



EUROPEAN CENTRAL BANK  
BANKING SUPERVISION

# Supervisory Manual

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# Use of the Supervisory Manual

The Supervisory Manual describes the organisational set-up of the Single Supervisory Mechanism (SSM) and defines the methodologies, processes and procedures for banking supervision in the euro area. It also explains how the SSM cooperates with other authorities in the wider institutional framework.

The Manual first describes how the SSM is organised and how it discharges its supervisory tasks and then details how supervision is conducted in practice.

It is not a legally binding document, does not establish new regulatory requirements and cannot, in any way, replace the legal requirements laid down in the relevant applicable EU law. It sets out the approach followed by the SSM in carrying out its supervisory tasks. The SSM is empowered to depart from the general policy established in this Manual if there are factors in specific cases that justify doing so and if sufficient rationale is provided. The divergent policy choice must also be compatible with the general principles of EU law, in particular equal treatment, proportionality and the legitimate expectations of supervised entities. This is consistent with established case law of the Court of Justice of the European Union where internal guidance, such as this Manual, is defined as rules of practice from which EU institutions may depart in justified cases. For example, paragraph 209 of the Court of Justice's judgement in Joined Cases C-189/02 P, C-202/02 P, C-205/02 P to C-208/02 P and C-213/02 P of 28 June 2005<sup>1</sup> states "The Court has already held, in a judgment concerning internal measures adopted by the administration, that although those measures may not be regarded as rules of law which the administration is always bound to observe, they nevertheless form rules of practice from which the administration may not depart in an individual case without giving reasons that are compatible with the principle of equal treatment. Such measures therefore constitute a general act and the officials and other staff concerned may invoke their illegality in support of an action against the individual measures taken on the basis of the measures".

The Supervisory Manual was first published by the European Central Bank (ECB) in March 2018 and was drafted with the assistance of the national competent authorities as part of the ECB's transparency policy. This revised version on the Manual, published in January 2024, offers the most up-to-date information on European banking supervision, reflecting, among others, the reorganisation of ECB Banking Supervision that took place in 2020. The revised Manual replaces the 2014 Guide on banking supervision.

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<sup>1</sup> *Dansk Rørindustri v Commission*, C-189/02 P (Joined Cases C-189/02 P, C-202/02 P, C-205/02 P, C-206/02 P, C-207/02 P, C-208/02 P, C-213/02 P), ECLI:EU:C:2005:408.

## Introduction

The European banking union is based on three pillars: (i) the SSM, which is responsible for supervising credit institutions and the banking sector; (ii) the Single Resolution Mechanism, which comprises the Single Resolution Board and a Single Resolution Fund for unviable credit institutions; and (iii) a European Deposit Insurance Scheme, which is still in development at the time of writing. These three pillars rest on the foundation of the Single Rulebook, which applies to all EU countries.

European banking supervision aims to contribute to the safety and soundness of credit institutions and the stability of the financial system by ensuring that banking supervision across the euro area is of a high standard and is consistently applied to all banks.

While retaining ultimate responsibility, the ECB carries out its supervisory tasks within the SSM, comprising the ECB and the NCAs. This structure provides for strong and consistent supervision of all supervised entities across the euro area, while making the best use of the local and specific know-how of national supervisors.

On the basis of the tasks entrusted to the ECB by the European legislator, the supervisory authorities have defined a mission statement for European banking supervision and determined its supervisory principles.

The work of the SSM supervisors should at all times be guided by the [mission statement of the SSM](#), the [strategic intents of the SSM](#) and the [organisational principles for the SSM](#).

# 1 Functioning of the Single Supervisory Mechanism

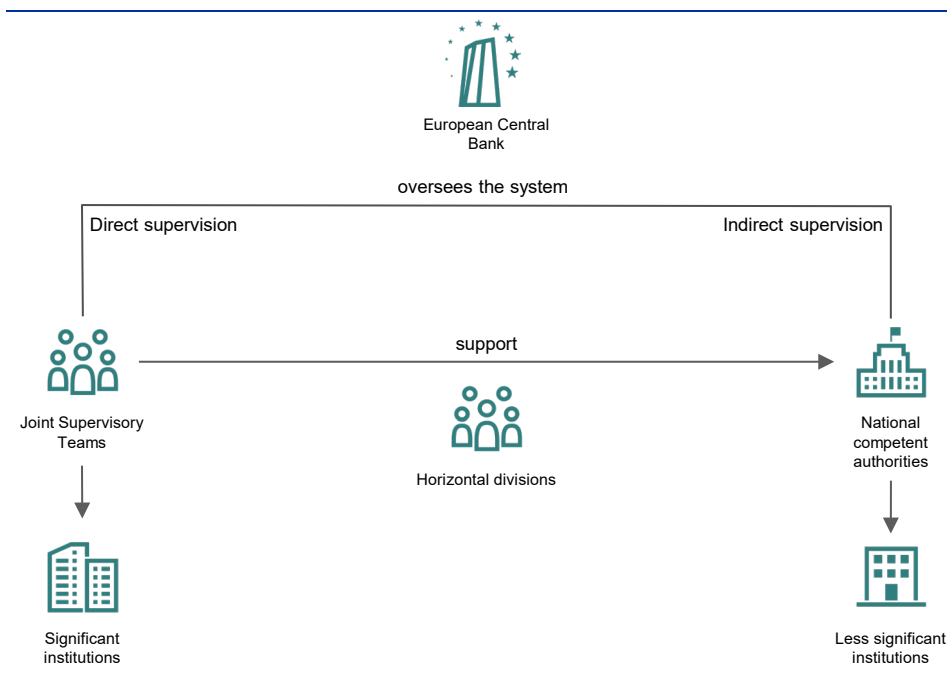
## 1.1 Organisation of the SSM

### 1.1.1 Distribution of tasks between the ECB and the national competent authorities

SSMR Articles 6, 14 and 15

The ECB, in cooperation with the national competent authorities (NCAs), is responsible for banking supervision in the participating Member States. To ensure efficient supervision, the respective supervisory roles and responsibilities of the ECB and the NCAs are allocated on the basis of the significance of the supervised entities. All entities under SSM supervision are subject to a common supervisory approach.

**Figure 1**  
Distribution of tasks within the SSM



Within the SSM, the ECB, assisted by the NCAs, directly supervises all institutions that are classified as significant institutions (SIs). The NCAs conduct the direct supervision of less significant institutions (LSIs), subject to the oversight of the ECB. Under certain conditions, the ECB can also take over the direct supervision of LSIs. A [list of SIs and LSIs](#) is published on the ECB's banking supervision website and is updated on a regular basis.

The SSM is also involved in the supervision of cross-border institutions and groups, either as a home supervisor or a host supervisor in colleges of supervisors.

Moreover, as a banking supervisor, the SSM participates in the supplementary supervision of financial conglomerates.

Supervisory decisions in the SSM are prepared by the Supervisory Board, composed of ECB and NCA representatives, and adopted by the Governing Council under the non-objection procedure that is described later in this Manual (see Section 1.3.1).

## 1.1.2 Accountability

[SSMR Articles 20 and 21](#)

[ECB Decision on public access to ECB documents \(ECB/2004/3\)](#)

[ECB Decision on public access to ECB documents in the possession of the national competent authorities \(ECB/2015/16\)](#)

[Guideline laying down the principles of the Ethics Framework for the Single Supervisory Mechanism \(ECB/2021/50\) \(recast\)](#)

[Code of Conduct for high-level ECB officials](#)

Accountability is essential for the transparency, legitimacy and independence of supervisory decisions. The ECB is accountable for the way it discharges its supervisory tasks. Decisions directly affecting individual institutions may be subject to an internal review procedure before the [Administrative Board of Review \(ABoR\)](#). They can be brought to the [Court of Justice](#) of the European Union. By contrast, NCA decisions in respect of LSIs can be brought before national courts. The ECB is also accountable to the [European Parliament](#), as the representation of EU citizens, and to the [EU Council](#). The ECB also has specific accountability obligations to national parliaments for its supervisory activities. There are several main channels of political accountability for the ECB:

1. The Chair of the Supervisory Board attends regular hearings and ad hoc exchanges of views in the European Parliament and the Eurogroup. National parliaments can also invite the Chair or another member of the Supervisory Board, along with a representative from the respective NCA.
2. The ECB provides the European Parliament's Committee on Economic and Monetary Affairs with the records of proceedings of all Supervisory Board meetings, including a comprehensive and meaningful account of the Supervisory Board's discussions and an annotated list of its decisions.
3. Members of the European Parliament and the Eurogroup can address written questions to the Chair of the Supervisory Board. The replies are published on the ECB's banking supervision website. National parliaments can also ask the ECB to respond to any observations or questions they might have.
4. The ECB submits a publicly available [annual report](#) to the European Parliament, the EU Council, the Eurogroup, the European Commission and the national parliaments of participating Member States on how it has carried out its supervisory tasks.

The accountability framework of the ECB is further articulated in the SSM Regulation, an [Interinstitutional Agreement](#) between the European Parliament and the ECB and a [Memorandum of Understanding \(MoU\)](#) between the EU Council and the ECB. It was further complemented in 2019 by an [MoU](#) between the European Court of Auditors and the ECB.

In addition, every three years the European Commission publishes a [report on the application of the SSM Regulation](#), which notably monitors its potential impact on the smooth functioning of the internal market. The European Court of Auditors has the power to examine the operational efficiency of the management of the ECB (see Section 1.4.7) and the International Monetary Fund (IMF) carries out regular reviews through the Financial Sector Assessment Program (FSAP) (see Section 1.4.8).

Members of the Supervisory Board declare their [interests](#) on an annual basis. These declarations include information about their previous occupational activity, private activities, official mandates and financial interests, as well as information about any gainful occupational activity of their spouse or partner that could raise concerns of a conflict of interest.

## 1.2 Operating structure of the SSM

### 1.2.1 Organisation of ECB Banking Supervision

#### Separation principle

SSMR Article 25

[ECB Decision on the implementation of separation between the monetary policy and supervision functions of the ECB \(ECB/2014/39\)](#)

In response to the financial crisis, the EU Council and the European Parliament entrusted the ECB with supervisory tasks. The ECB acquired these tasks in addition to its monetary policy function. To prevent conflicts of interest between the ECB's monetary policy and supervisory tasks, the ECB has to ensure a separation so that each function is exercised in accordance with its applicable objectives.

The ECB has an independent [Supervisory Board](#), which proposes draft supervisory decisions to the [Governing Council](#). The Governing Council may adopt or object to the proposed decisions but cannot in principle modify them. Moreover, the Governing Council's deliberations on supervisory matters are kept strictly apart from those on other ECB functions, with separate agendas and meetings.

The separation principle also encompasses rules on information-sharing between the ECB's two functions. The approval of the [Executive Board](#) is necessary for some confidential information to flow from one function to another. Confidential raw data can be shared upon request and on a need-to-know basis. One of the ECB's policy functions should not disclose confidential information containing assessments or policy recommendations to the other, except upon request and on a need-to-know basis.

Separation at the staff level is ensured by sharing different elements of banking supervision across six directorates general and one directorate, each of which report functionally to the Chair and Vice-Chair of the Supervisory Board.



## Organisational structure of ECB Banking Supervision

Six directorates general and one directorate perform the supervisory tasks conferred on the ECB in cooperation with the NCAs.

- Directorate General Systemic & International Banks (DG/SIB), Directorate General Universal & Diversified Institutions (DG/UDI) and Directorate General Specialised Institutions & LSIs (DG/SPL) are responsible for the direct day-to-day supervision of SIs. DG/SPL is also responsible for overseeing the direct supervision of LSIs by the NCAs.
- Directorate General Horizontal Line Supervision (DG/HOL) performs horizontal tasks concerning all credit institutions under SSM supervision. In particular, it supports Joint Supervisory Teams (JSTs) by providing subject matter expertise on credit risk, capital markets, non-financial risks, business models, capital planning and crisis management, stress testing, supervisory policy and supervisory methodologies.
- Directorate General On-Site & Internal Model Inspections (DG/OMI) leads and participates in on-site activities, defines and ensures the planning and execution of the on-site supervisory programme and maintains comprehensive on-site methodologies.
- Directorate General SSM Governance & Operations (DG/SGO) supports decision-making processes, assesses new shareholders in banks and requests for new banking authorisations, conducts fit and proper assessments and investigates independently alleged breaches of prudential regulations. DG/SGO also drives the digital agenda of the SSM, including the use of technology for supervision, leads innovation and facilitates knowledge management and training activities for the SSM.
- Directorate Supervisory Strategy & Risk (D/SSR) defines the ECB's banking supervision strategy by setting supervisory priorities and a risk appetite framework and supports the allocation of resources to these priorities.

## Shared services

In addition to the six directorates general and one directorate responsible for banking supervision, the ECB's shared services provide support to both the monetary policy and the supervisory function.

These shared services cover the following areas: human resources, information systems, communications, budget and organisation, premises, internal audit, legal services and statistics. They allow the ECB to exploit operational synergies while respecting the required separation between monetary policy and banking supervision. Directorate General Statistics, for example, regularly publishes a [comprehensive set of supervisory banking statistics](#) on the ECB's banking supervision website. The dataset is updated on a quarterly basis and includes

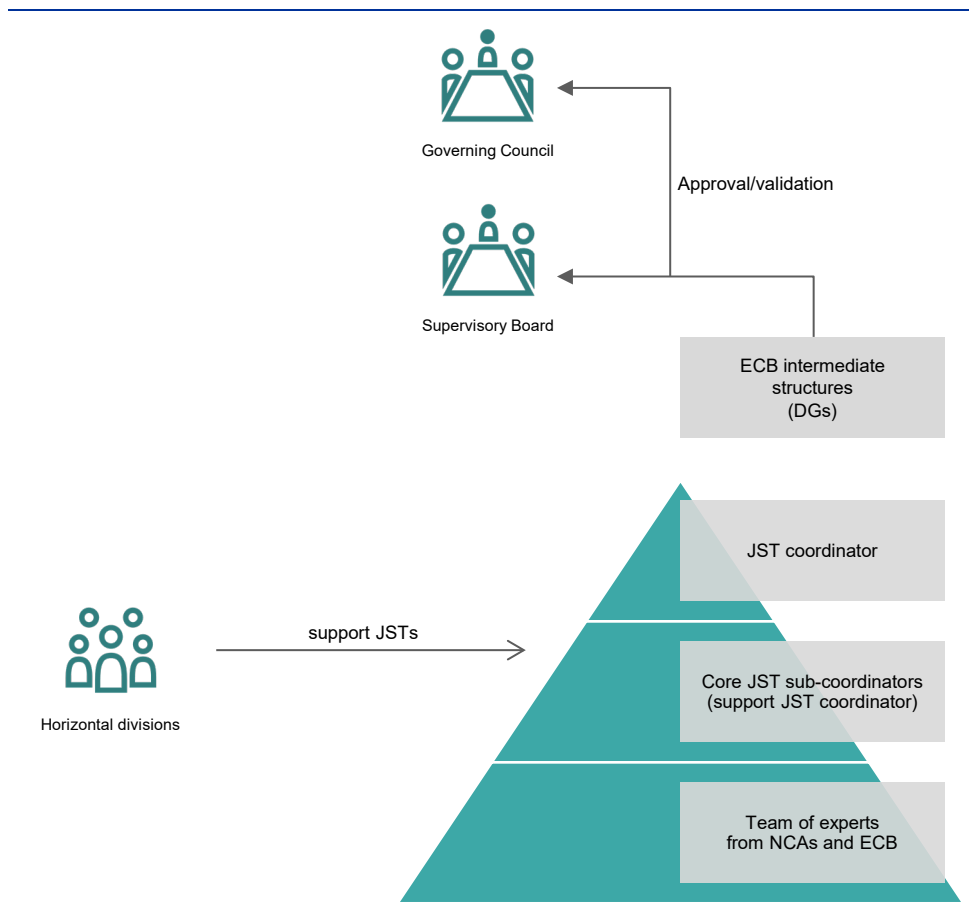
information on banks designated as SIs and LSIs, covering aspects such as banks' balance sheet composition, profitability, capital adequacy, leverage, funding, liquidity and the quality of their assets.

## 1.2.2 Joint Supervisory Teams

SSMFR Articles 3, 4, 5 and 6

The day-to-day supervision of SIs is conducted by JSTs working in DG/SIB, DG/UDI and DG/SPL. As shown in Figure 2, the JSTs comprise staff from both the ECB and the NCAs of the countries in which the SIs, including their banking subsidiaries or significant cross-border branches, are established. A JST is established for each SI at the highest level of consolidation. The size, overall composition and organisation of a JST varies depending on the nature, complexity, scale, business model and risk profile of the supervised entity.

**Figure 2**  
Functioning of the Joint Supervisory Teams



The JST is responsible for drafting and organising the Supervisory Examination Programme and for conducting ongoing supervisory work at the consolidated, sub-consolidated and solo levels. These tasks encompass assessments of an institution's risk profile, business model and strategy, risk management systems,

internal control systems and internal governance. Carrying out the Supervisory Review and Evaluation Process (SREP) and maintaining a regular dialogue with the supervised entity are essential elements of this work. The JST members may also participate in on-site inspections and internal model investigations.

For certain tasks focusing on a specific theme or requiring particular technical expertise, the JSTs may require additional support from the horizontal divisions of the ECB. Horizontal functions also give input to, and provide procedures for, the JSTs in order to develop a common understanding and a coordinated approach.

### JST coordinators and NCA local coordinators

Each JST is led by a coordinator at the ECB. NCA local coordinators support the JST coordinator in the day-to-day supervision of SIs while also reflecting the views of the relevant NCAs. For instance, they contribute to the preparation and revision of the Supervisory Examination Programme.

JST coordinators are appointed for a period of three to five years. JST coordinators and members are expected to rotate on a regular basis, though not all JST members will be able to rotate at the same time.

### Core JST

The JSTs of banks operating with a significant presence in more than one participating Member State establish a core JST. The core JST is chaired by the JST coordinator and is composed of the local coordinators of the relevant NCAs depending on the materiality of the local subsidiary or branch. The core JST is responsible for organising the allocation of tasks among JST members, preparing and revising the Supervisory Examination Programme, monitoring its implementation and reviewing the assessment.

## 1.2.3 Organisation of the oversight function

SSMR Articles 4, 6, 12 and 31  
SSMFR Articles 43, 62, 67, 70, 96,  
97, 98, 99 and 100

The NCAs are responsible for directly supervising LSIs. They plan and carry out their ongoing supervisory activities using their own resources and procedures. Additionally, NCAs perform supervision in areas that are not covered by the SSM Regulation.

The ECB is responsible for the effective and consistent functioning of the SSM and ensures that the supervisory methodologies applied by the NCAs are of high quality. In that context, the ECB's DG/SPL is entrusted with an oversight responsibility to ensure consistent supervision based on the application of high supervisory standards. DG/SPL achieves these objectives by promoting the implementation of good supervisory practices in close cooperation with NCAs. DG/HOL's Supervisory

Methodology Division maintains supervisory methodologies, standards and practices for LSIs.

When performing its oversight tasks, the ECB collaborates closely with the NCAs. Cooperation between the ECB and NCAs is essential to create a common supervisory culture across the SSM and to ensure a consistent functioning of the system. The ECB conducts oversight by issuing joint supervisory standards for the supervision of LSIs by NCAs, as well as by collecting and processing information from the NCAs and by performing thematic reviews. Such information gives an overview of NCAs' supervisory practices and decisions as well as of specific LSIs and LSI sectors.

In this context, the ECB's oversight function encompasses the NCAs' supervision of LSIs in order to identify fragile institutions and ensure consistent, high supervisory standards across the SSM. For its oversight function, the ECB applies a proportional and risk-oriented approach. Reporting requirements as well as the oversight activities of DG/SPL may therefore be increased for high-risk and high-impact institutions, where appropriate (Chapter 5). Accordingly, the ECB is involved in the crisis management of LSIs through its crisis oversight activities.

Occasionally, ECB staff provide expertise and support to NCAs, for example by participating in on-site inspections. To help foster a common supervisory culture, the ECB also promotes staff exchanges among NCAs.

#### 1.2.4 Horizontal functions

The horizontal divisions of DG/HOL, D/SSR, DG/OMI and DG/SGO support the supervision of both SIs and LSIs. The horizontal divisions interact closely with the JSTs by, for example, defining and implementing common methodologies and standards and by offering support on methodological issues. These divisions ensure the development of a common understanding and a coordinated approach. They perform specialised tasks and analyses and provide expert support to the JSTs and NCAs.

#### 1.2.5 Communication within the SSM

As described above, the SSM relies on close cooperation between the ECB and NCAs. Smooth cooperation and a continuous exchange of information and knowledge between the ECB and the NCAs, and within the ECB, enable the SSM to function properly and achieve high-quality supervisory outcomes. This is facilitated by joint IT and learning tools, including the SSMnet, a common platform across the SSM used to access information, and enhanced access rights (with appropriate safeguards) for supervisory documents.

