconnectedness of the LSI/less significant supervised group with other credit institutions; (iii) whether or not the LSI concerned is a subsidiary of a supervised entity which has its head office in a non-participating Member State or a third country and has established one or more subsidiaries, which are also credit institutions, or one or more branches in participating Member States, of which one or more is significant; (iv) the fact that the NCA has not followed the ECB's instructions; (v) the fact that the NCA has not complied with in particular ECB guidelines and recommendations; (vi) the fact that the LSI has requested or received indirectly financial assistance from the European Financial Stability Facility or the European Stability Mechanism.

individual takeover, considered to be met are spelled out in the relevant individual ECB decision and expressly mentioned in the list of SIs which is regularly updated and published on the ECB website. The criteria are applied consistently by the ECB for all participating Member States.

Between the inception of the SSM and the first quarter of 2020 the ECB took over direct supervision of 11 LSIs in seven different Member States – one in Austria, one in Belgium, one in Estonia, three in Germany, two in Ireland, one in Italy and two in Latvia – out of a total of more than 2,500 LSIs.

The ECB took over ten of these banks with a view to ensuring the consistent application of high supervisory standards, as they were expected to start meeting the significance criteria in the near future.

Of these ten, five institutions were expected to fulfil the significance criterion owing to the relocation of their business to the euro area in relation to Brexit. Therefore, as specified in Article 6 of the SSM Regulation, these institutions were taken over by the ECB, thereby qualifying as SIs.[4]

With respect to other three SIs – one in Italy, one in Belgium and one in Austria – the exercise of direct supervision by the ECB could have been returned to the relevant NCAs after the three-year observation period[5] in line with Article 6 of the SSM Regulation.[6] However, the criterion for significance was expected to be met again in the near future as a result of planned developments. It was therefore decided not to change supervisors for such a limited period of time, in application of Article 6(5)(b) of the SSM Regulation.

The remaining two LSIs were taken over following the merger of two credit institutions, where three different subsidiaries were created with the plan to form one single group within the banking union in the near future. The Lithuanian subsidiary was already one of the three most significant credit institutions in this Member State, and the ECB took over supervision for the two other subsidiaries in Estonia and Latvia, thereby ensuring that the supervision of the whole group would be performed by the same supervisor (ECB) instead of three different NCAs.

Lastly, in the case of one LSI in Latvia, supervision was taken over by the ECB on 4 April 2019 at the request of the Financial Capital and Markets Commission.[7] Following the "failing or likely to fail" assessment by the ECB on 15 August 2019, the ECB withdrew authorisation for this institution in February 2020.[8]

Yours sincerely,

[Signed]

Andrea Enria

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[4] See the ECB press release of 4 December 2019.

[5] See Article 47 of the SSM Framework Regulation.

[6] See Chapter IV of the SSM Regulation.

[7] See the ECB press release of 15 August 2019.

[8] Ibid.