## Cooperation between the ECB and NCAs

The principle of cooperation in good faith applies to all supervisory activities. For the direct supervision of SIs, DG/SIB, DG/UDI and DG/SPL cooperate with the NCAs on a daily basis through the respective JSTs. For its oversight of the supervision of LSIs, DG/SPL maintains close contact with the NCAs through a dedicated senior management network.

The NCAs also contribute to the work of horizontal divisions through various types of fora such as networks of experts.

Furthermore, the Supervisory Board may decide to establish working groups, composed of ECB and NCA representatives, to focus on specific horizontal topics and support the work of the horizontal divisions.

## Information management

The ECB's information management policy promotes and supports the systematic, effective and efficient creation, use, management and retrieval of information. The policy allows information to be shared between the ECB and the NCAs on a need-to-know basis.

This policy is implemented through the ECB's information management system, which provides the technical basis for ensuring that all JSTs apply the common methodology and standards for banking supervision. The SSMnet enables all supervisors to access the information, knowledge and tools they need to perform their daily supervisory tasks.

### 1.2.6 Staff allocation and financial resources

#### Staff allocation for the supervision of SIs and LSIs

The supervisory practices of the SSM are risk-based and proportionate. The practices take into account both the degree of damage which the failure of a supervised entity could cause to financial stability and the possibility of such a failure occurring. They are also commensurate with the risk profile of the entity being supervised. These supervisory principles aim to ensure effective and thorough supervision, while at the same time facilitating efficient allocation of finite supervisory resources.

For the ECB's direct supervision, the Strategic Planning Office of D/SSR, along with the relevant horizontal functions and NCAs, coordinates the allocation of SSM resources and expertise. The JSTs carry out the operational planning under ECB coordination. For each significant bank, they produce a Supervisory Examination Programme (SEP), which sets out the main supervisory tasks and activities for the

following 12 months, their tentative schedules and objectives and the need for on-site inspections and internal model investigations. On-site inspections are planned and staffed in close cooperation with the NCAs, which provide most of the heads of mission and team members. The SEP is described in detail in Section 4.1.3.

For the direct supervision of LSIs, the NCAs plan and carry out their ongoing supervisory activities in line with the SSM's overall strategy, using their own resources and decision-making procedures.

NCAs are encouraged to participate in staff exchanges of varying durations with the ECB and among themselves at different levels of the organisation. The terms and conditions for such staff exchanges are determined in advance and on a case-by-case basis. The SSM swap programme offers another opportunity for staff exchanges between ECB Banking Supervision and partnering SSM institutions in the form of external secondment. Participants in the programme exchange their roles for one to two years, immersing themselves in the host country and becoming integral members of the host institution's team. Staff exchanges promote the multinational nature of JSTs and allow them some flexibility when they require extra support or specific expertise. ECB and NCA staff also follow a common training programme, which helps to increase consistency in supervisory practices and promote a common supervisory culture.

## Financial resources

The ECB covers the costs of its supervisory tasks and responsibilities by levying an annual fee on all supervised entities in the euro area, without prejudice to the right of NCAs to levy fees in accordance with national law. The total amount of **annual supervisory fees** is published by 30 April each year in an ECB decision. The overall costs are then split into two categories:

- direct supervision: to be levied on SIs, which are directly supervised by the ECB;
- indirect supervision: to be levied on LSIs, which are directly supervised by the respective national supervisors.

The fee for a supervised entity is composed of a minimum component and a variable component. The minimum component is a fixed percentage of the total amount of annual fees within the aforementioned categories. The variable component is calculated on the basis of fee factors related to a bank's size and risk profile, including its risk-weighted assets. These fee factors are measured by the total value of assets and the total risk exposure respectively.

The expenditure incurred by the ECB for the conduct of supervisory tasks consists primarily of the direct expenses of ECB Banking Supervision and the shared services utilised for the supervisory function. This expenditure is separately identifiable within the ECB's budget.

[SSMR Article 20](#)

[ECB Regulation on supervisory fees \(ECB/2014/41\)](#)

[ECB Decision on the methodology and procedures for the determination and collection of data regarding fee factors used to calculate annual supervisory fees \(recast\) \(ECB/2019/38\)](#)

The ECB's budgetary authority is vested in the Governing Council, which adopts the ECB's annual budget following a proposal of the Executive Board after consultation with the Chair and Vice-Chair of the Supervisory Board for matters related to banking supervision.

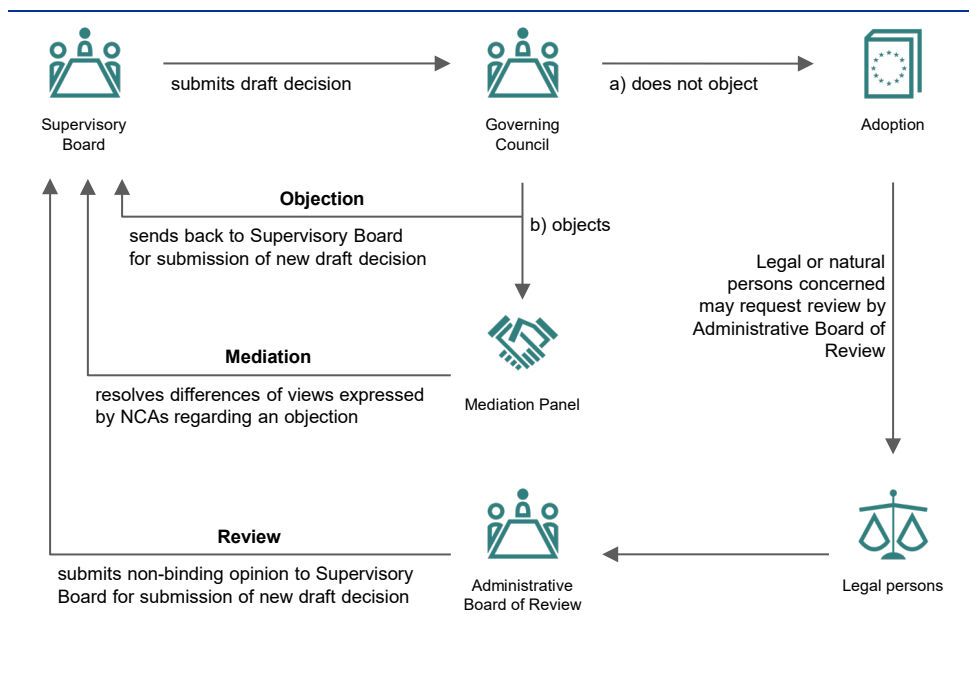
The ECB submits a report on the envisaged evolution of the structure and amount of the annual supervisory fees each year to the European Parliament, the EU Council, the European Commission and the Eurogroup.

### 1.3 Decision-making within the SSM

As a rule, decisions related to the performance of the ECB's supervisory tasks are adopted by the Governing Council under the **non-objection procedure**. Under this procedure, complete draft decisions are approved by the Supervisory Board and subsequently submitted to the Governing Council for final adoption. The complete draft decisions are deemed adopted if the Governing Council does not object within a maximum period of ten working days.

The non-objection procedure is not only applied for individual supervisory decisions but is also used for ECB legal acts concerning the performance of supervisory tasks, policy documents or other forms of communication committing the ECB externally in the exercise of its supervisory tasks.

**Figure 3**  
Non-objection procedure



The non-objection procedure is, however, not the only decision-making procedure at the ECB. Other decision-making procedures may apply and the delegation of

decision-making powers for certain types of supervisory decisions has been put in place, e.g. for some decisions on the assessment of fit and proper requirements and amendments to significance decisions. Supervisory actions other than decisions are described in Section 1.3.2.

### 1.3.1 Decision-making within the SSM

[SSMR Article 26](#)

[SSMFR Parts VI and VII](#)

[TFEU Article 283](#)

[ESCB Statute Article 11\(6\)](#)

[ECB Decision on the appointment of representatives of the ECB to the Supervisory Board \(ECB/2014/4\)](#)

[Rules of Procedure of the Supervisory Board](#)

[Code of Conduct for high-level ECB officials](#)

[Rules of Procedure of the ECB](#)

[ECB Regulation concerning the establishment of a Mediation Panel and its Rules of Procedure \(ECB/2014/26\)](#)

The following paragraphs describe the parties involved and their respective responsibilities in the decision-making process.

#### Governing Council

The Governing Council is the ultimate decision-making body in the exercise of the ECB's tasks, including supervisory tasks. It is composed of the members of the ECB's Executive Board and the governors of the national central banks in the euro area.

As a rule, legal acts pertaining to banking supervision are adopted under the non-objection procedure. This procedure is established by the SSM Regulation and gives due weight to the role of the Supervisory Board as the internal body of the ECB responsible for the planning and execution of supervisory tasks, including the approval of complete draft decisions. Under this procedure, the Governing Council cannot change complete draft decisions but can only approve or object to them.

#### Executive Board

The Executive Board is responsible for managing the current business of the ECB. The Vice-Chair of the Supervisory Board is a member of the Executive Board.

#### Supervisory Board

The [Supervisory Board](#) is responsible for the planning and execution of the ECB's supervisory tasks as set out in the SSM Regulation. The Supervisory Board's approval is required for all draft supervisory decisions with legally binding effect, prior to their submission to the Governing Council for final adoption under the non-objection procedure. The Supervisory Board is composed of the Chair, Vice-Chair, four ECB representatives, one representative of each NCA and one representative of each national central bank if the NCA is not a central bank. However, for the purposes of voting, the representatives of the NCA and the national central bank of any one Member State are considered as one member.

The Steering Committee supports the activities of the Supervisory Board and prepares the Board's meetings. It is composed of a smaller group of Supervisory Board members and has no decision-making powers.



## Directorates general in ECB Banking Supervision

The JSTs in DG/SIB, DG/UDI and DG/SPL are the predominant originators of draft decisions addressed to supervised entities. They prepare draft decisions based on information obtained through ongoing supervision, including on-site inspections or internal model investigations. The SSM Secretariat Division, which is part of DG/SGO, works in close cooperation with the JSTs in the preparation of supervisory decisions and their decision-making process, including the fulfilment of due process requirements.

DG/SGO and DG/SPL also originate draft decisions, mainly those relating to suitability assessments for members of supervised entities' management bodies, sanctioning and enforcement decisions, common procedures and to proposals for general instructions addressed to NCAs concerning groups or categories of LSIs.

DG/HOL and DG/OMI are directly involved in the decision-making process for on-site inspections and the issuance of new regulations, policies and methodologies. DG/HOL is also indirectly involved through the provision of specialised support to the JSTs, notably with regard to decisions relating to the SREP.

## Directorate General SSM Governance & Operations

DG/SGO is composed of five divisions. Four of these, namely the Authorisation Division, Fit & Proper Division, Enforcement & Sanctions Division and the Technology & Innovation Division, perform horizontal functions. The remaining division, SSM Secretariat Division, supports and ensures efficient decision-making, guaranteeing the institutional quality of the decision-making process. It adopts procedural acts on the conduct of the supervisory procedure and notifies the addressees of these acts. It also supports the Supervisory Board's activities, which involves preparing and following up meetings and written procedures, as well as drafting and reviewing proposals and decisions. It assists all business areas in preparing documentation for the Supervisory Board and advises on the decision-making process. The SSM Secretariat Division liaises with the Secretariat of the Governing Council on all decision-making processes pertaining to the ECB's supervisory tasks and supports the preparation of the Governing Council meetings on supervisory matters. It advises and supports the offices of the Chair, Vice-Chair and ECB representatives with their accountability obligations and communication-related activities. It also coordinates supervisory cooperation with other EU and non-EU authorities.

## NCAs

In addition participating in JSTs, the NCAs play an important role in the decision-making process in their own right. They may propose draft supervisory decisions. For common procedures, the SSM Framework Regulation explicitly provides that the ECB should take a decision on the basis of an NCA proposal. NCAs remain in

charge of all supervisory tasks which were not transferred to the SSM, such as consumer protection or anti-money laundering.

## Mediation Panel

If the Governing Council objects to a decision submitted under the non-objection procedure, an NCA that is concerned by the decision and has different views may submit a request to the Supervisory Board for mediation in order to resolve such differences, with a view to ensuring separation between monetary policy and supervisory tasks. The objection will be dealt with by the Mediation Panel, which includes one member per participating Member State, chosen from among the members of the Governing Council and the Supervisory Board, and decides by simple majority, with each member having one vote.

### 1.3.2 Types of supervisory action

TFEU Articles 132, 139(2)(e) and 288(2)

SSMR Article 4 and Section 2 of Chapter III

SSMFR Title 2

A **supervisory decision** is a legal act adopted by the ECB in the exercise of the tasks and powers conferred on it by the SSM Regulation and is usually addressed to a credit institution. The decision grants rights and/or imposes obligations modifying the situation for the addressee. The decision may include ancillary provisions such as time limits, conditions, obligations or non-binding recommendations. While conditions make the effectiveness of the decision dependent on specific events, obligations are additional requirements that the addressee must fulfil, usually within a specified deadline. Unless adopted by means of delegation, a decision is approved in draft form by the Supervisory Board and subsequently submitted to the Governing Council for adoption under the non-objection procedure. However, if the decision adversely affects the addressee, the final ECB supervisory decision is adopted after the addressee's hearing period has expired, taking due account of the points raised by the parties. The final supervisory decision has a legally binding effect on the addressee.

Apart from supervisory decisions, several other types of supervisory action can be taken, depending on the applicable legal framework, the intended effect of the action, the addressee(s) and proportionality.

An **operational act** does not form part of the formal decision-making process. It does not have a required legal form and comprises non-binding and non-enforceable supervisory expectations, statements and other acts.

In cases where the issue is of certain importance, the Supervisory Board might be asked to agree to a specific supervisory approach *ex ante* or might be informed *ex post*. Where necessary, following an operational act, the ECB may adopt a supervisory decision with identical or similar content.

**Procedural acts** are a type of operational act that concern the conduct of a supervisory procedure, particularly regarding compliance with due process requirements. Procedural acts include decisions on extensions to the hearing period

and on requests to access files and ECB documents under the third subparagraph of Article 53(1) of the Capital Requirements Directive (CRD). They can also include replies to complaints from addressees of ECB supervisory decisions that do not constitute a request for an administrative review by the ABoR, as well as corrigenda to ECB supervisory decisions when obvious and non-material errors have been identified. Procedural acts are not ECB supervisory decisions since they do not amount to the exercise of policy discretion and do not constitute a final decision on the outcome of a supervisory procedure. They are therefore not adopted by the Governing Council under the non-objection procedure but are instead taken and notified to the addressee by the SSM Secretariat Division.

In addition to recommendations addressed to individual banks and included in supervisory decisions or operational acts, the ECB may also adopt **recommendations** in the form of public legal acts in order to express non-binding supervisory expectations to supervised entities, relevant third parties or the NCAs.

Recommendations to supervised entities are legal acts of general application, approved by the Governing Council under the non-objection procedure and published on the ECB's banking supervision website as well as in the Official Journal of the European Union. These recommendations are used as a tool to communicate the ECB's supervisory approach to the public.

Recommendations addressed to all NCAs are non-binding and serve as an alternative to the binding guidelines, allowing NCAs more flexibility. Such recommendations may be specifically related to the supervision of LSIs or may extend the scope of an existing recommendation addressed to SIs to include LSI too. They can be public or non-public. Examples of recommendations can be found on the [ECB's banking supervision website](#).

[SSMR Articles 9 and 6\(5\)](#)

**Instructions** are another tool available to the ECB. First, the ECB can use this tool to instruct NCAs to make use of their powers under national law to the extent necessary to carry out the tasks conferred to the ECB by the SSM Regulation. The NCA informs the ECB about the actions taken. Second, the ECB may issue general instructions to NCAs regarding LSIs. These instructions refer to specific supervisory powers held by the NCA and relate to groups or categories of LSIs rather than any specific entity. Finally, the ECB may also address instructions to the NCAs that are in close cooperation with the ECB, which in turn adopt the required national administrative measures addressed to banks.

[ECB Decision on the methodology and procedures for the determination and collection of data regarding fee factors used to calculate annual supervisory fees \(ECB/2019/38\)](#)

**Decisions of general application** can be used for binding procedural requirements which are applicable to all supervised entities, a subset thereof or NCAs. The main objective of these decisions is to clarify the ECB's expectations vis-à-vis supervised entities. Decisions of general application are adopted under the non-objection procedure if they determine the future, specific exercise of the ECB's supervisory tasks (see, for example, Decision (EU) 2019/2158). They are subsequently published on the ECB's banking supervision website and in the Official Journal of the European Union.

ECB Guideline on the exercise of options and discretions available in Union law by national competent authorities in relation to less significant institutions (ECB/2017/9)

ECB Regulation on the exercise of options and discretions available in Union law (ECB/2016/4)

**Guidelines** are legal acts addressed to NCAs that are binding with regard to the results that need to be achieved but that allow for flexibility in terms of their execution. They are of particular importance for the ECB's indirect supervision of LSIs (see, for example, Guideline (EU) 2017/697).

**Regulations** are of general application; they are binding in their entirety and directly applicable in euro area Member States. Regulations are published on the ECB's banking supervision website and in the Official Journal of the European Union (see, for example, Regulation (EU) 2016/445). Moreover, the ECB may also adopt regulations to the extent necessary to organise or specify arrangements for the fulfilment of the tasks conferred to it by the SSM Regulation.

**Guides/Guidances** express the ECB's supervisory expectations. The ECB has published a number of guides/guidances to banks on its [banking supervision website](#), on topics such as options and discretions available in EU law, fit and proper assessments, qualifying holding procedures, leveraged transactions and the treatment of non-performing loans.

### 1.3.3 Supervisory decisions: preparation and decision-making

#### Preparation of a draft decision

SSMR Article 22

A draft decision is prepared whenever a supervisory process needs to result in a decision. It can either be based on an application by a supervised entity or be initiated by a JST, NCA or ECB horizontal division.

#### Due process

SSMR Articles 22 and 26  
SSMFR Articles 31 and 33  
Regulation No 1/1958 determining the languages to be used by the European Economic Community

Due process requirements include sufficient motivation of the draft decision, as well as the granting of the right to be heard and the right to access the supervisory file (where necessary).

#### The duty to provide motivation for decisions

ECB supervisory decisions need to be accompanied by a clear motivation, setting out the material facts, legal reasons and supervisory considerations underlying the decision. The more intrusive the measures imposed, the greater the level of reasoning that is called for.

#### The right to be heard

Addressees of ECB draft decisions that would adversely affect their rights are granted the opportunity to comment before decisions are adopted. The right to be

heard is a fundamental procedural right in the supervisory process. Besides enabling the addressee to react to the ECB's factual and legal analysis, this right ensures that the ECB's decision-making is based on a complete set of information. If the addressee submits comments within the hearing period, the draft supervisory decision is resubmitted to the Supervisory Board for approval.

The SSM Secretariat Division notifies the addressee of the draft decision together with a cover letter which sets out the procedure for the hearing. In principle, the addressee is granted two weeks but, under particular circumstances, this period can be shortened to a minimum of three working days.<sup>2</sup> If the ECB supervisory decision is adopted, the assessment of comments is annexed to it.

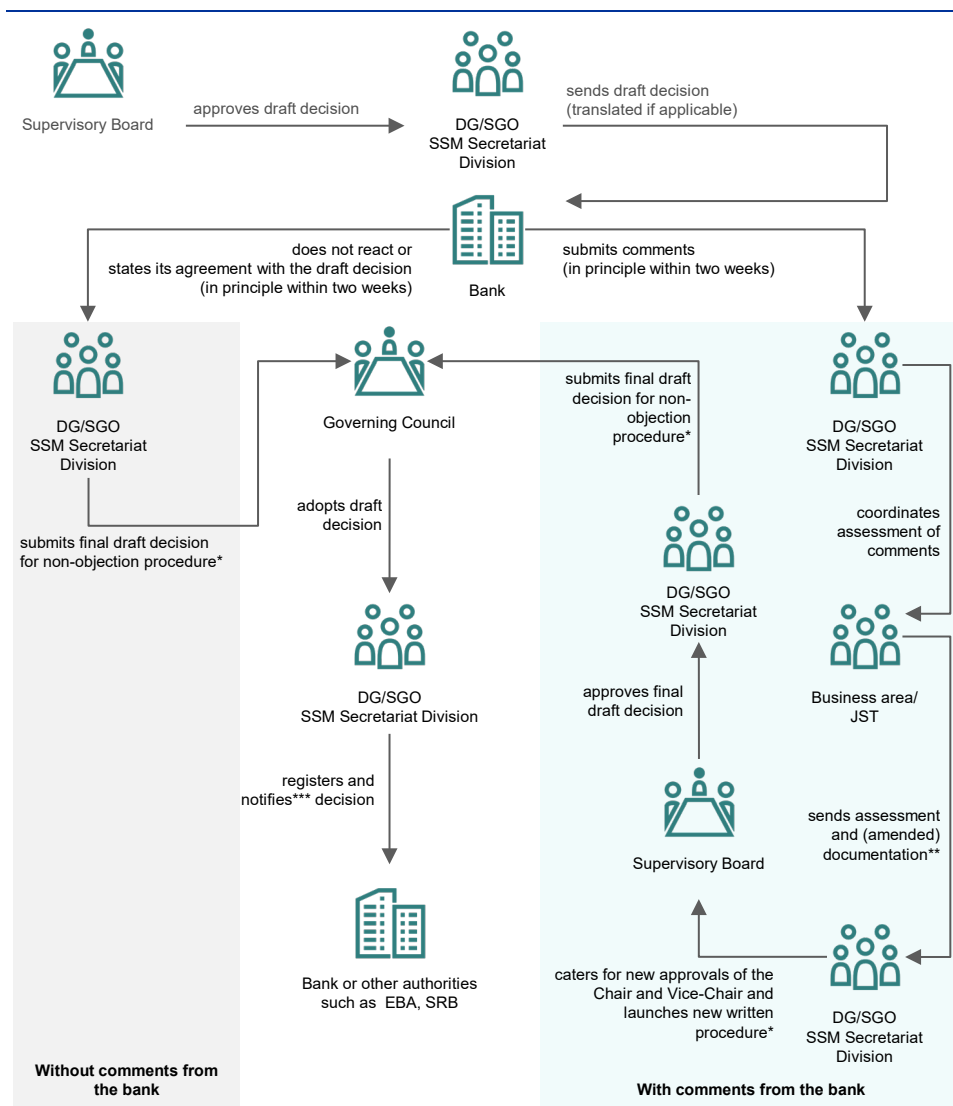
### The right to access the supervisory file

As part of their rights of defence, parties involved in an ECB supervisory procedure have the right to access the supervisory file before a decision that can negatively affect them is adopted. Access to the file is possible upon request from the opening of the supervisory procedure until the decision is final. This right is subject to the protection of the business secrets of third parties and does not extend to confidential information. The file is compiled by the business area in charge of drafting the supervisory decision concerned. It is then reviewed for completeness and notified to the applicant by the SSM Secretariat Division.

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<sup>2</sup> As a rule, the hearing period for common procedures lasts three working days.

**Figure 4**  
Decision-making process



\*The deadline for submitting comments/objections in a written procedure is five working days, while the deadline for non-objection procedures is a maximum of ten working days.

\*\*The applicable legal deadlines for each specific case must be taken into account.

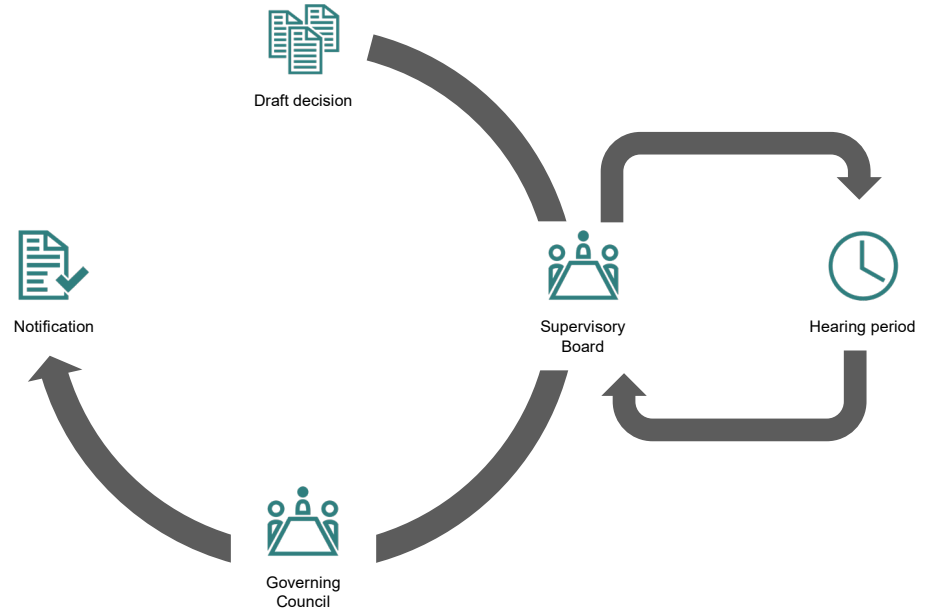
\*\*\* Depending on the time of the President's signature, a notification is sent via email around two working days after the decision is adopted by the Governing Council.

The SSM Secretariat Division organises the hearing, which is usually conducted in writing. In the case of an urgent decision which is necessary to prevent significant damage to the financial system, the ECB may adopt a supervisory decision which would adversely affect the rights of the addressee without giving it the opportunity to comment on the decision prior to its adoption. In this case, the hearing is postponed, and a clear justification is provided in the decision as to why the postponement is necessary. The hearing is then organised as soon as possible after the adoption of the decision.

## Adoption under the non-objection procedure

The four main steps of the non-objection procedure are shown in the figure below.

**Figure 5**  
Simplified overview of decision-making process



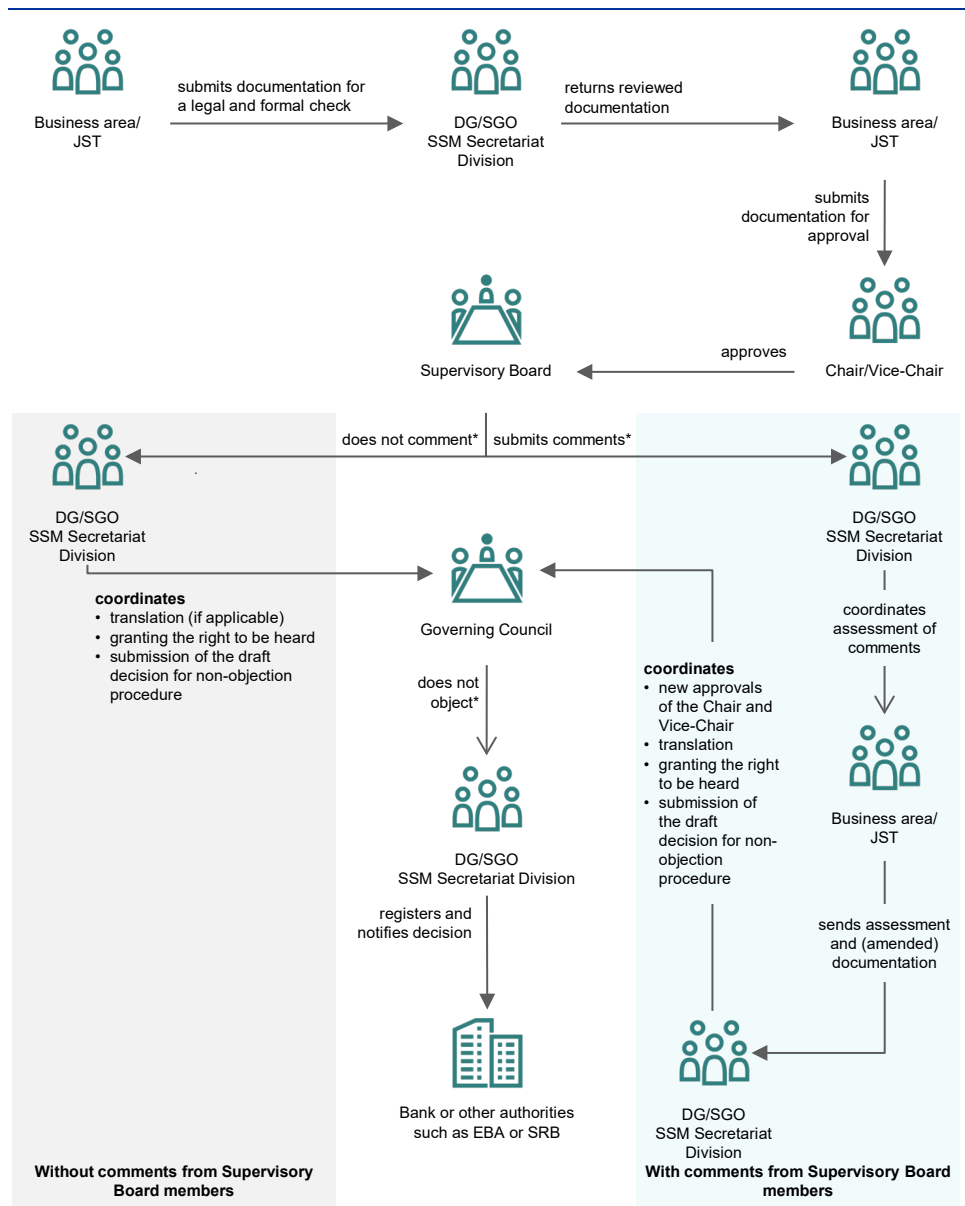
## Approval by the Supervisory Board

Complete draft decisions need to be submitted to the Supervisory Board, which can then approve, amend or reject them. The Supervisory Board may approve draft decisions through a written procedure or in a meeting. Most draft decisions are approved by written procedure. If three or more members of the Supervisory Board object to a vote by written procedure, the draft decision is discussed in a meeting of the Supervisory Board. The standard deadline for the Supervisory Board's written procedure is five working days.

If approval is requested by written procedure and comments are provided by the Supervisory Board members, the business area or JST prepares an assessment of comments and sends it to the Supervisory Board either for information or for a second approval process, likewise in a meeting or via written procedure.

Once the complete draft decision has been approved by the Supervisory Board, the SSM Secretariat Division will contact the Secretariat to the Governing Council regarding the submission to the Governing Council for the final adoption under the non-objection procedure.

**Figure 6**  
Written procedure in decision-making process



\*The deadline for submitting comments/objections in a written procedure is five working days and in a non-objection procedure is a maximum ten working days.

## Adoption by the Governing Council

The Governing Council is deemed to have adopted the complete draft decision unless it has objected to it within a maximum of ten working days. In practice, the Governing Council regularly declares its non-objection before the ten working days have lapsed. An objection has to be motivated in writing. If the Governing Council objects, one of three procedures may be followed:



- if an NCA which is concerned by the decision has different views regarding the objection, the NCA may request mediation;
- if no request for mediation is submitted, the Supervisory Board may amend the draft decision in order to incorporate the comments of the Governing Council;
- if the Supervisory Board does not submit a new draft decision, the objections are sent to the responsible business areas.

## Emergency procedure

In urgent cases, the procedure described above is shortened to allow the Supervisory Board to take the necessary decisions in time.

The emergency procedure is usually triggered by a proposal originating from the JST and the management of the ECB and the NCA. To shorten the decision-making process, the deadlines for a written procedure may be adjusted or a Supervisory Board meeting can be organised at short notice. This meeting can be held by teleconference. If a quorum of 50% in the Supervisory Board for emergency situations is not met, the meeting will be closed and an extraordinary meeting will be held soon afterwards. The invitation letter to the extraordinary meeting should announce that the decisions will be taken without regard for the quorum. In emergency situations, the Supervisory Board may also request a shorter deadline for the non-objection procedure of the Governing Council, which may even convene immediately after a Supervisory Board meeting.

## Adoption by means of delegation

The adoption of decisions under the non-objection procedure leads to a very high number of draft supervisory decisions being approved by the Supervisory Board and adopted by the Governing Council every year, with varying levels of complexity and impact on supervised entities. The delegation of decision-making powers with regard to the ECB's supervisory tasks therefore ensures a more proportionate and efficient decision-making process for banking supervision. The delegation framework enables clearly defined decision-making powers to be delegated to ECB heads of work units, subject to the adoption of a delegation decision by the Governing Council and the nomination of the relevant heads of work units by the Executive Board.

### Delegation framework

The institutional framework enabling the adoption of supervisory decisions by means of delegation consists of:

1. a general framework decision, determining the internal organisation of the ECB's decision-making process;

2. delegation decisions, setting out the criteria for the exercise of delegated powers for specific types of supervisory decisions;
3. nomination decisions of the Executive Board nominating the ECB heads of work units entrusted with decision-making powers.

The general framework decision establishes that the delegation of clearly defined decision-making powers of the Governing Council may apply to legal instruments adopted in the performance of the ECB's supervisory tasks. The general framework decision, complementing the ECB's Rules of Procedure, sets out the scope of responsibilities attributed to the Executive Board and to ECB heads of work units, the procedural requirements for the adoption of delegated decisions, the recording and reporting requirements for delegated decisions and the administrative review of delegated decisions.

The delegation decisions determining the criteria for the exercise of delegated powers are adopted by the Governing Council under the non-objection procedure; they only become effective once the nomination decision is adopted by the Executive Board. In this regard, the Executive Board, having consulted the Chair of the Supervisory Board, nominates one or more ECB heads of work units from among those involved in carrying out supervisory tasks that are organisationally separated from the ECB's other tasks, taking into account the importance of the delegation and the number of addressees. A number of delegation decisions have already been adopted regarding [fit and proper decisions](#), certain macroprudential decisions and [amendments to the significance of supervised entities](#), as well as decisions on [supervisory powers under national law](#), [passporting](#), [acquisition of qualifying holdings and withdrawal of authorisations](#), [own funds](#) and [internal models](#). Delegated decisions are taken on behalf and under the responsibility of the Governing Council.

## Notification

Once the decision has been adopted, the addressee is notified of the decision by the SSM Secretariat Division, or by the NCA in the case of an authorisation to conduct banking activities.

## Language regime

When communicating with NCAs, supervised entities, Member States and other EU institutions, the language regime to be used in the European Union applies. The following rules apply:

1. documents sent to the ECB may be drafted in any one of the official languages selected by the sender and the reply should be drafted in the same language;
2. documents sent by the ECB to a Member State or to a person subject to the jurisdiction of a Member State should be drafted in the language of such State.

[Regulation No 1/1958 determining the languages to be used by the European Economic Community](#)

[SSMFR Article 24](#)

For the SSM, English has been chosen as the operational working language to be used in internal communication between the ECB and the NCAs as well as within all ECB business areas.

### **Outgoing communications**

Most SIs have agreed to use the English language for supervisory decisions and day-to-day communication. This agreement on the use of one language may be revoked.

If the addressees have agreed to the use of English, decisions addressed to one or more supervised entities are prepared by the ECB in English. If addressees have not chosen the English language, the authentic version of the supervisory decision is adopted in the language chosen by the addressee. In these cases, the responsibility for the translation lies with the ECB.

### **Incoming communications**

Supervised entities that have not agreed to use the English language for day-to-day supervisory contact with the ECB may submit documents in any of the official languages of the EU. Responsibility for any translation that may be required is shared between the ECB and NCAs. In some cases, documents received in the language chosen by a supervised entity are summarised in English rather than translated in full.

The language regime applies to supervisory decisions and core supervisory documentation only. Where necessary, NCAs cooperate with the ECB in providing core documentation or explanatory memoranda in the English language.

## **1.3.4 Administrative Board of Review**

[SSMR Recital 64 and Articles 4, 24\(1\) and 24\(10\)](#)

[ECB Decision concerning the establishment of an Administrative Board of Review and its Operating Rules \(ECB/2014/16\)](#)

For internal administrative reviews of decisions taken by the ECB in the exercise of its supervisory powers, the ECB has an independent internal body, the [ABoR](#). The composition of the ABoR is published on the ECB's banking supervision website.

This subsection describes the main steps of the internal process, its possible outcomes and the ABoR's internal organisation, and concludes with the possibility of a judicial review of the decisions taken by the ECB.

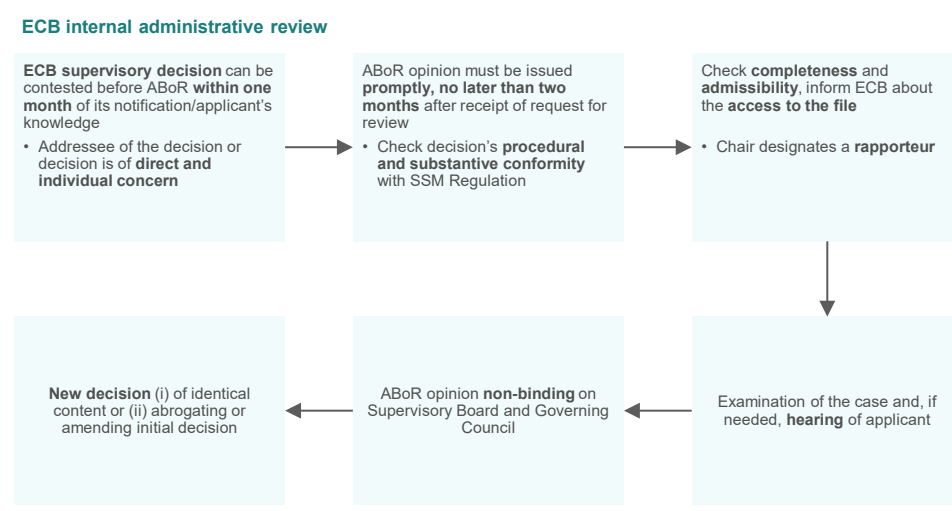
## Internal review process

### Request for review

Any natural or legal person may request a review of an ECB decision which is addressed to that person or is of direct and individual concern to them. Applicants must submit their request within one month of being notified of the adopted decision. Applicants may withdraw their request at any time. A request for review does not have a suspensory effect, unless otherwise decided by the Governing Council upon a proposal of the ABoR.

### Figure 7

#### Administrative Board of Review process



Applicants are entitled to have access to the ECB's file, though this does not, however, extend to confidential information and may be limited by the legitimate interest of legal and natural persons other than the applicant in the protection of their business secrets. The scope of the review by the ABoR is limited to the grounds set out in the application and to the examination of breaches of essential procedural requirements. Therefore, once the application has been submitted, the ABoR limits its assessment to the grounds provided and no new grounds for review may be filed.

Furthermore, the applicant may request to adduce witness or expert evidence in the form of a written statement. Permission will be granted by the ABoR if it is considered necessary.

### Assessment of admissibility

Following the ABoR's assessment of the admissibility of the request, the Chair of the ABoR may give directions for the efficient conduct of the review, including directions to produce documents or provide information.

## Hearing

Although it is not mandatory to hear the applicant, the ABoR may call for an oral hearing. The hearings are chaired by the ABoR's Chair or Vice-Chair and attended by the ABoR's members and Secretary, ECB representatives and the applicant's representatives. The ECB is typically represented by the business area that prepared the draft decisions and Directorate General Legal Services. The applicant may use the language in which the review is conducted or English, with simultaneous interpreting provided by the ECB. The applicant may request permission to call a witness or expert to give oral evidence at the hearing.

## Opinion

The ABoR must adopt an opinion on the contested decision within two months of receiving the request. The opinion must be submitted to the Supervisory Board without delay. The ABoR's opinion is not binding on the Supervisory Board or on the Governing Council.

## New decision

Although the ABoR's opinion is not binding, the Supervisory Board must submit a new complete draft decision to the Governing Council after the review. The Supervisory Board's assessment is not limited to examination of the grounds relied upon by the applicant as set forth in the notice of review but may also take other elements into account. The new draft decision may:

- replace the contested decision with a decision of identical content;
- replace the contested decision with an amended decision;
- abrogate the contested decision.

The Supervisory Board's new draft decision must be submitted to the Governing Council within 30 working days following receipt of the ABoR's opinion.

## Review by the Court of Justice

The internal administrative review of supervisory decisions as described above is conducted without prejudice to the right to bring proceedings to the Court of Justice of the European Union. The deadline for bringing proceedings is two months after receipt of the final decision. The applicant may bring proceedings to the Court of Justice without first requesting an internal review. If an applicant intends to contest the decision after the ABoR's review, they should make a request to the Court of Justice for the review of the new draft decision.

## 1.4 Cooperation with other institutions and authorities

### 1.4.1 Framework for cooperation

Cooperation among supervisors across borders and sectors is crucial for building trust, fostering the effectiveness of supervision and ensuring the resilience of the financial sector.

The ECB closely cooperates and shares information with a broad range of authorities in the EU and in non-EU countries. This includes the European Supervisory Authorities, namely the European Banking Authority (EBA), the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority, as well as the European Systemic Risk Board (ESRB), the Single Resolution Board, prudential supervisors in the banking, insurance and market sectors, authorities responsible for the supervision of anti-money laundering rules, resolution authorities and bodies for the protection of deposits.

Cooperation is carried out through institution-specific tools, such as [MoUs](#), or bank-specific tools, such as written coordination and cooperation agreements (WCCAs) governing the relations within the supervisory colleges. The cooperation includes, but is not limited to, the exchange of supervisory information.

To facilitate the cooperation and exchange of information with other authorities, the ECB has established a [framework](#) in 2022 that, as a rule, allows for clearance of the transmission by the ECB of supervisory information to other authorities by ECB senior managers.

The SSM Secretariat Division coordinates supervisory cooperation with other EU and national authorities, including negotiations of MoUs, and provides support vis-à-vis bank-specific arrangements.

The ECB also participates actively in various global fora, such as the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB).

## 1.4.2 Member States in close cooperation

[SSMR Article 7](#)

[SSMFR Articles 118 and 119](#)

[ECB Decision on the close cooperation with the national competent authorities of participating Member States whose currency is not the euro \(ECB/2014/5\)](#)

[ECB Decision laying down common rules on the transmission by the ECB of supervisory information to authorities and bodies for the purpose of carrying out the tasks conferred on it by Council Regulation \(EU\) No 1024/2013 \(ECB/2022/2\)](#)

Non-euro area EU Member States may participate in the SSM if they wish to do so. To date, the SSM has entered into two close cooperation agreements with Bulgaria and Croatia<sup>3</sup>, whose authorities now participate in the SSM.<sup>4</sup> Since the establishment of the SSM, Member States that are joining the European exchange rate mechanism (ERM II) are also expected to enter into close cooperation with the SSM. Once close cooperation has been established, these Member States can join the SSM and the Single Resolution Mechanism. For more information, please see the [Close cooperation with the ECB: an entryway to banking union](#) page available on the ECB's banking supervision website.

## 1.4.3 Cooperation with authorities outside the SSM

A positive equivalence assessment of the confidentiality regime is a pre-condition for the ECB to invite a non-EU country authority to a college or enter into an MoU with it. Confidential supervisory information is shared on a need-to-know basis.

### Colleges of supervisors for banking supervision, AML/CFT colleges and resolution colleges

[CRD Articles 51 and 112-116](#)

[SSMFR Articles 9 and 10](#)

[ITS on conditions of application of the joint decision process for institution-specific prudential requirements \(EU/710/2014\)](#)

[RTS on specifying the general conditions for the functioning of colleges of supervisors \(EU/2016/98\)](#)

Colleges of supervisors are vehicles for cooperation and coordination among the authorities involved in the supervision of the separate entities of cross-border banking groups and significant branches. Supervisory colleges provide a framework for the planning and performance of key supervisory tasks. If necessary, the SSM Secretariat Division along with Directorate General Legal Services may provide additional support to JSTs in their work setting up and updating WCCAs within colleges of supervisors. WCCAs are cooperation arrangements between the consolidating supervisor and the other competent authorities that formalise and govern relations within the supervisory colleges.

The Commission Delegated Regulation 2016/98 and the Commission Implementing Regulation No 710/2014 provide the basic framework for the functioning of the colleges.

The ECB may have the following roles in colleges of supervisors for significant banking groups:

- consolidating (home) supervisor for colleges that include supervisors from Member States that do not participate in the SSM or from non-EU countries;

<sup>3</sup> Croatia joined the euro area on 1 January 2023. It also became a full member of the SSM.

<sup>4</sup> Please refer to the latest report of the European Commission on the application of the SSM Regulation (see Section 1.1.2).

- member (host supervisor) for colleges in which the home supervisor is from a non-participating Member State or a non-EU country.

## The ECB as consolidating supervisor

If the ECB is the consolidating supervisor, the JST coordinator is the chair of the college. In addition to the basic framework for the functioning of colleges, the respective college establishes a WCCA for the practical aspects of the functioning of the college and the interaction between college participants.

NCA's of the participating Member States in which the banking group has its parent company, subsidiaries or significant branches participate in the colleges as observers. This means that the NCA's contribute to the college's tasks and activities and receive all information, but do not take part in decision-making procedures. To present a common stance at college meetings, the NCA's and the ECB discuss relevant topics within the JST in advance.

## The ECB as host supervisor

If the consolidating supervisor is from a non-participating Member State, the rules on participation in colleges depend on the significance of the supervised entities in the participating Member States.

- If the supervised entities in participating Member States are all SIs, the ECB participates in the college of supervisors as a member, while the NCA's are entitled to participate in the college as observers.
- If the supervised entities in participating Member States include both SIs and LSIs, the ECB and the NCA's participate in the college of supervisors as members. The NCA's of the participating Member States in which SIs are established are entitled to participate in the college of supervisors as observers.
- If the supervised entities in participating Member States are all LSIs, the NCA's participate in the college of supervisors as members and the ECB does not participate.

The ECB also participates in anti-money laundering/countering the financing of terrorism (AML/CFT) colleges as an observer and shares information that is relevant for the performance of the respective supervisory tasks with the college members.

The ECB takes also part in resolution colleges in which the group-level resolution authority and the consolidating supervisor exchange all information required to ensure that colleges fulfil their role, as set out in Article 116 of the CRD and Article 88 of the Bank Recovery and Resolution Directive.

[The AML/CFT Colleges Guidelines](#)

[RTS for recovery plans, resolution plans, group financial support, independent valuers, write-down and conversion powers, notification requirements, notices of suspension and the operational functioning of resolution colleges \(EU/2016/1075\)](#)



#### 1.4.4 Supervision of financial conglomerates

Specific arrangements are in place for cooperation in the context of a financial conglomerate. Financial conglomerates are financial firms with at least one entity operating in the insurance sector and at least one in the banking or investment services sector, regardless of whether these operations are carried out directly by the firm itself or through specific subsidiaries.

Financial conglomerates require cross-sector supervision, which, in turn, necessitates specific institutional arrangements. Within the EU, there is supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, subject to certain waivers. Supplementary supervision is defined as supervision that does not replace sectoral supervision, but instead builds on it and addresses the risks that stem from the cross-sectoral nature of financial activities and the complexity of group structures in a financial conglomerate.

#### Coordinator for supplementary supervision

FiCoD Article 11

The JSTs participate in the supplementary supervision of financial conglomerates in relation to their SIs. Where an SSM banking supervisor is appointed as the coordinator for supplementary supervision, the JST coordinator assumes the related tasks under Article 11 of the Financial Conglomerates Directive (FiCoD). As in the case of supervisory colleges for banking supervision, the NCAs may participate as observers if the credit institutions included in the financial conglomerate are significant, or as members if those credit institutions are less significant.

The coordinator is responsible for coordinating and carrying out the supplementary supervision of the regulated entities in a financial conglomerate. In cooperation with other relevant competent authorities, the coordinator ensures appropriate and regular stress testing of financial conglomerates, while avoiding duplication or substitution of the sectoral supervision.

The coordinator is appointed from among the competent authorities and, if necessary, specific coordination arrangements are adopted. In the case of a regulated entity, the coordinator is usually the authority responsible for the supervision of the parent company of the financial conglomerate. If the parent company is a mixed financial holding company, the coordinator is usually the authority responsible for the supervision of the regulated entity in the most important financial sector.

The authorities involved cooperate closely and share all information that is relevant for the exercise of their respective supervisory tasks. In the coordination agreement, the coordinator and the relevant authorities can agree to provide more in-depth information that would enhance the supplementary supervision of the regulated entities.

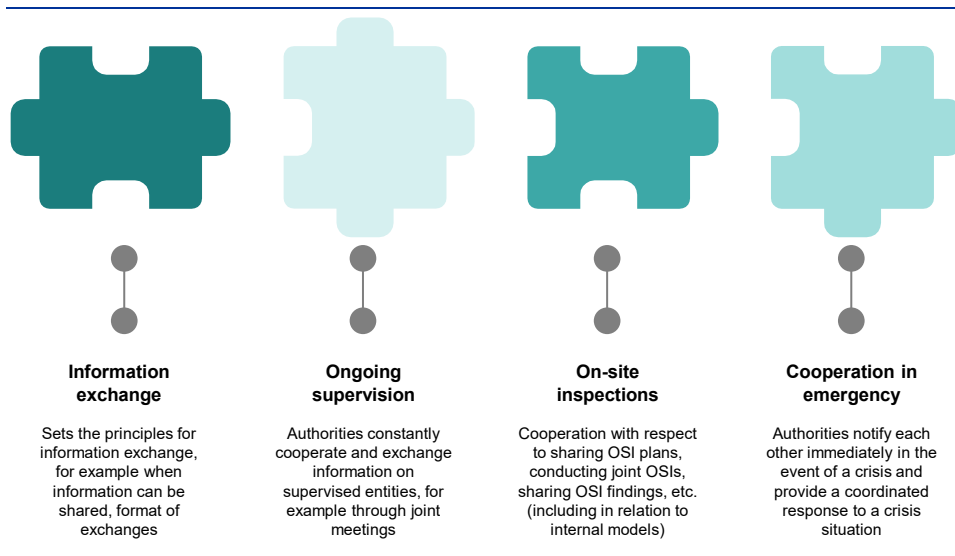
## 1.4.5 Bilateral cooperation with banking supervisors

SSMFR Articles 3, 8 and 152  
CRD Articles 55 and 131

Bilateral cooperation between the ECB and a supervisor outside the EU requires specific arrangements. Such arrangements range from non-confidential ad hoc discussions to a structural cooperation laid down in a MoU.

The ECB enters into MoUs with banking supervisors with a view to fostering effective and efficient cooperation. MoUs achieve this by facilitating a regular flow of confidential information between the signing authorities. They also cover other types of cooperation beyond just the exchange of information.

**Figure 8**  
Information exchange and cooperation based on Memoranda of Understanding



The ECB and the NCAs of non-participating Member States concluded an [MoU](#) that describes in general terms how they cooperate with one another in the performance of their supervisory tasks in accordance with Article 3(6) of the SSM Regulation. The purpose of this MoU is to clarify the information exchange procedures and, where relevant, the consultation mechanisms. It also sets out procedures for cooperation in emergency situations.

## 1.4.6 Cooperation with non-banking supervisory authorities

[FiCoD Articles 6 to 17](#)

[SSMFR Article 18](#)

[RTS on specifying the definitions and coordinating the supplementary supervision of risk concentration and intra-group transactions \(EU/2015/2303\)](#)

[ESAs Joint Guidelines on the convergence of supervisory practices relating to the consistency of supervisory coordination agreements for financial conglomerates \(JC/GL/2014/01\)](#)

As is the case for banking supervisors, bilateral or multilateral MoUs among other supervisory authorities provide a general framework for cooperation. These cover the processes and procedures for sharing confidential information regarding, for instance, authorisation, on-site and off-site supervision and sanctions. The MoUs build on existing best practices and promote a culture of cooperation at all levels of the organisations. To facilitate contact among authorities, MoUs may provide for the setting-up of dedicated committees to act as the main bodies for the exchange of information and the coordination of supervisory activities.

MoUs between the ECB and market supervisors are also intended to foster effective and efficient cooperation and facilitate a regular exchange of confidential information regarding credit institutions that are also supervised by the market authorities.

The ECB has also concluded a multilateral agreement with more than 50 AML/CFT supervisors of the European Economic Area (EEA) to establish a clear framework for the exchange of information. Under this agreement, the ECB transmits information to AML/CFT supervisors that is relevant and necessary for them to perform their tasks in the area of AML/CFT supervision. The ECB also requests information from the AML/CFT supervisors that is relevant and necessary for the performance of its prudential tasks.

## 1.4.7 Interaction with European institutions

The SSM cooperates closely with other European institutions and bodies as part of a wider institutional framework.

### European Commission

[TFEU Articles 4, 107 and 108](#)

[CRD Article 53 ff.](#)

[SSMR Articles 19, 26, 32 and 37 and Recital 32](#)

[Commission Communication on the application of State aid rules to support measures in favour of banks in the context of the financial crisis \(EU/2013/C 216/01\)](#)

Within the European Commission, the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) develops and carries out the Commission's policies on financial services, including banking regulation and other areas such as capital markets, insurance and pension funds, sustainable finance and payment services. To this end, the Commission regularly reviews the legislative framework and, after taking developments in the financial sector into account, puts forward proposals to foster market integration, secure financial stability, protect consumers and investors, fight financial crime and improve financial supervision. It also adopts delegated and implementing acts, including technical standards prepared by the European Supervisory Authorities, to complement EU financial services legislation, and ensures that EU legislation is fully implemented. In cooperation with the European Supervisory Authorities, the ECB and other authorities, DG FISMA monitors and responds to financial stability risks.

The ECB may provide input to DG FISMA when requested on regulatory issues which are related to the organisation and exercise of its supervisory tasks. The ECB

contributes to public consultations organised by DG FISMA on issues that fall within its remit, including preparing reviews of existing legislation. When either consulted by the European Parliament or the EU Council, or on its own initiative, the ECB also adopts opinions on legislative proposals by the Commission. The ECB may then also participate in discussions in EU Council working parties and interact with the European Parliament to contribute to the preparation of financial services legislation.

The European Commission (and within it DG FISMA) is mandated to publish a report on the application of the SSM Regulation (the SSMR Review) every three years, with a special emphasis on monitoring its potential impact on the smooth functioning of the internal market. The Commission interacts with the ECB mainly to gather background information needed for its review activities. In line with the applicable legal restrictions on professional secrecy and the exchange of information, the ECB shares with the Commission (i) information that concerns the ECB's internal supervisory and organisational procedures and (ii) information on supervisory activities in a summarised and aggregated form.

A European Commission representative may be invited to attend the meetings of the ECB's Supervisory Board as an observer. This ensures a regular discussion of policy issues with the European Commission, which does not have access to confidential information relating to individual institutions.

If public resources are used, State aid rules must be observed and the European Commission's Directorate-General Competition (DG Comp) must be notified. DG Comp has the exclusive mandate to ensure that State aid is compatible with the Treaty on the Functioning of the European Union (TFEU) and that the provision of State aid is approved in exchange for strict conditionality. In some cases, the exercise of State aid control may overlap with the ECB's responsibilities. For example, the ECB might require adjustments from the respective entities that, for institutions benefiting from State aid, could be similar to conditions set out in their restructuring plans approved by DG Comp. In such cases, coordination between the ECB and DG Comp is essential to ensure consistent action by the authorities.

## European Systemic Risk Board

The ESRB is an independent EU body responsible for overseeing risks in the financial system within the EU as a whole. The ECB supports the ESRB's Secretariat and the ECB's President is the Chair of the ESRB's General Board.

The ECB is additionally represented in the General Board of the ESRB by the Vice-President of the ECB and the Chair of the Supervisory Board of the ECB and also participates in the ESRB's Steering Committee and Advisory Technical Committee.

Close cooperation between the ECB and the ESRB, enabling the development of information flows, is mutually beneficial: it improves the ESRB's ability to effectively identify, analyse and monitor EU-wide systemic risks, while the SSM can take advantage of the ESRB's expertise, which covers the entire financial system, including other financial institutions, markets and products.

## European Banking Authority

The EBA is entrusted with developing draft technical standards, guidelines, recommendations and Q&As in order to enhance convergence of supervisory practices and ensure consistency of supervisory outcomes within the EU. As a banking supervisor, the ECB carries out its tasks in compliance with the EBA's rules. ECB Banking Supervision is involved in the EBA's work and contributes significantly to supervisory convergence by integrating supervision across jurisdictions. The SSM is represented by the NCAs as voting members and the ECB as a non-voting member in the Board of Supervisors of the EBA and as a member in other working structures. Notable areas of cooperation are described below.

- **Single European Rulebook and the European Supervisory Handbook:** The EBA enacts binding technical standards and guidelines to contribute to a Single Rulebook for the EU banking sector. In doing so, the EBA pursues the aim of conceiving a minimum level of harmonisation in the supervisory system. Additionally, the EBA's European Supervisory Handbook has a broader scope and is applicable to all supervisory authorities within the EEA. When performing direct supervision, the SSM applies the Single Rulebook, the European Supervisory Handbook and guidance developed by the EBA. By implementing consistent supervisory standards and procedures, the SSM achieves a high degree of convergence for supervisory practices among the participating Member States.
- **Stress testing:** In cooperation with the ESRB, the EBA is responsible for the initiation and overall coordination of EU-wide assessments of the resilience of credit institutions as well as the development of common approaches and methodologies to that end. The ECB is in charge of carrying out the assessments within the participating Member States with the support of the NCAs.
- **Exchange of information:** The ECB is engaged in a reciprocal exchange of information with the EBA.
- **Peer review mechanism:** The ECB supports the EBA in the development of a coherent peer review methodology, with the aim of ensuring consistency across the supervised entities and compliance with the set supervisory guidelines.
- **Crisis management and other supervisory tasks:** The EBA is responsible for a number of specific crisis management tasks. If, for instance, an emergency situation is declared by the European Council, the EBA can issue recommendations to the SSM with the aim of coordinating European decisions and, in some cases, applying them directly to individual institutions. In addition, the EBA is mandated to act as a mediator in certain dispute cases between home and host authorities or in cases of breaches of EU law. Regarding ongoing supervision, the tasks include monitoring supervisory colleges through its direct participation.

## European System of Financial Supervision

Along with the EBA, the ECB also cooperates with the two other European Supervisory Authorities: the European Insurance and Occupational Pensions Authority and European Securities and Markets Authority. In the case of a crisis affecting a financial conglomerate, a mixed financial holding company or other financial intermediaries with potential spill over effects to or from the banking sector, further cooperation arrangements between the SSM and other authorities of the European System of Financial Supervision ensure effective planning, decision-making and coordination with the relevant authorities at both the European and national level.

## Single Resolution Mechanism

SRMR Articles 7, 8 and 34

MoU between the Single Resolution Board and the ECB in respect of cooperation and information exchange

The Single Resolution Mechanism centralises key competences and resources for managing the failure of any credit institution in the participating Member States. The Single Resolution Mechanism complements the SSM; it ensures that if a bank subject to SSM supervision faces serious difficulties, its resolution can be managed efficiently with minimal costs to taxpayers and the real economy.

Close cooperation and information exchange between the banking supervisory authorities and the competent resolution authorities are necessary to (i) provide the resolution authorities with institution-specific information required for resolution planning, (ii) increase the preparedness of all involved parties in normal times and (iii) enhance their ability to act in a timely and effective manner when a potential crisis situation occurs. In particular, the SSM is consulted by the Single Resolution Board on the resolution plans and provides supervisory information, with a view to avoiding a duplication of tasks.

## European Stability Mechanism

SSMR Articles 3, 4 and 33(3)

ESM Guideline on Financial Assistance for the Direct Recapitalisation of Institutions

The European Stability Mechanism (ESM) is a stability support mechanism established by the euro area Member States, with the aim of providing financial assistance to ESM members experiencing or threatened by severe financing problems, if indispensable to safeguard the financial stability of the euro area as a whole and of its Member States. As part of its toolkit, the ESM may decide to grant financial assistance to directly recapitalise financial institutions, provided that the eligibility criteria are fulfilled and the Single Resolution Mechanism Regulation is fully applied, including its bail-in provisions. The functioning of the recapitalisation tool necessitates effective cooperation and the development of robust information flows between the SSM, the ESM and the national resolution authorities, in line with Article 3 of the SSM Regulation. If an ailing supervised entity that is directly supervised by the ECB needs to be recapitalised, ECB Banking Supervision will be responsible for compiling the necessary information. For entities that it does not directly supervise, the Board of Governors of the ESM requests the ECB to assume direct supervision of the institutions under the SSM Regulation.

The ESM support to an institution's recapitalisation is conditional upon DG Comp's approval of the respective institution's restructuring plan in line with State aid rules. ECB Banking Supervision, the NCAs and DG Comp therefore have to liaise closely with each other to ensure a smooth cooperation.

## European Court of Auditors

[ESCB Statute Article 27](#)  
[MoU between the ECB and the ECA](#)

The European Court of Auditors (ECA) was established to audit the EU's finances. The starting point for its audit work is the EU's budget and policies, primarily in areas relating to growth and jobs, added value, public finances, the environment and climate action. The ECA audits the budget in terms of both revenue and spending.

In respect of the ECB and in view of its independence, the ECA's audit powers are limited to the examination of the operational efficiency of the management of the ECB. Within this remit, the ECA may submit observations, particularly in the form of special reports. Those reports may contain recommendations on the functioning of ECB Banking Supervision, with a view to increasing the operational efficiency of its management. The ECA may also issue opinions at the request of another EU institution. The ECB makes available to the ECA information necessary for the audit and follows up on its recommendations.

### 1.4.8 Multilateral cooperation

[TFEU Article 127\(4\)](#)  
[ESCB Statute Article 25](#)  
[Council Decision on the consultation of the ECB by national authorities regarding draft legislative provisions \(98/415/EC\)](#)

The ECB participates in a number of European and international bodies, as well as groups of supervisors organised by multilateral organisations. Through this participation, which can take different forms, the ECB can influence international developments in the field of banking regulation. In cases where both the ECB and NCAs are participating, the ECB's Supervisory Policies Division strives to coordinate their positions when relevant. If the ECB is not participating, the ECB may be represented by those NCAs which are currently participating, when feasible.

## Basel Committee on Banking Supervision

The BCBS is the primary global standard-setter for the prudential regulation of credit institutions and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of credit institutions worldwide, with the ultimate purpose of enhancing financial stability. Although decisions made by the BCBS do not have formal legal authority, their adoption into the national laws of Member States is viewed as a voluntary and cooperative commitment. Since 2008, the heads of state and heads of government from the G20 countries have also committed to regularly implementing the BCBS's standards. The BCBS rigorously oversees the implementation of these standards, publishing semi-annual reports in the spring and autumn that assess their legal integration in Member States. Furthermore, the BCBS evaluates the alignment of regulations implemented in individual Member States with its standards as well as

their impact on risk-weighted assets when applied to banks. The ECB and several NCAs hold membership status in the BCBS and participate in BCBS meetings and meetings of its substructures. The ECB is also a member of the BCBS's oversight body, the Group of Central Bank Governors and Heads of Supervision. The EBA and the European Commission have observer status on the BCBS.

## International Monetary Fund

The IMF is an international organisation with a mandate to achieve sustainable growth and prosperity for all of its 190 member countries. It does so by supporting economic and financial policies that promote financial stability and monetary cooperation. The FSAP is a comprehensive in-depth assessment of a country's financial sector conducted by the IMF. Under the FSAP, the IMF prepares Financial System Stability Assessments for its member countries. Since 2018 the IMF also conducts FSAP exercises for the euro area as a whole, which includes an assessment of the performance of the SSM against the BCBS's Core Principles for Effective Banking Supervision. The ECB acts as the primary counterpart to the IMF on all issues related to the supervision of SIs as a result of the central bank's key responsibilities in the areas of microprudential and macroprudential banking supervision, conferred to it under the SSM Regulation. Within ECB Banking Supervision, the ECB's Supervisory Policies Division coordinates input to the IMF and acts as a main contact point.

The euro area FSAP reflects the new banking supervision and resolution architecture in Europe. While national authorities take the lead in country exercises, the ECB is actively involved as far as its tasks are concerned in the euro area FSAP and the national FSAPs for euro area countries. The demarcation of the scope of euro area and national FSAPs takes the legislative, institutional and operational context of the banking union into account, as well as the new articulation of responsibilities between the ECB/SSM and the NCAs with respect to SIs and LSIs.

The ECB's involvement in national exercises ensures cross-country comparability and consistency for the banking sector component of the FSAPs. This generates synergies with EU and euro area-wide banking stress tests and ensures that the key features of the microprudential and macroprudential banking supervision framework resulting from the establishment of the SSM are accurately reflected in the documentation emerging from the different FSAP work streams. It also helps in identifying the areas that need further development in the SSM-wide framework or at national level so that they are appropriately reflected in the IMF recommendations.

In addition to FSAPs, the IMF holds annual Article IV consultations with countries participating in the SSM, during which IMF staff visit the countries' authorities to assess the respective country's economic and financial situation and policy challenges. ECB Banking Supervision's involvement in these consultations relates to microprudential and macroprudential issues.

These consultations involve conference calls between the IMF, ECB Banking Supervision and the NCAs to address matters relating to the SSM.



IMF staff also visit the ECB twice a year in the context of the euro area Article IV consultation. The results of the euro area FSAP mentioned above inform the financial sector component of the euro area Article IV consultation.

## Financial Stability Board

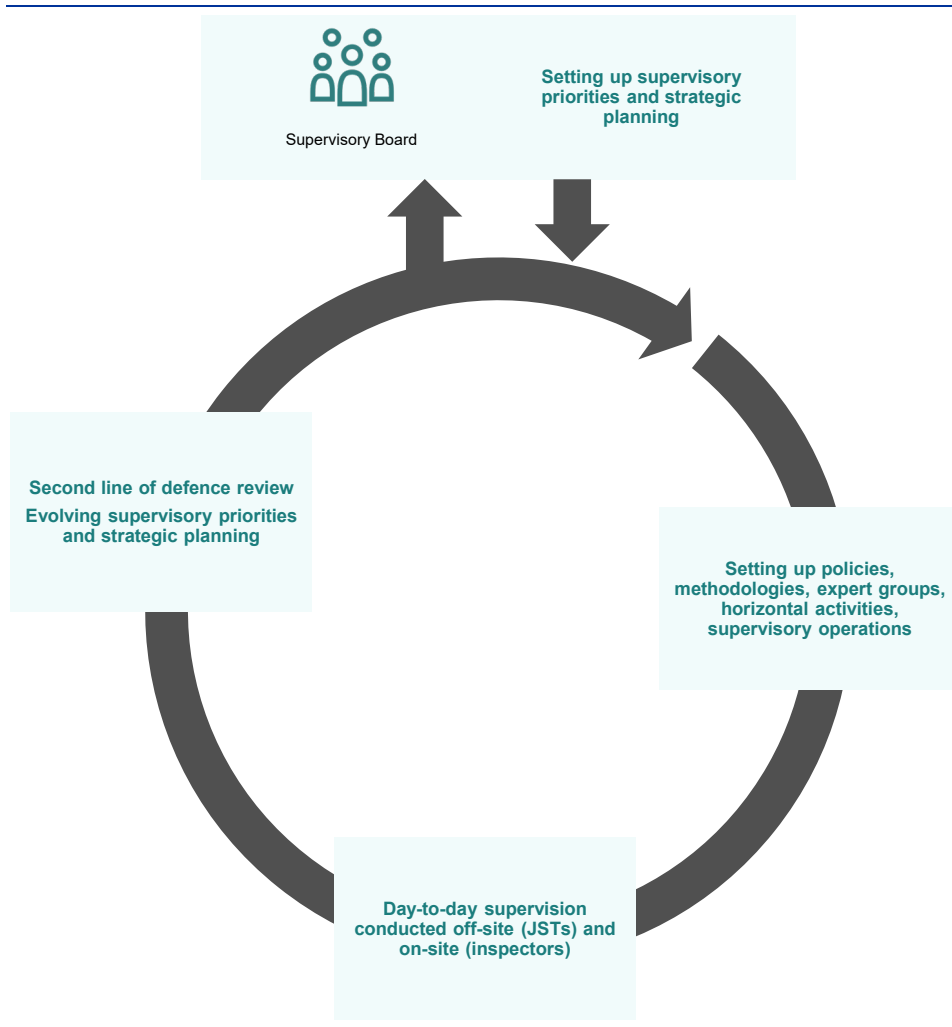
The FSB is an international body that monitors the global financial system, makes recommendations and promotes international financial stability. In this regard, it coordinates the action of its members in the development of strong regulatory, supervisory and other financial sector policies. Its members include central banks, ministries of finance, the financial supervisory agencies of the world's main economies and financial centres, global standard-setting bodies and international financial institutions. The FSB fosters a level playing field by encouraging coherent implementation of these policies by the relevant authorities across sectors and jurisdictions. Following the FSB Plenary decision of 21 June 2016, ECB Banking Supervision is also represented at the Plenary, the single decision-making body of the FSB. In addition, it has been a member of the Standing Committee on Supervisory and Regulatory Cooperation (SRC) since 2015, and has been participating as a supervisory authority in the Standing Committee on Standards Implementation (SCSI) since February 2017. Finally, the ECB regularly participates in meetings of the Regional Consultative Group of Europe as a standing invitee.

## 2 Supervisory cycle

The conduct of banking supervision can be viewed as a cycle, as shown in **Figure 9**. The separate elements of the supervisory cycle are explained in this chapter.

The supervisory priorities (see Section 2.1) are the key focus areas for the next three years ahead and are set out by the Supervisory Board. They are defined annually based on the assessment of the key risks and vulnerabilities faced by supervised entities, though they can be reviewed at any time to reflect new risk developments.

**Figure 9**  
Supervisory cycle



The defined priorities determine how supervisory methodologies and processes, such as the Supervisory Review and Evaluation Process (SREP), are executed and how horizontal ad hoc activities are set up (see Section 2.2). This feeds into day-to-day supervision (see Section 2.3), which encompasses all interactions with supervised entities and the continuous oversight of their activities. The experience

gained from the practical application of the supervisory standards and methodologies then informs the planning of supervisory activities for the forthcoming cycle, and an analysis of key risks and vulnerabilities determines the future supervisory priorities (see Section 2.4.1). In the context of ensuring the effectiveness, quality and consistency of supervisory outcomes, the Directorate Supervisory Strategy & Risk (D/SSR) acts as a second line of defence (see Section 2.4.2). This Directorate is responsible for discussing supervisory outcomes with the JSTs as well as suggesting possible improvements of supervisory policies, methodology and standards.

## 2.1 Supervisory priorities and strategic planning

The setting of supervisory priorities and the related strategic planning are crucial to ensure effective supervision. ECB Banking Supervision identifies and monitors the risks faced by supervised entities and their vulnerabilities on an ongoing basis. Based on this assessment, it decides on the supervisory priorities that define the strategic direction of ECB Banking Supervision for three years ahead (see Section 2.4.1).

Since the economic and financial environment can change rapidly, the SSM needs its strategy to be forward-looking and must be ready to adjust priorities and associated work programmes swiftly when needed. Besides the strategic steer provided by the supervisory priorities, another important element for promoting risk-based supervision is provided by the risk tolerance framework. This has been designed to facilitate the translation of the supervisory priorities into the institution-level strategic planning and supervisory examination programme. For this purpose, the risk tolerance framework combines top-down guidance issued by the Supervisory Board on prioritised risks and vulnerabilities with bottom-up relevance assessments of the priorities by the Joint Supervisory Team (JST) for the respective supervised entity. The bottom-up assessments are important because they ensure that sufficient supervisory attention is given to bank-specific issues and risks.

Lastly, the progress of supervisory activities addressing the supervisory priorities is regularly monitored to ensure that they are effectively implemented.

### 2.1.1 Risk identification and monitoring

The identification, assessment and monitoring of the main risks faced by supervised entities and their vulnerability to those risks is key to making informed decisions on the supervisory priorities.

Risk identification and monitoring takes a forward-looking perspective and consists of (i) an analysis of the macrofinancial, regulatory and operating environment of banks; (ii) a holistic identification of key risks to the banking sector, and (iii) the identification and monitoring of the main vulnerabilities of supervised entities that could potentially negatively affect the soundness of the banking sector if left

unaddressed. The assessment also considers possible mitigating factors already in place, such as public support measures in a crisis situation.

D/SSR coordinates the assessment of risks and vulnerabilities in close collaboration with the national competent authorities (NCAs), other business areas in ECB Banking Supervision and other relevant ECB business areas, including the macroprudential functions. The assessment uses a wide range of sources, in particular the risk-specific analyses conducted by the horizontal functions of ECB Banking Supervision, the outcomes of the annual ECB stress test and the SREP, as well as institution-specific information through the JSTs. Relevant developments in the economic, regulatory and supervisory environment and insights from the market intelligence activities of D/SSR also provide important additional input for the preparation of the assessment.

### 2.1.2 Integrated supervisory planning

The annual review of the supervisory priorities informs the planning of supervisory activities for the next cycle. This planning is conducted as an integrated process across various ECB business areas. Key elements of the planning process include the planning of horizontal activities, on-site missions and JST activities. Planning for JST activities involves setting the Supervisory Examination Programme (SEP) for each Significant Institution (SI). Setting the SEP entails assessing the relevance of each risk and the resulting risk tolerance. Taking the risk tolerance levels into account, supervisors are empowered to produce work programmes that consider the supervisory priorities as well as the most pressing issues identified for the individual SI and that ensure efforts are directed to areas where supervisory action is viewed to be most effective. As such, the activities contained in the resulting JST work programmes are tailored to the risk profile of the SI and may include on-site missions and horizontal activities.

Horizontal activities for the next supervisory cycle are activities which involve a sample of SIs and that address selected key risks and vulnerabilities in the banking sector previously identified in the annual review of the supervisory priorities.

NCAs are regularly consulted with regard to the planning of supervisory activities and particularly with regard to the planning of on-site missions. The integrated nature of the planning process ensures that both the planning of horizontal activities/general offsite activities and on-site inspections mutually inform each other.

The work programmes are monitored to ensure that they are implemented as intended and conducive to addressing the identified supervisory priorities. The Supervisory Board is informed on a regular basis about the progress made towards fulfilling the supervisory priorities and the respective work programmes.

## 2.2 Setting up policies, methodologies, expert groups, horizontal activities and supervisory operations

The European banking regulatory framework is based on the Basel Accords and is harmonised through the Single Rulebook, which is applicable to all financial institutions in the Single Market. The Single Rulebook is the basis for banking union. It consists of a set of legislative texts that all financial institutions (including [all banks in SSM countries](#)) in the EU must comply with.

Based on the regulatory framework and on the input provided by the Supervisory Board in terms of ongoing work supervisory priorities, a number of horizontal activities are carried out on a regular basis. Directorate General Horizontal Line Supervision (DG/HOL) brings horizontal risk and subject matter expertise to line supervision and works in close collaboration with other business areas. DG/HOL supports JSTs by providing risk and subject matter expertise from a horizontal perspective on credit risk, capital markets, non-financial risks, business models, capital planning and crisis management, stress testing and supervisory policy and methodologies.

The divisions with supervisory risk expertise, namely the Business Model, Capital & Crisis Division, the Capital Markets & Treasury Experts Division, the Credit Risk Experts Division and the Non-Financial Risk Experts Division, are responsible for establishing expert groups to support JSTs in setting up dedicated horizontal activities, deep dives and thematic reviews that are in line with the supervisory priorities approved by the Supervisory Board.

The Division stress test experts is responsible for both the EU-wide stress test of the European Banking Authority (EBA) and the SSM stress tests.

DG/HOL's Supervisory Policy Division is responsible for policy coordination and development and deals with regulatory and supervisory policy issues.

The Supervisory Methodology Division regularly develops and maintains the ongoing supervisory methodologies, particularly the SREP, as well as processes for both SIs and less significant institutions (LSIs). This is done in full cooperation with the EBA and other organisations involved in the development of supervisory practices, methodologies and standards.

For the purpose of performing the SREP, European banking supervision has developed a common methodology for the ongoing assessment of supervised entities' risks, their governance arrangements and their capital and liquidity situation. The SREP is executed on a yearly basis but has a multi-year assessment component that is tailored to the risk tolerance defined by each JST (see Section 4.5). The ECB applies the SREP common methodology to all SIs, which facilitates peer comparisons and large-scale transversal analyses. The methodology thus ensures a level playing field across supervised entities, while taking their specific features into account.

The SREP is applied proportionately to both SIs and LSIs, ensuring that the highest and most consistent supervisory standards are upheld.

In addition to ongoing activities, the ECB takes ad hoc supervisory actions through the Directorate General SSM Governance & Operations (DG/SGO); the Authorisation Division of DG/SGO grants authorisations and the acquisition of qualified holdings, while the Enforcement & Sanctions Division investigates suspected breaches of prudential requirements committed by supervised entities and prepares proposals for the imposition of penalties and enforcement measures by the ECB or the NCAs. The Fit & Proper Division acts as gatekeeper and is responsible for making decisions on the suitability of members of the management bodies of all entities directly supervised by the ECB, both in their management function and their supervisory function.

In order to ensure all supervisory duties are properly carried out, the Technology & Innovation Division and the SSM Secretariat Division have been established, the latter of which supports the Supervisory Board and its structures, particularly in the quality and efficiency of their decision-making processes.

## 2.3 Day-to-day supervision

JSTs carry out key supervisory tasks in coordination with the horizontal functions of the ECB. This can involve on-site interventions at supervised institutions, if needed. Depending on a specific bank's risk profile assessment, the ECB may impose a wide range of supervisory measures.

### 2.3.1 Joint Supervisory Teams

The day-to-day supervision of SIs is primarily conducted off-site by the JSTs, which comprise staff from NCAs and the ECB and are supported by the horizontal and specialised expertise divisions of DG/HOL and similar staff at the NCAs.

There are several tools for conducting supervisory activities. In the day-to-day supervision, the JST analyses the supervisory reporting, financial statements and internal documentation of supervised entities. The JSTs hold regular and ad hoc meetings with the supervised entities at various levels of staff seniority. They conduct ongoing risk analyses of approved risk models and analyse and assess the recovery plans of supervised entities.

The key outcomes of the activities described above are summarised in the yearly SREP conducted by the JSTs, which is described in more detail in Section 4.6.

Day-to-day supervision activities are executed in line with the integrated supervisory planning described in Section 2.1.2, which is defined on the basis of the risk tolerance framework of each JST.

### 2.3.2 On-site inspections and internal model investigations

On-site inspections regarding various topics are organised on a regular basis, particularly for SIs. Their purpose is to provide an in-depth analysis of the situation of banks regarding such topics as risks, internal control systems, business models and governance.

Directorate General On-Site and Internal Model Inspections defines and ensures the planning and execution of the on-site supervisory program, comprising on-site inspections, internal model investigations and asset quality reviews. It is also responsible for defining and maintaining comprehensive on-site methodologies, ensuring harmonised on-site approaches within European banking supervision and, together with other business areas, identifying the main risks facing the banking sector, as well as the supervisory priorities.

These on-site activities provide independent, consistent and high-quality assessments that complement the ongoing off-site supervisory activities.

On-site inspections and internal model investigations are a fundamental part of the integrated supervisory planning (see Section 2.1.2) defined by the JSTs in line with their risk tolerance framework.

## 2.4 Enhancing banking supervision: defining supervisory priorities and the second line of defence

As described earlier in this chapter, the ECB continuously looks to identify potential improvements to feed back into the definition of methodologies, standards, policies and regulations. This improvement potential is identified through various channels, including European banking supervision's participation in international and European fora and the experience gained from the practical implementation of the methodologies and standards.

### 2.4.1 Defining supervisory priorities

The outcome of the risk identification and monitoring serves as a basis for setting the supervisory priorities. The priorities identify the strategic objectives and key supervisory activities for the next supervisory cycle, with the intention of addressing the vulnerabilities of supervised entities and mitigating the effects of potential risks. They are reviewed on an annual basis but can be adjusted over the course of the year to address changes in the risk landscape, if needed.

When updating the supervisory policies, European banking supervision considers whether there has been progress in addressing past vulnerabilities, and whether

follow-up actions need to be escalated as a result of banks failing to remediate vulnerabilities in line with supervisory expectations.<sup>5</sup>

The supervisory priorities are key to the medium-term supervisory strategy. They act as a starting point, promote effective and consistent integrated supervisory planning and support a more efficient allocation of resources. The supervisory priorities also affect the risk tolerance levels within European banking supervision's risk tolerance framework.

In addition, the supervisory priorities help national supervisors set their own priorities for the supervision of LSIs in a proportionate way.

The [supervisory priorities](#) are published annually on the ECB's banking supervision website, together with the outcome of the regular risk assessment.

## 2.4.2 Second line of defence

D/SSR acts as the second line of defence in the ECB's internal control framework as it relates to the tasks conferred on the ECB by the SSM Regulation.

The objective of the second line of defence is to contribute to the effectiveness and consistency of supervisory outcomes and to propose mitigating actions and improvements in ECB Banking Supervision, considering the supervisory priorities and the risk tolerance framework.

Second line of defence activities are a combination of recurrent assessments and thematic assessments that are set out in an annual work plan. Recurrent activities include the following:

- conducting horizontal analyses and SREP benchmarking analyses, which review individual risk scores and the overall SREP score as well as quantitative and qualitative measures, and publishing SREP results (see Sections 4.5.5 and 4.5.7);
- monitoring that supervisory findings and measures are followed up at the aggregate level and that the intended objectives are achieved in a timely manner;
- coordinating operational risk management for European banking supervision;
- coordinating internal audit matters for European banking supervision.

Thematic reviews aim to support the Supervisory Board to steer European banking supervision in line with the agreed risk priorities and to monitor the quality and effects of supervisory activities, whether at the vertical (JST) or horizontal level (methodologies and processes).

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<sup>5</sup> Additionally, the overarching priorities laid down in the EBA's European Supervisory Examination Programme are also taken into account.



Second line of defence activities are carried out independently by D/SSR, but benefit from continuous dialogue and cooperation with the other Directorates General in ECB Banking Supervision. They focus on supervisory outcomes rather than on compliance checks.

## 3 Supervision of all supervised entities

The ECB's supervisory responsibilities differ depending on whether a supervised entity is a significant institution (SI) or a less significant institution (LSI). For some procedures however, referred to as common procedures, the ECB is competent regardless of the significance of the institution concerned. Those procedures are described in the first part of this chapter. The second part covers the procedures and criteria used to assess the significance of the institutions on both a regular and an ad hoc basis.

### 3.1 Requests relating to authorisations, proposed acquisitions of qualifying holdings and passporting

SSMR Articles 4(1)(a), 4(1)(c), 14 and 15

CRD Articles 8, 18, 20, 22 and 45

SSMFR Articles 73, 79, 80 and 85 and Part V

The common procedures ultimately decided upon by the ECB include procedures for providing applicants with a new, or extended, banking authorisation or for the withdrawal of an authorisation (see Section 3.1.1). The remainder of the common procedures (see Section 3.1.2) cover the procedures for approving proposed acquisitions or further increases of qualifying holdings in credit institutions. This section also describes passporting, the procedure whereby an institution that has been granted a banking authorisation in one Member State may make use of the right of establishment and the freedom to provide services within the Member States of the European Union (see Section 3.1.3).

#### 3.1.1 Granting, withdrawal and lapsing of authorisations

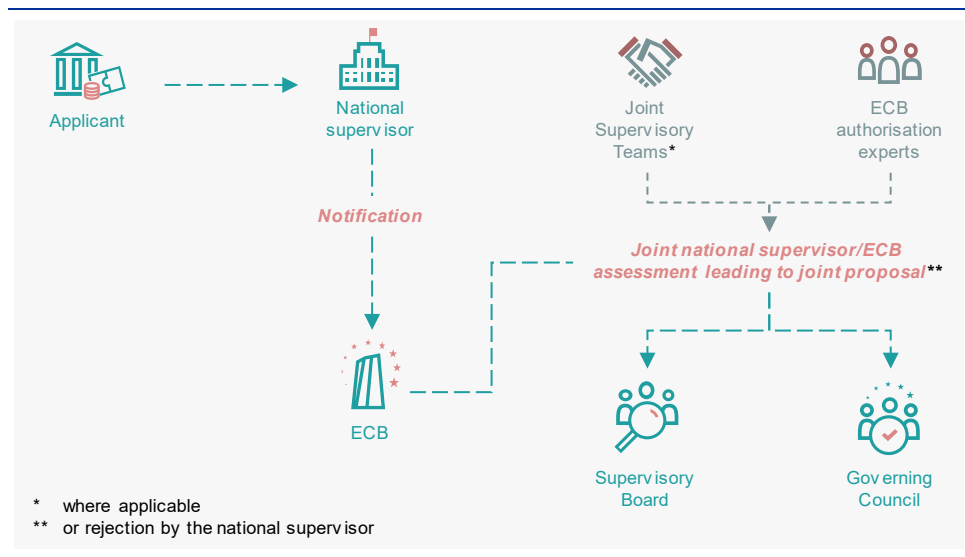
##### Granting banking authorisation

In order to take up the business of a credit institution as defined in Article 4(1)(1) of the Capital Requirements Regulation (CRR) in a participating Member State, institutions need to apply for a banking authorisation.

An application for a banking authorisation has to be submitted to the national competent authority (NCA) of the Member State in which the institution is to be established and must be in accordance with the requirements set out in the relevant national legislation. This application is assessed to ensure that only entities that fulfil the applicable national and EU legal requirements enter the market as credit institutions.

There are several circumstances under which institutions apply for banking authorisations.

**Figure 10**  
Overview of authorisation process



## Scope

CRR Article 4(1)(1)

CRD Articles 8-16, 18, 20, 56(g) and 117(5) and Annex 1

SSMR Articles 4(1)(a) and 14

SSMFR Articles 73-84

The Investment Firm Regulation<sup>6</sup> has amended the definition of credit institution provided in the CRR. Following these amendments, the CRR definition of credit institution now encompasses two categories:

- credit institutions that are authorised to take deposits or other repayable funds from the public and grant credits for their own accounts, hereafter referred to as “classic credit institutions” (Article 4(1)(1)(a) of the CRR);
- investment firms that provide specific investment services and meet certain thresholds in terms of size at the individual or group level, hereafter referred to as “Class 1 investment firms” (Article 4(1)(1)(b) of the CRR).<sup>7</sup>

If the applicant is a classic credit institution, as defined by Article 4(1)(1)(a) of the CRR, the procedure for authorisation to take up the business of a credit institution as entrusted to the ECB applies to all activities that are reserved to classic credit institutions and are subject to authorisation. These include activities subject to mutual recognition under Annex 1 to the CRD as well as other regulated activities that require an authorisation from the competent authority under the respective national law. This means that the SSM authorisation procedure also applies to situations where a classic credit institution that already has banking authorisation

<sup>6</sup> Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (OJ L 314, 5.12.2019, p. 1).

<sup>7</sup> For Class 1 investment firms, taking deposits or other repayable funds from the public and granting credits for their own account is not needed for them to be considered credit institutions (Article 4(1)(1)(b) of the CRR).

requires an extension of it to undertake a new regulated activity, if the need for such authorisation is provided for by national law.

If the applicant is a Class 1 investment firm, as defined in Article 4(1)(1)(b) of the CRR, the national laws of the Member States transposing the Investment Firm Directive<sup>8</sup> will define how these entities will be allowed to apply for the core banking activities of classic credit institutions, such as taking deposits and granting credits. For some Member States, the national laws may allow for an authorisation that has already been granted for a Class 1 investment firm to be extended to include the core activities of classic credit institutions. This will not be the case where national law transposition has stipulated that authorisation granted to Class 1 investment firms is a specialised authorisation that cannot be extended to include core banking activities. In the latter case, the Class 1 investment firm should apply for additional authorisation to act as a classic credit institution if it wishes to conduct these banking activities.

Applications to become a classic credit institution are assessed by the relevant NCA and the ECB. The NCA serves as point of contact for the applicant. It assesses the application on the basis of requirements stipulated in national law, with the involvement of the respective Joint Supervisory Team (JST) where applicable. The ECB assesses the application based on EU law requirements. The NCA and the ECB assessment are closely interlinked. The joint assessment ensures that the entity applying meets the relevant requirements, those on governance, the conduct of business, prudential requirements and the business model. To assess the money laundering and terrorist financing risk involved, the competent anti-money laundering/countering the financing of terrorism (AML/CFT) supervisor and financial intelligence units should be consulted. Additionally, the assessment ensures that the applicable national requirements are fulfilled. Both the NCA and the ECB have the right to require the applicant to provide any additional information needed for the assessment. All information and data related to the application are shared between the ECB and the NCA.

Broadly speaking, the same procedure applies for Class 1 investment firms, though with some specificities. For example, Article 8a(5) of the CRD provides that “In cases of re-authorisation, the authorising authority shall ensure that the process is as streamlined as possible and that information from existing authorisations is taken into account”. If the applicant complies with all requirements for authorisation as provided for in national law, the NCA shares its final assessment with the ECB and proposes that the ECB grants the authorisation. If the NCA finds during its assessment that the Class 1 investment firm does not meet the requirements for authorisation as provided for in national law, it rejects the application.

The ECB may agree with or object to the NCA’s draft decision. The ECB decision may include conditions, obligations and recommendations for the applicant. If the application is rejected by the ECB or if a positive decision is subject to conditions or obligations not previously agreed with the applicant, the applicant is given the right to

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<sup>8</sup> Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (OJ L 314, 5.12.2019, p. 64).

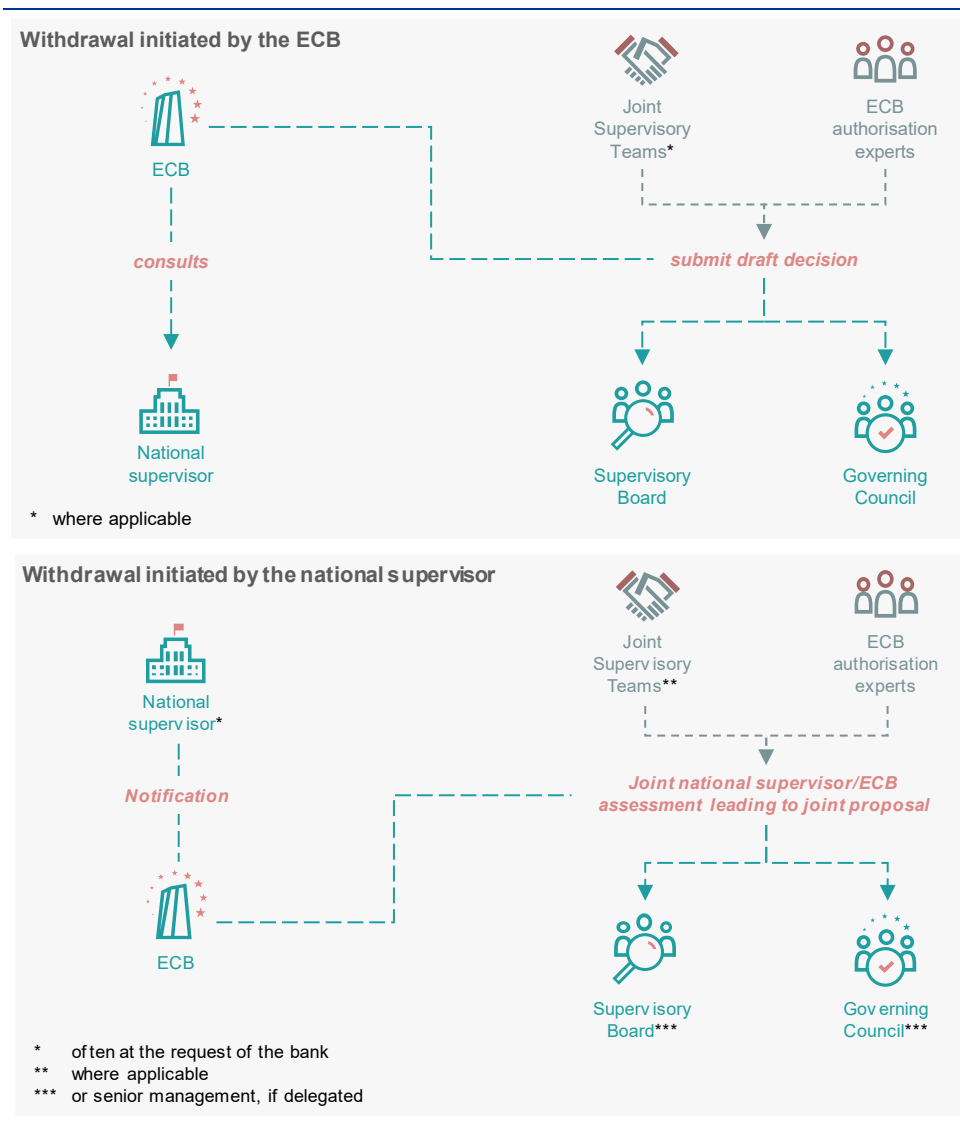
be heard. The final decision by the ECB is to be taken within ten working days of the submission of the NCA's draft decision, but this period can be extended once by an additional period of ten working days.

The ECB notifies the NCA of the ECB decision on an application for authorisation as a credit institution. The EBA is notified, too.

### Withdrawal of banking authorisation

An authorisation to take up the business of a credit institution may be withdrawn by the ECB, either on its own initiative or based on a proposal from the NCA of the Member State where the institution is established. The applicable process as regards cooperation between the NCA and the ECB is largely the same as that for granting authorisations, albeit with certain deviations depending on whether the withdrawal has been requested by the supervised entity or initiated by the supervisor, whether the NCA or the ECB.

**Figure 11**  
Overview of withdrawal process



If the supervised entity has requested the withdrawal of its authorisation, for example because it no longer conducts any banking business, the NCA and the ECB assess whether the applicable preconditions for the withdrawal of authorisation according to national and EU law are fulfilled. In particular, clear and indisputable confirmation is required that the entity no longer holds any deposits or other repayable funds.

In cases where, for example, a credit institution can no longer meet prudential requirements or be relied on to fulfil its obligations towards its creditors, or it commits a severe breach of applicable AML/CFT obligations, the ECB or the NCA may initiate a withdrawal of an institution’s authorisation. If this occurs, a full and detailed assessment is conducted to justify the withdrawal of the authorisation, which takes into consideration the supervisory history of the institution concerned, the severity of the committed breaches as well as the relevant interests involved, for example, the risk for the depositors. In such cases, the resolution authorities or the competent

AML/CFT supervisor may also be involved. If the withdrawal is initiated by the ECB, it consults the NCA in good time before taking the decision. Before the ECB adopts a withdrawal decision, the supervised entity is usually offered a hearing. If a decision is required urgently, the ECB may take a decision without granting the entity the right to be heard beforehand.

The ECB notifies the institution and the NCA on the ECB withdrawal decision. The EBA is notified, too.

## Lapsing of banking authorisation

Lapsing of authorisation occurs when the credit institution's authorisation ceases to exist. The authorisation can cease to exist because of specific national and legally defined triggers, which do not generally involve supervisory discretion or a decision by the competent authority.

Subject to national law, an effect similar to a lapsing of the authorisation may occur if the credit institution itself ceases to exist, for instance due to a merger with another company. In such cases, the authorisation ceases to exist at the same time as the institution does. In these cases, the same procedure applies as for the lapsing of authorisation.

The ECB directly notifies the entity concerned upon any lapsing of authorisation. The EBA is notified, too. The [SSM list of supervised entities](#) is updated accordingly. Generally, the NCA involved takes the necessary steps to publish the decision as required pursuant to the relevant national law.

### 3.1.2 Qualifying holdings

SSMR Articles 4(1)(c) and 15

SSMFR Articles 85-88

CRD Articles 3(1), 3(33), 22-27, 56(g) and 117(5)

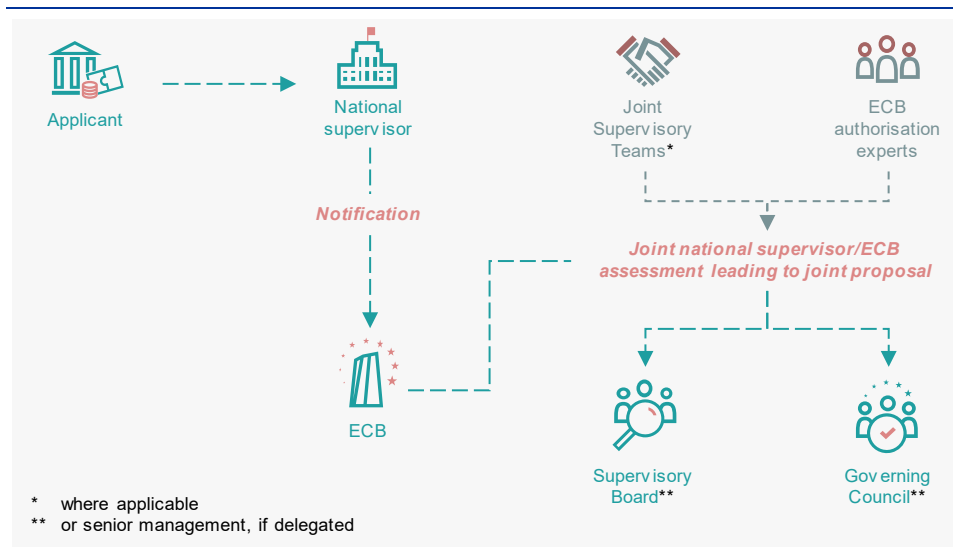
Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector (JC/GL/2016/01)

Guidelines on cooperation and information exchange between prudential supervisors, AML/CFT supervisors and financial intelligence units under Directive 2013/36/EU (EBA/GL/2021/15)

EBA draft RTS setting up an AML/CFT central database and specifying the materiality of weaknesses, the type of information collected, the practical implementation of the information collection and the analysis and dissemination of the information contained therein (EBA/RTS/2021/16)

Proposed acquisitions of qualifying holdings or proposed further increases of qualifying holdings in credit institutions that would result in the relevant thresholds being reached or exceeded need to be notified to the NCA of the participating Member State where the credit institution in which the qualifying holding will be acquired or increased is established. The NCA performs the initial assessment and prepares a draft proposal for the ECB. In cooperation with the NCA, the ECB performs its own assessment and decides on the proposed acquisition. This procedure emphasises the ECB’s role as a “gatekeeper” that prevents credit institutions from being acquired by unsuitable buyers.

**Figure 12**  
Overview of process



In particular, the assessment is intended to ensure that (i) the proposed acquirer is of good reputation, (ii) the proposed acquirer has the necessary financial soundness, (iii) that any member of the management board who will direct the business of the target institution is at all times of sufficiently good reputation and possesses sufficient knowledge, skills and experience to perform their duties, (iv) that the targeted institution will continue to meet its prudential requirements, and (v) that the transaction is not financed with money derived from criminal activities or will not increase the money laundering and terrorist financing risk profile of the target institution.

The formal assessment period is a maximum of 60 working days from the acknowledgement of a receipt of a complete notification. If additional information is requested from the proposed acquirer during the formal assessment period, the assessment period may be suspended for a period that cannot exceed 20 working days (for regulated acquirers) or in certain cases 30 working days (for unregulated acquirers and acquirers based in non-EU countries).



If a proposed acquirer intends to acquire stakes in a credit institution that has subsidiary credit institutions in other participating Member States, or that owns a qualifying holding in credit institutions established in other participating Member States, the ECB cooperates closely with the NCAs of all direct and indirect target institutions and coordinates the process so that all proposed acquisitions can be decided upon at the same time.

The criteria for the assessment are harmonised at the European level. The CRD sets out the following five criteria against which proposed acquisitions are assessed, which have been transposed into national legislation.

### Reputation of the proposed acquirer

The proposed acquirer must possess the necessary integrity and trustworthiness, proven for instance by the absence of criminal records or legal proceedings that would have a negative impact on the proposed acquirer's reputation. Another aspect is the acquirer's professional competence, namely its track record in managing and/or investing in the financial industry.

### Reputation, knowledge, skills and experience of the proposed new members of the management body of the target institution

If the proposed acquirer intends to implement changes to the target institution's managing bodies, a fit and proper assessment of the new board members proposed must be carried out as part of the qualifying holding procedure.

### Financial soundness of the proposed acquirer

The proposed acquirer must be able to finance the proposed acquisition and to maintain a sound financial structure for the foreseeable future. This includes identifying who will be responsible for supporting the target institution after the acquisition, for example by contributing to possible capital add-ons for the target institution.

### Impact on the target institution

After the acquisition, the target institution should still be able to comply with prudential requirements. For example, its profitability should not be put under undue stress by financing part of the acquisition through excessive debt that needs to be repaid by the target institution itself. Also, the structure of the acquirer or of the group that the target institution will become a part of should not be so complex as to prevent the supervisor from effectively supervising the institutions involved.

## Risk of links to money laundering or terrorist financing

The funds used for the acquisition must not be the proceeds of criminal activity or linked to terrorism. The assessment also looks at whether the acquisition could potentially increase the risks of money laundering or terrorist financing.

It is the task of the competent AML/CFT supervisor to identify these risks. The ECB conducts its assessment of money laundering and terrorist financing risks from a prudential perspective based on the input and the documentation provided by the NCA, which cooperates with the competent AML/CFT supervisor and financial intelligence units. Only when such breaches have been established by the relevant national authority can the ECB take these facts into consideration for the purposes of its own tasks.

To ensure that the five criteria above are fulfilled, the ECB may impose conditions or obligations on the proposed acquirer either based on a proposal from the NCA or of its own accord. However, any conditions or obligations imposed on proposed acquirers must relate to these five criteria and may not go beyond what is necessary to comply with the criteria. If the conditions or obligations are not agreed upon by the proposed acquirer or if they could adversely affect the proposed acquirer's rights, a hearing will be conducted to give the proposed acquirer the chance to comment. The same applies if the ECB intends to oppose the proposed acquisition.

### 3.1.3 Passporting

[SSMR Recital 51 and Articles 4\(2\), 6\(4\) and 17\(1\)](#)

[SSMFR Articles 11-17](#)

[CRD Articles 35-39](#)

[RTS on information that competent authorities of home and host Member States supply to one another \(EU/524/2014\)](#)

[RTS on the information to be notified when exercising the right of establishment and the freedom to provide services \(EU/1151/2014\)](#)

[ITS on information exchange between competent authorities of home and host Member States according to Directive 2013/36/EU of the European Parliament and of the Council \(EU/620/2014\)](#)

[ITS on standard forms, templates and procedures for notifications relating to the exercise of the right of establishment and the freedom to provide services according to Directive 2013/36/EU of the European Parliament and of the Council \(EU/926/2014\)](#)

An institution that has been granted a banking authorisation in one Member State may make use of passporting: the right of establishment and the freedom to provide services within the Member States of the European Union. Passporting can be done either through the establishment of a branch in another Member State or by the provision of services in another Member State. Passporting is subject to notification of the NCA of the relevant home Member State.

#### Passporting within the SSM

Any SI in a participating Member State wishing to establish a branch within another participating Member State has to notify its home NCA of its intention and provide information to it in accordance with the requirements of the CRD. The home NCA immediately informs the ECB. The JST then assesses whether the requirements for establishing a branch are met. If so, it submits its assessment to the Supervisory Board, which takes note thereof. The Directorate General SSM Governance & Operations (DG/SGO) subsequently communicates the relevant branch passport information to the SI and to the home and host NCAs prior to the expiry of the deadline. After notification, the SI may establish the branch and commence its activities. If the JST concludes that the requirements are not met, it prepares a negative decision under the non-objection procedure and the SI is granted the right to be heard.

If the institution wishing to establish a branch within another participating Member State is an LSI, it has to notify its home NCA of its intention in accordance with the requirements laid down in CRD. The home NCA assesses whether the requirements for establishing a branch are met and takes a decision following its internal decision-making procedures.

If the requirements are not met, the home NCA notifies the applicant institution of the refusal. Where a positive decision is taken by the home NCA within the applicable deadline for the receipt of the notification letter or where no decision is taken to the contrary the branch may be established and can commence its activities. This notification letter, along with the applicable required information, is made available to the NCA of the participating Member State where the branch will be established and to the ECB by the home NCA.

Any SI in a participating Member State wishing to exercise the freedom to provide services by carrying out activities within another participating Member State for the first time has to notify its home NCA in accordance with the requirements laid down in CRD. The home NCA informs the ECB about the receipt of the notification and communicates the notification to the host NCA. If the institution wishing to exercise the freedom to provide services is an LSI, it has to notify its NCA in accordance with the requirements laid down in CRD. The notification is made available to the ECB.

## Incoming passporting

If an institution from a non-participating Member State intends to establish a branch in a participating Member State, it has to notify its intention to its home NCA. That NCA assesses if the requirements for passporting are met. If the requirements for passporting are met, the home NCA notifies the host NCA. Upon receipt of this notification, the host NCA notifies the ECB, which then assesses the significance of the branch.

If the branch is significant, the ECB prepares a proposal for a significance decision. The supervision of the significant branch will be conducted by the ECB which, if necessary, indicates the conditions under which the branch may carry out its activities in the host Member State. DG/SGO informs the home NCA, the host NCA and the applicant institution.

If the branch is deemed less significant, the Supervisory Board is invited to confirm the significance assessment performed by the Authorisation Division of DG/SGO. The supervision of the less significant branch will be conducted by the host NCA which, if necessary, indicates the conditions under which the branch may carry out its activity in the host Member State. The host NCA informs the home NCA and the applicant institution.

If an institution from a non-participating Member State intends to provide services in a participating Member State, it notifies its home NCA, which, in turn, notifies the host NCA. The host NCA informs the ECB upon receipt of this notification and informs the applicant institution about the conditions under which the freedom to

provide services can be exercised, subject to national law and in the interests of the general good. The ECB carries out the tasks of the competent authority of the host Member State for institutions established in non-participating Member States which exercise the freedom to provide services in participating Member States.

## Outgoing passporting

An SI wishing to establish a branch or exercise the freedom to provide services within a non-participating Member State has to notify the relevant NCA of its intention. Upon receipt of this notification, the NCA informs the ECB, which exercises the powers of the competent authority of the home Member State; in particular, the JST assesses whether the requirements for establishing a branch are met.

If the requirements are met, the JST in liaison with the SSM Secretariat Division prepares a Supervisory Board proposal for taking note (via written procedure) or a proposal to Senior management in case the procedure meets the delegation criteria. DG/SGO subsequently informs the host NCA within three months of the positive outcome of the assessment, which then indicates to the applicant institution the conditions under which, in the interests of the general good, the activities of the branch can be carried out in the host Member State. If the JST concludes that the requirements are not met, it prepares a negative decision to be approved by the Supervisory Board and adopted by the Governing Council under the non-objection procedure. The right to be heard applies. Once the decision has been adopted, the DG/SGO notifies the applicant institution of the negative decision and informs the home NCA.

Should an LSI wish to establish a branch within the territory of a non-participating Member State, it has to inform its home NCA thereof. The home NCA informs the NCA of the non-participating Member State and, at the same time, makes the notification available to the ECB.

Should an SI wish to exercise the freedom to provide services within a non-participating Member State, the JST sends a notification to the host NCA of the non-participating Member State where services will be provided within one month. If an LSI wishes to exercise the freedom to provide services within a non-participating Member State, it has to inform the relevant home NCA of its intention, in which case the home NCA informs the NCA of the non-participating Member State and makes the notification available to the ECB.

## Notifications of changes in branches and in the exercise of the freedom to provide services

In the event of changes in branches of SIs, such as the provision of additional services by a branch, the termination of services provided by the branch, the termination of the branch activity, personnel changes in the branch management or a change in the official name and address of the branch, the NCA of the participating

Member State where the SI has its headquarters has to send a notification to the host NCA and the ECB.

Changes in the services provided by SIs under the freedom to provide services have to be notified to the ECB when they occur. Notification of the host NCA remains at the NCA level. No notification of the ECB is required in the case of changes in LSI branches and services provided under the freedom to provide services in non-participating Member States; this procedure also remains at the NCA level.

## 3.2 Assessing the significance of institutions

SSMR Articles 6(4) and 6(5)(b)  
SSMFR Articles 39-72

The ECB's degree of responsibility for the supervision of a credit institution depends on its significance status, which is determined at the highest level of consolidation in the participating Member States. The ECB has processes in place to assess the significance of supervised entities on the basis of the criteria laid down in the SSM Regulation (SSMR) and to identify any migration of a supervised entity from SI to LSI and vice versa. If such a migration from one status to the other occurs, the supervisory responsibilities need to be properly handed over from the ECB to NCAs or vice versa, safeguarding the continuous and effective supervision of the institution. Under the SSM Framework Regulation (SSMFR), the ECB is obliged to publish and maintain a list of supervised entities. The list is maintained by the Authorisation Division, which also coordinates regular and ad hoc significance assessments of supervised entities in close collaboration with the JSTs and NCAs.

### 3.2.1 Criteria for assessing significance

The SSMR and SSMFR provide five criteria for assessing the significance of a bank: (i) size, (ii) economic importance, (iii) significance of cross-border activities, (iv) direct public financial assistance, and (v) whether the bank is one of the three most significant banks established in its Member State.

A bank changes status from LSI to SI when at least one of the above criteria is met. In contrast, migration from SI to LSI status is not triggered by a one-time failure to meet any of the significance criteria. Instead, according to SSMFR, the bank must fall short of the relevant criteria for three consecutive calendar years in order to qualify for reclassification. This three-year rule seeks to avoid rapid or repeated shifts of supervisory responsibilities between NCAs and the ECB. However, it is possible to diverge from this rule if it is justified by exceptional circumstances stipulated in SSMFR.

Finally, if none of the five significance criteria is met, the SSMR and SSMFR provide that the ECB may decide at any time, on its own initiative or upon NCA request, to take over the direct supervision of a bank if it is necessary to ensure the consistent application of high supervisory standards. Moreover, the ECB may decide, in consultation with NCA, to keep a bank classified as an LSI in circumstances where

the NCA is deemed to be better able to directly supervise the bank than the ECB, even if the bank in question meets the significance criteria.

### 3.2.2 Procedure for assessing significance

The process of assessing the significance of banks against the criteria laid down in the SSMR and SSMFR is performed by the ECB both on a regular and an ad hoc basis.

The regular or annual significance assessment involves the assessment of all entities under European banking supervision and is performed once a year. Each institution is assessed at the highest level of consolidation within European banking supervision to establish whether it fulfils any of the significance criteria as a result of its normal business activity. JSTs assess SIs to determine whether they continue to fulfil any of the significance criteria, while LSIs are assessed by the respective NCA to determine whether they meet any of the criteria. This process is coordinated and overseen by the Authorisation Division of DG/SGO.

Ad hoc significance assessments involve the assessment of supervised entities that have been affected by events and changes in the group structure that fall outside their normal course of business, such as mergers, acquisitions, the establishment of new entities or the withdrawal of authorisations. It is therefore imperative that if an event that potentially affects the significance of SIs or LSIs occurs, the involved JST or NCA communicates this to the Authorisation Division so that an ad hoc significance assessment can be performed.

### 3.2.3 Transfer of supervision

Once the ECB has taken a decision to transfer supervision from an NCA to the ECB, or vice versa, due to a regular or an ad hoc significance assessment, implementation measures begin. In this context, the ECB and the relevant NCA work together to ensure a smooth transition of competencies, in accordance with the SSMFR. The SSMFR also stipulates how the ECB and the NCA should handle any pending procedures related to the institution that is changing significance status.

If supervision is transferred from an NCA to the ECB, the ECB becomes responsible for the direct supervision of the institution in question within a planned time frame. In order for the ECB to take over the supervisory responsibilities, a new JST is set up. The JST's composition and staffing is decided before preparations for the transfer of supervision begin.

If supervision is transferred from the ECB to an NCA, the NCA becomes responsible for the direct supervision of the institution in question within a planned time frame. The responsibility for key supervisory tasks reverts from the JST to the NCA.

## 3.3 Approval of parent (mixed) financial holding companies

Article 21a CRD as transposed in national law

The ECB's role in approving (mixed) financial holding companies

Many supervised credit institutions are controlled by a parent company. It is important that supervisors also monitor this parent company, specifically to determine whether it qualifies as a financial holding company (FHC) or a mixed financial holding company (MFHC) in its own right. This ensures the effective supervision of those banks controlled by another company as well as a coordinated overview of the whole group.

Following the introduction of the CRD V, parent (M)FHCs are therefore also subject to an approval process. Once approved, the parent company takes on the responsibility of ensuring compliance with the consolidated prudential requirements throughout the supervised group. In the past, the subsidiary credit institution was responsible for ensuring compliance with prudential requirements on a consolidated basis. The parent (M)FHC can also be exempted from approval if the cumulative conditions laid down in law are met and another company takes on that responsibility within the group.

Whenever the ECB is the supervisor of a significant banking group, it is responsible for approving or exempting these parent (M)FHCs. In some cases, the ECB will take a joint decision with another competent authority outside the SSM. The approval or exemption of parent companies of less significant banking groups is the responsibility of the NCAs that supervise these groups.

### 3.3.1 Criteria

The criteria the parent (M)FHC must fulfil in order to obtain an approval are as follows:

- The internal arrangements and distribution of tasks within the supervised group must allow for the effective coordination of all subsidiaries, the prevention or management of conflicts within the group and the enforcement of the group-wide policies.
- The structure of the group must not prevent the effective supervision of the subsidiary banks or the parent (M)FHC. The role and the position of the parent company in the supervised group and the overall shareholding structure are important factors in this respect.
- The requirements concerning the suitability of shareholders and the fitness and propriety of directors must be fulfilled.

If these criteria are met, the ECB grants its approval and begins monitoring the fulfilment of the criteria on an ongoing basis. If it finds that the criteria are not met, or that they have ceased to be met, it can impose supervisory measures on the parent (M)FHC to ensure or restore effective supervision and compliance with the requirements.

The parent (M)FHC can only obtain an exemption if it fulfils the following criteria:

- the parent company's main activity is to acquire holdings;
- the parent company has not been designated as a resolution entity;
- another subsidiary in the supervised group has been designated as responsible for ensuring the group's compliance with prudential requirements on a consolidated basis;
- the parent company does not take decisions that affect the whole supervised group;
- there is no impediment to effective supervision of the group.

The ECB carefully assesses whether these criteria are fulfilled and only grant exemptions when all of the above criteria are met.

### 3.3.2 Timeframe

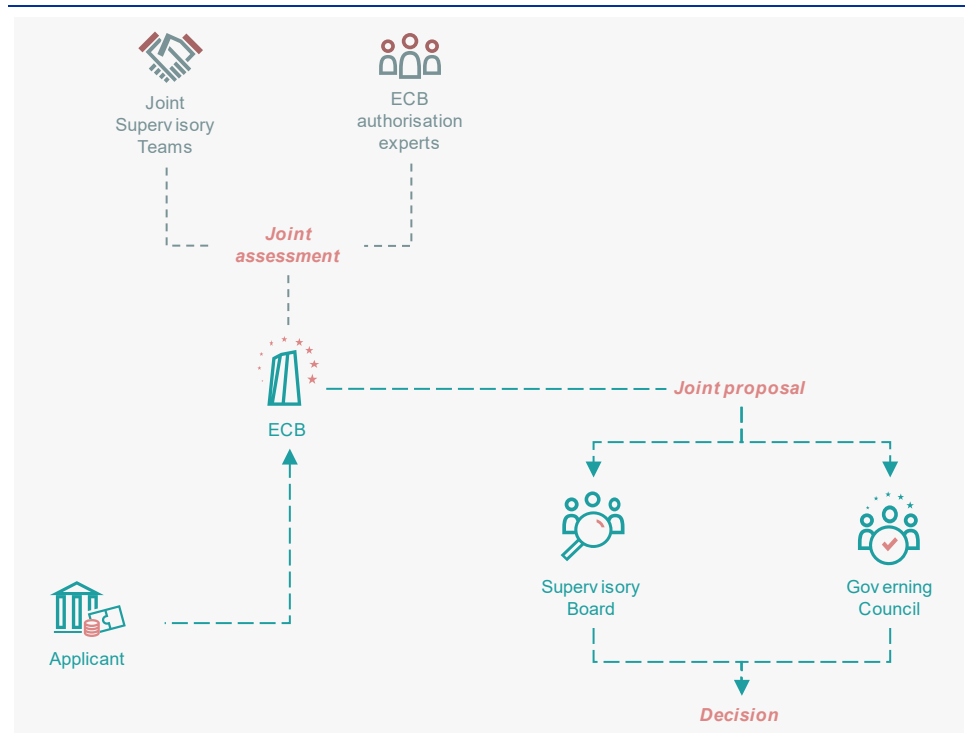
If the ECB intends to refuse the approval or exemption, it will notify the applicant within four months of the receipt of a complete application. The ECB will in any event take a decision within six months of the receipt of the application.

### 3.3.3 Process

Applicants who are to be part of significant groups are encouraged to use the [IMAS Portal](#) to submit their applications.



**Figure 13**  
Overview of process



## 3.4 Collecting supervisory data

Off-site and on-site supervisory activities require the acquisition, processing and analysis of relevant information. The coordination of supervisory actions between the ECB and the NCAs and communication with reporting entities are based on the availability and exchange of information, including data. Having established supervisors' needs and having set up a corresponding process to collect data from the supervised entities, NCAs and the ECB conduct data quality assessments to ensure that the received data meet certain minimum standards.

### 3.4.1 Establishing supervisory reporting needs

CRR Articles 6, 24, 99, 100, 101, 394, 415 and 430

SSMR Article 10 and Recital 47

SSMFR Articles 139, 140 and 141

In order to fulfil ongoing supervisory tasks, JSTs need to have all relevant information regarding a supervised entity readily available in a timely manner.

**Regulatory reporting** comprises standardised information on the financial and prudential situation of supervised entities and includes a large amount of periodic regulatory data and reports. In addition to regular reporting, there are **complementary data collections** to meet specific data needs.

The Directorate General Horizontal Line Supervision (DG/HOL) and Directorate Supervisory Strategy and Risk (D/SSR) work closely with the JSTs and play a key

role in identifying supervisory reporting needs and coordinating the processes necessary to allow the transposition of those needs into legal acts.

Recital 47 of the SSMR states that “In order to carry out its tasks effectively, the ECB should be able to require all necessary information and to conduct investigations and on-site inspections, where appropriate in cooperation with national competent authorities. The ECB and the national competent authorities should have access to the same information without credit institutions being subject to double reporting requirements”.

The ECB may require legal or natural persons to provide any information that is necessary to carry out the tasks conferred on it by the SSMR, including information to be provided at recurring intervals and in specified formats for supervisory and statistical purposes. The ECB primarily collects supervisory data from the NCAs, under what is called the sequential approach. When the ECB obtains information directly from legal or natural persons, it makes it available to the NCAs concerned. The EBA has a mandate to harmonise supervisory reporting in the EU. However, the SSMFR provides that the ECB may require supervised entities to report additional supervisory information, meaning information beyond that harmonised by the EBA, whenever such information is necessary to carry out its supervisory tasks. The ECB can specify the categories of information that should be reported as well as processes, formats, frequencies and time limits for the provision of the information concerned.

A distinction is made between (a) regular reporting that is based on the EBA reporting framework or an ECB regulation/decision, and (b) ad hoc reporting (or complementary data collection) that is based on supervisory decisions.

### 3.4.2 Regular reporting

[ECB Regulation on reporting of supervisory financial information \(ECB/2015/13\)](#)

[ECB Decision on the provision to the ECB of supervisory data reported to the national competent authorities by the supervised entities \(ECB/2023/18\)](#)

[ECB Decision on the reporting of funding plans of supervised entities by national competent authorities to the ECB \(ECB/2023/19\)](#)

The European Commission Implementing Regulations that provide **Implementing Technical Standards (ITS)** on the supervisory reporting of institutions contain detailed reporting requirements concerning own funds and financial information, including the common reporting (COREP) and financial reporting (FINREP) frameworks, the liquidity coverage ratio, the net stable funding ratio, large exposures and the leverage ratio. Further reporting requirements are stipulated in various EBA guidelines and decisions. The **EBA reporting framework** comprises all of the EBA's ITS, guidelines and decisions on supervisory reporting. Each legal act of the EBA reporting framework stipulates the scope, format, frequency, submission dates and explicit definitions applicable to the different reporting requirements and specifies how to transpose the statutory requirements laid down in the CRR into data ready for analyses. Different templates have therefore been designed, which institutions are obliged to fill in and submit to the respective NCA. As part of the sequential approach, the NCA subsequently forwards the data to the ECB. The EBA reporting framework represents the largest set of reporting requirements used at the EU level for the supervisory assessment of credit institutions and investment firms, as well as for resolution purposes.

The **ECB Regulation on reporting of supervisory financial information** extends the ITS reporting requirements to ensure consistency and enhance comparability among the supervised entities established in the participating Member States. In particular, it extends the harmonised regular reporting of financial information to the consolidated reports of institutions under national accounting frameworks, as well as to solo reports, for example for stand-alone supervised entities.

DG/HOL is in charge of supervisory reporting issues concerning the definition of supervisory needs and their transposition into legal acts, while the Banking Supervision Data Division of Directorate General Statistics (DG/S) is in charge of the operationalisation of the process for collecting, gathering and disseminating the corresponding data.

### 3.4.3 Ad hoc or complementary data collections

In addition to the regular supervisory reporting data, the ECB collects complementary data to meet specific needs.

For instance, an ad hoc data collection called the **Short Term Exercise (STE)** has been developed specifically to supplement the data available to European banking supervision for the Supervisory Review and Evaluation Process (SREP) and is tailored to Pillar 2 purposes. The STE data collection is requested for SIs at the highest level of consolidation, as well as for certain subsidiaries of SIs identified by the JSTs on the basis of Article 10 of the SSMR, and is communicated to institutions via ECB operational letters. The needs to be covered by the STE are reviewed every year before the start of the annual SREP.

The STE data collection is specified in accordance with the proportionality principle. The number of data points to be reported depends on the complexity of the institution. Consequently, smaller entities have fewer data points to report in several templates of the STE data collection. Additionally, data quality reports are usually produced twice for each production cycle: once soon after the submission date, for an initial overview, and then again as a wrap-up report, usually six to eight weeks after the defined submission date, by which time it is considered that the aggregated data collected are close to being final. Supervisors gain access to STE data less than 24 hours after each submission due to the immediate data processing and validation provided by the Centralised Submission Platform (CASPER). Resubmitted data and updated indicators are refreshed daily thereafter, or more often if requested.

The ECB also collects additional data not covered in the above-mentioned data collections. These include, for instance, the data required for the work of supervisors and for thematic reviews. In addition, specific individual reporting requirements may be imposed on institutions on a case-by-case basis. DG/HOL, alongside DG/S's Banking Supervision Data Division, is involved in the design and implementation of the reporting needs and formats. The basic principle governing the additional data collections is their alignment with existing and up-to-date reporting standards laid out in the EBA reporting framework, which provides a strong harmonised basis. The

ECB takes full advantage of these standards and makes extensive use of them. As part of the process to launch a new data collection, the ECB always checks whether the data to be requested are already available or are able to be obtained by the supervisors without producing additional reporting burden for banks. ECB Banking Supervision catalogues all its microprudential data requests to facilitate this work, thereby relieving the reporting burden for supervised institutions and avoiding double reporting.

When its additional reporting requirements become stable, the ECB proposes appropriate amendments to the EBA reporting framework to reduce the complementary data collections.

#### 3.4.4 Processing supervisory data

Regulatory reporting data, based on the EBA reporting framework and the ECB Regulation on reporting of supervisory financial information, are channelled from the reporting institution to the ECB through NCAs, which collect the data from the supervised entities located in their jurisdictions. However, this sequential approach is not followed for the ITS on disclosure or reporting on the minimum requirement for own funds and eligible liabilities (MREL) and the total loss-absorbing capacity (TLAC) requirements. In order to avoid double reporting from banks to NCAs and national resolution authorities (NRAs), this data is collected via the Single Resolution Board, which receives its data from the NRAs. DG/S's Banking Supervision Data Division is responsible for the collection of the data from the EBA reporting framework, including the extended FINREP, which are uploaded by the NCAs or Single Resolution Board to the Supervisory Banking data system (SUBA) in XBRL format. Following the successful receipt and uploading of a file into SUBA (i.e., the file complies with EBA and ECB filing rules), the system starts to assess the data by automatically executing a comprehensive set of validation checks. These validation checks are threefold. First, EBA validation rules largely check consistency and accuracy within a given module or two different modules. They are published on a regular basis on the EBA's [webpage on reporting frameworks](#). Second, the ECB applies completeness checks that flag any templates missing from, or unexpectedly included in, a reported module. Third, the ECB also applies a set of additional data quality checks that it developed in collaboration with the NCAs to the received submissions (see Section 3.4.5 Data quality assessment). When a correction is received, the regular data transmission and data quality control processes described above are repeated. Besides those three cases, the ECB also runs further checks within its data quality assessment framework. Furthermore, the Banking Supervision Data Division is piloting an exercise that requires banks to provide detailed explanations if significant data resubmissions occur. Another exercise is intended to foster accountability in the management bodies of institutions, by requiring them to sign a management report containing a summary of data quality issues identified regarding supervisory reporting.

Regulatory reporting data are disseminated externally and internally. In compliance with EBA decisions on reporting by competent authorities to the EBA, most of the

EBA reporting framework data is sent to the EBA immediately upon receipt. A sequential approach is in place to avoid double submissions by NCAs to both the ECB and EBA and to ensure full alignment between databases of the NCAs, the ECB and the EBA.

Supervisory data received in SUBA are made available internally within European banking supervision in various formats and tools. Each night, all modules for SIs and LSIs received during the day in SUBA are transformed into different formats and uploaded into the SSM information management system and its reporting system (IMAS). This process enables supervisors to access these data the day after the ECB receives them. Furthermore, all risk indicators for SIs and LSIs are promptly updated whenever at least one module affecting the calculations is received in SUBA.

### 3.4.5 Data quality assessment

The availability of adequate and high-quality data is pivotal for both the supervised institutions and the supervisor. Data quality and firm-wide risk aggregation capabilities are essential preconditions for sound, risk-based decision-making and therefore for proper risk governance. The NCAs are responsible for the first data quality assessment. In addition to the set of harmonised validation checks defined by the EBA, [additional data quality controls](#), which were developed by the ECB in collaboration with the NCAs, are applied to the data submitted by SIs in order to identify potential errors and provide a standardised assessment of their quality. The ECB oversees the second assessment of the data. This oversight involves regular monitoring and investigating any issues that were not resolved during the first data quality assessment. The ECB also performs further checks, some of which can only be performed on the full data set, such as peer group analyses, plausibility checks and comparisons across countries. In line with the sequential approach, the ECB follows up with the institutions on errors and plausibility issues arising from the second assessment through the NCAs.

The data quality assessment at the ECB is performed on the basis of a defined set of dimensions.

- **Punctuality:** the lag in time between the required submission date and the actual submission of the data to the ECB.
- **Accuracy:** the closeness of the reported value to the underlying supervisory concept. In the supervisory statistics environment, accuracy is interpreted as the absence of mistakes and exact correspondence of the reported values with the underlying concept for each data point. In practice, the accuracy dimension is quantified by verifying the satisfaction of logical relations between different subsets of the data (i.e. across templates), their correspondence with the master data associated with the institution and their correspondence with other published data.

- **Completeness:** the availability of the required information. Completeness checks are carried out to detect missing information.
- **Reliability:** the closeness of revised values of a specific data point to the initial value released. This dimension is based on the definition of significant resubmissions and assessed by resubmission studies.
- **Plausibility:** checks aim to detect outliers in the reported data. This is accomplished by reviewing the time series of the variable concerned in order to assess whether values deviate significantly from the usual pattern or whether values are particularly high (or low) compared with peer institutions.

Based on these dimensions, DG/S prepares various dashboards and reports, including a quarterly data quality report for each SI. DG/S shares the data quality reports with the NCAs and informs them of the developments. The JST is the addressee of the reports, which are used to monitor data quality. If the report shows significant data quality issues and, after a proportionate analysis, the JST detects violations of regulatory requirements, the JST takes supervisory action. Such action may take the form of an operational act addressed to the supervised entity or arrangements to meet the institution's management. Alternatively, the JST could propose the use of [supervisory powers](#) to the Supervisory Board and the Governing Council. In addition, the results are also likely to be fed into the risk assessment of the supervised entity concerned for further analysis.

## 4 Supervision of significant institutions

Banking supervision starts with the planning of the regular supervisory activities, which are laid down in the Supervisory Examination Programme (SEP). The SEP covers the tasks and activities related to ongoing supervision and on-site missions, in line with available resources. Identifying and assessing key risks and vulnerabilities that affect entities under European banking supervision is a key part of the ECB's role in banking supervision. It forms a basis for the definition of supervisory priorities and feeds into the everyday work of the Joint Supervisory Teams (JSTs).

Ongoing supervision entails a number of activities that are conducted regularly or on an ad hoc basis and that are aimed at assessing the suitability of members of management bodies, checking compliance with prudential regulation, assessing the risk profile and performing the Supervisory Review and Evaluation Process (SREP). For significant institutions that fall under European banking supervision, these tasks fall under the remit of the JSTs. In addition to ongoing supervision, it may be necessary to conduct in-depth reviews on certain topics by organising a dedicated on-site mission (e.g. an inspection or an internal model investigation). The on-site inspections are typically carried out by an inspection team, which – while organisationally independent – works in close cooperation with the respective JST.

The various supervisory activities typically result in supervisory measures addressed to the supervised entity. Supervisory activities and decisions are typically followed by a number of routine steps such as the monitoring of compliance and, if necessary, enforcement and sanctions.

### 4.1 Operational planning

#### 4.1.1 Determining proportionality in supervisory engagement

CRD Articles 97 and 99

Supervision needs to be both risk-based and proportionate to the type of the supervised entity concerned. The overall resources for European banking supervision therefore need to be allocated to the supervision of the different institutions in a way that takes into account these two objectives. This results in differing levels of supervisory engagement: a differentiated frequency and intensity of supervision for dissimilar institutions. There is a direct link between an institution's overall risk profile and the level of supervisory engagement.

Two dimensions are taken into account when allocating significant institutions (SIs) to a level of engagement.

On the one hand, both the institution's size and complexity are considered. These concepts, among others, are taken into account when assigning the supervised

entities to clusters, with “Cluster 1” covering the largest and most complex institutions.

On the other hand, the intrinsic riskiness of the institution is also accounted for, as determined by the most recent overall risk assessment carried out by the JST as part of the yearly SREP process. The outcome of this rating is a score between one and four for every supervised entity, with four being the riskiest. The assessment process is described in detail in Section 4.6.

## 4.1.2 Creating the Supervisory Examination Programme

[CRD Articles 97, 98 and 99](#)

[Guidelines on common procedures and methodologies for the supervisory review and evaluation process \(EBA/GL/2014/13\)](#)

The SEP for an SI covers ongoing activities performed off-site by the JSTs as well as on-site activities performed at the supervised entity’s premises by on-site expert teams.

Each year the JST devises a SEP for each SI it supervises. The SEP activities draw upon the existing regulatory requirements, the Supervisory Manual and the supervisory priorities.

In addition, JSTs are always in a position to perform ad hoc tasks that are not part of the SEP, as appropriate, especially to address rapidly changing risk developments at individual institutions or at the broader system level.

At the beginning of each year, the JSTs share with the supervised entities an overview of the SEP, which is a tentative high-level outline of the main planned supervisory activities that require the institutions’ direct involvement.

This simplified overview of the SEP comprises three components.

1. **Off-site activities** that the JSTs plan to perform in the forthcoming year, such as the SREP and “deep dives”, which are an analysis of topics selected by the JSTs to address specific concerns about the SIs.
2. **On-site activities**, such as on-site inspections and internal model investigations.
3. In addition, the SEP includes a list of **data requests** foreseen to take place over the course of the year (ad hoc and regular).

An update to the simplified overview of the SEP is shared halfway through the year to reflect possible changes.

## 4.2 Risk analyses to identify and assess key risks and vulnerabilities

Identifying and assessing key risks and vulnerabilities that affect entities under European banking supervision is a key part of the ECB’s role in banking supervision. It forms a basis for the definition of supervisory priorities and feeds into the everyday



work of the JSTs. This identification and regular monitoring of emerging and existing risks (see Section 4.2.1) is complemented by in-depth analyses or thematic reviews on selected topics (see Section 4.4.3), stress-testing exercises (see Section 4.2.2) and impact analyses of existing or forthcoming regulatory initiatives (see Section 4.2.3).

## 4.2.1 Identifying emerging risks

SSMR Articles 3, 4 and 10

Assessing the most relevant risks faced by supervised entities and in particular identifying new, emerging risks at an early stage is an important prerequisite for successful banking supervision. It is also a good starting point for the regular strategic planning process in which the supervisory priorities are defined. Horizontal analyses for this purpose, and an overall assessment of the key risks and vulnerabilities in the participating Member States, are conducted by the Strategic Risks and Analytics Division, which is responsible for:

1. identifying emerging risks and monitoring changes in the risk landscape of the supervised entities;
2. conducting horizontal in-depth risk analysis activities in various formats and at various frequencies, covering all relevant risk categories and topics;
3. providing expertise and support to JSTs and other divisions for their supervisory activities, including the design and provision of monitoring and analytical tools, peer analyses on key risk areas and expert support in risk analyses.

The risk analyses conducted within European banking supervision benefit from (i) direct access to JSTs as an important source of institution-specific information and (ii) analyses performed by other ECB business areas, for example macroprudential analyses.

An annual risk assessment exercise (the SREP) is performed in close coordination with a network of experts and equivalent horizontal functions within the national competent authorities (NCAs). The outcome of this exercise and of other ongoing analytical work is regularly shared with the JSTs.

The results of the analyses of current risks and vulnerabilities are taken into account in the overall strategic planning and feed into the overall SEP (see Section 4.1). They are complemented by in-depth analyses by the JSTs, stress-testing exercises (see Section 4.2.2), impact analyses of existing or forthcoming regulations (see Section 4.2.3) and selected thematic analyses (see Section 4.4.3).

## 4.2.2 Stress testing

SSMR Article 4(1)(f)

CRD Article 100

EBA Regulation Recital 43 and Articles 21, 22 and 32

Stress tests are a key tool for measuring a single risk or a combination of risks under given stress scenarios. Within ECB Banking Supervision, the Stress Test Experts Division is responsible for horizontal tasks involving microprudential supervisory

stress tests. For SIs, this includes conducting the annual supervisory stress tests prescribed by Article 100 of the CRD to support the SREP. This involves carrying out comprehensive solvency stress tests for entities under European banking supervision as part of the two-yearly EU-wide stress-test exercises initiated and coordinated by the European Banking Authority (EBA). In those years when there are no EU-wide stress tests, ECB Banking Supervision conducts thematic stress tests focusing on specific supervisory priorities (for example, interest rate risk in the banking book in 2017, liquidity risk in 2019, climate risk in 2022, and cyber resilience in 2024). Occasionally, in the event of unforeseen financial and macroeconomic developments, targeted desk-top stress tests (such as the vulnerability analyses conducted in 2020 and 2022) are conducted to assess pertinent risks and vulnerabilities.

These tasks include the design of the stress-testing methodology and templates, the design and implementation of the quality assurance strategy for challenging institutions' stress-test projections, as well as supervising the development of the corresponding models and IT infrastructure. These tasks are undertaken, where appropriate, in collaboration with other divisions of the ECB, the EBA and/or NCAs.

Microprudential stress tests are often complemented by macroprudential extensions that focus on system-wide effects rather than on individual banks and which are run in a top-down manner, meaning that they do not involve the supervised entities. In particular, these exercises capture important feedback effects or network effects. Feedback effects can occur, for example, through adverse changes in the state of the environment triggered by a stress scenario with a negative impact on lending. Network effects are propagated in such a scenario, for example, through lending or funding links between institutions. Both feedback and network effects are often addressed by top-down models designed for macroprudential and financial stability analyses. They complement the more microprudential bottom-up stress tests, in which banks commonly use their own models and where the focus is on reflecting risks with high sensitivity and ensuring the comparability of the outcome across institutions. This latter aspect is especially important since the results typically serve as input into the SREP.

In addition to contributing to system-wide stress-test exercises, the Stress Test Experts Division also provides sensitivity analyses and other quantitative assessments to be considered in the supervisory decision-making. In this regard, it provides JSTs with capital and liquidity challenger tools to support the assessments of banks' own capital and liquidity projections, for example in the context of the ICAAP, ILAAP, and capital and recovery planning.

### 4.2.3 Quantitative impact studies

Identifying and monitoring supervised entities' risks for European banking supervision also involves assessing the compliance of significant institutions with existing micro- and macroprudential measures and forthcoming regulatory initiatives.

Under that remit, the Supervisory Policy Division contributes to recurring monitoring exercises to determine the status of compliance of supervised entities with existing and forthcoming micro- and macroprudential standards and regulations. Moreover, the Division carries out selected quantitative impact studies on other supervisory and regulatory initiatives.

## 4.3 Assessing the suitability of members of management bodies (fit and proper assessment)

### 4.3.1 Objectives

The management body of an institution must be suitable in order to carry out its responsibilities and be composed in such a way that it contributes to the effective management of the institution and balanced decision-making. This will have an impact not only on the safety and soundness of the institution itself, but also on the wider banking sector, as it will reinforce the trust of the public at large in those who manage the financial sector of the euro area.

The supervised entities have the primary responsibility for selecting and nominating individuals for their management body who comply with the requirements for fitness and propriety (“suitability”). They must carry out their own due diligence and assessment of the members of the management body, not only prior to the appointment but also on an ongoing basis (e.g. if there is a significant change in the responsibilities of a member of the management body, or more generally, if any new facts emerge following the initial assessment which could affect the suitability assessment). In doing so, the supervised entities must ensure that they have the fully transparent cooperation of the individuals concerned. If there are severe findings concerning a member of the management body following the initial suitability assessment, the entity in question must reassess whether the said member is still suitable for the position and must notify the respective NCA and the ECB of these new facts. In addition, the ECB also has the power to initiate a reassessment of the suitability of a member of the management body at any time.

### 4.3.2 Scope

The ECB is responsible for taking decisions on the suitability of all members of the management body, both in their management function (executives) and supervisory function (non-executives), of all institutions under the direct supervision of the ECB (SIs), whether credit institutions or (mixed) financial holding companies, and in the case of licensing or qualifying holdings also of LSIs. Responsibility for regular appointments in LSIs (i.e. outside the context of licensing or qualifying holdings) lies with the NCAs.

The responsibility of the ECB is to act as a gatekeeper. Its task is to ensure that significant supervised entities comply with the requirements to have in place robust governance arrangements, including the fit and proper requirements for the persons responsible for the management of institutions. The ECB also has direct authority to exercise the supervisory powers granted under national law and not explicitly mentioned in EU law regarding the approval of the appointment of key function holders and branch managers in SIs under the conditions and within the limits defined in national law.

### 4.3.3 Legal framework

CRR  
CRD Articles 88, 91 and 121  
SSMR Articles 4, 6 and 9  
SSMFR Articles 93 and 94

For the purposes of carrying out its supervisory tasks, the ECB will apply all relevant EU law and, where this law is composed of Directives, the national legislation transposing those Directives. Suitability requirements are succinctly covered by the CRD. The Directive covers the fit and proper standards in substance without, however, providing any details on the different criteria and remains silent on the type of supervisory procedure to be followed.

Consequently, when taking fit and proper decisions within the SSM, the ECB will apply the substantive fit and proper requirements laid down in the binding national law which implements the CRD. Given that the fit and proper requirements in the CRD are to be considered as minimum harmonisation, this transposition has been dealt with in different ways in the euro area countries. Some countries have also gone beyond the requirements of the CRD.

Besides national law, the ECB also complies with the EBA Guidelines on suitability and the EBA Guidelines on internal governance. These Guidelines leave some room for the NCAs and the ECB to add further details to the requirements. The definitions and concepts contained in these Guidelines are taken into account by the ECB in its fit and proper assessments.

The regulatory requirements need to be applied in practice by the competent authorities when assessing the suitability of members of the institution's management body. To ensure consistency in the application of the legal requirements, some clarification on the interpretation of those requirements is needed, alongside the development of common supervisory practices and processes.

To that end, the ECB – together with the NCAs – has developed policies regarding fit and proper criteria, and supervisory practices and processes, which explain in further detail how European banking supervision applies, on a case-by-case basis, the CRD and the EBA Guidelines. These policies are adopted without prejudice to national law and in compliance with the EBA Guidelines. In the absence of contradictory binding national law, they should be adhered to by the ECB and the NCAs. The NCAs have agreed, to the extent possible, to interpret and develop national law in line with these policies.

The ECB policies and supervisory practices mentioned above are explained in greater detail in the ECB Guide to fit and proper assessments, which is available on the ECB's banking supervision website.

#### 4.3.4 Assessment criteria

The fitness and propriety of members of the management body is assessed against five criteria: (i) experience; (ii) reputation; (iii) conflicts of interest and independence of mind; (iv) time commitment; and (v) collective suitability.

The principle of proportionality applies throughout the whole fit and proper process, meaning that the application of the suitability criteria should be commensurate with the size of the entity and the nature, scale and complexity of its activities, as well as the particular role to be filled. The application of the proportionality principle to the suitability criteria cannot lead to a lowering of the suitability standards but can result in a differentiated approach to the assessment procedure or the application of suitability criteria (e.g. in terms of the level or areas of knowledge, skills and experience, or in terms of the time commitment required of members of the management body in its management function and members of the management body in its supervisory function). Therefore, in all cases the assessment will come down to an individual analysis and supervisory judgement.

Severe findings (including AML related, fraud, or other findings arising from on-site inspections or legal proceedings) could impact the suitability of an appointee, even if there is no direct connection between the individual roles and responsibilities and the given findings. Each member of the management body is expected to have an appropriate understanding of, and contribute to, the areas of business for which each member is individually accountable together with the other members of the management body, even if an individual member is given sole responsibility for specific areas. Hence, each member may be held individually accountable for failing to comply with the collective responsibility to properly address issues (individual accountability).

#### 4.3.5 Experience

Members of the management body must have sufficient knowledge, skills and experience to fulfil their functions. The term "experience", used hereafter in a broad sense, covers both practical, professional experience gained in previous occupations and theoretical experience (knowledge and skills) gained through education and training.

All members of the management body are expected to possess, as a minimum, basic theoretical banking experience that allows them to understand the institution's activities and main risks. The level and nature of the experience required of a member of the management body in its management function may differ from that required of a member of the management body in its supervisory function, in

particular if these functions are performed by separate bodies. Additional experience might be deemed necessary based on relevant factors, e.g. the function applied for, the nature, size and complexity of the entity, or other factors that need to be taken into account in the specific case (e.g. AML/CFT, ICT and security risk, climate-related and environmental risks, etc.).

#### 4.3.6 Reputation

Members of the management body must at all times be of sufficiently good repute. An appointee is considered to be of good repute if there are no objective and demonstrable grounds to suggest otherwise, in particular taking into account the relevant available information on the factors and situations listed in this section.

An appointee will be considered to be of good repute if there is no evidence to suggest otherwise and no reason to have reasonable doubt about his or her good repute. If the personal or business conduct of an appointee gives rise to any doubt about his or her ability to ensure the sound and prudent management of the credit institution, the supervised entity and/or the appointee should inform the competent authority, which will assess the materiality of the circumstances.

Pending – as well as concluded – criminal or administrative proceedings may have an impact on the reputation of the appointee and the supervised entity, even if the appointee is (being) appointed in a Member State/country other than the one in which the relevant events occurred. Pending proceedings may also have an impact on the ability of the member to commit sufficient time to his or her functions and also need to be assessed on this basis.

#### 4.3.7 Conflicts of interest

Members of management bodies should be able to make sound, objective and independent decisions (i.e. act with independence of mind). Independence of mind can be affected by personal, professional, financial or political conflicts of interest.

The supervised entity should have governance policies in place for identifying, disclosing, mitigating, managing and preventing conflicts of interest, whether actual, potential (i.e. reasonably foreseeable) or perceived (i.e. by the public). There is a conflict of interest if the attainment of the interests of a member could adversely affect the interests of the supervised entity.

Having a conflict of interest in itself does not necessarily mean that an appointee cannot be considered suitable. This will only be the case if the conflict of interest poses a material risk and if it is not possible to prevent, adequately mitigate or manage this conflict of interest under the written policies of the supervised entity.

If national substantive law, in addition, includes specific formal independence criteria for certain members of the management body (“independent directors”) in the context of fit and proper assessments, these criteria also need to be observed.

#### 4.3.8 Time commitment

All members of the management body must be able to commit sufficient time to perform their functions in the institution. The time a member of the management body can commit to their functions can be affected by several factors, such as the number of directorships held (quantitative assessment). In addition, an assessment of qualitative aspects will need to be conducted.

The number of directorships which may be held by a member of the management body of a significant institution under the CRD is limited to one executive directorship with two non-executive directorships, or four non-executive directorships. However, there are two exceptions to this rule: (i) certain multiple directorships count as a single directorship (“privileged counting”), i.e. directorships held within the same group or within institutions that are members of the same institutional protection scheme, or directorships held within entities in which the institution holds a qualifying holding; (ii) directorships in organisations which do not pursue predominantly commercial objectives do not count for the above limits.

Qualitative factors that determine the amount of time a member of the management body can commit to their function include (i) the size and the circumstances of the entities where the directorships are held and the nature, scale and complexity of their activities; (ii) the place or country where the entities are based; and (iii) other professional or personal commitments and circumstances (e.g. a court case in which the appointee is involved, or, among the mitigating factors, synergies between existing mandates or positions). While assessing whether the appointee will be able to commit sufficient time to perform his/her functions, the supervised entity should also take into account the need for ongoing learning and development, as well as the need for a buffer for unexpected circumstances. Unexpected circumstances not only include crisis situations related to the institution but also circumstances that could unexpectedly affect time commitment (e.g. court cases).

#### 4.3.9 Collective suitability

The supervised entity has the primary responsibility for identifying gaps in the collective suitability through the self-assessment of its management body, for example based on a suitability matrix. The supervised entity should report to and discuss these with its JST, as the supervision of the collective suitability of the management body is a matter of ongoing governance supervision. How an appointee will fit into the collective suitability is one of the criteria to assess at the time of his or her initial fit and proper assessment. The assessment duly takes into account the diversity of the management body, as well as bank-specific circumstances, and the needs based on the bank’s risk profile that are identified as part of the ongoing supervision.

#### 4.3.10 Assessment process

The ECB only takes decisions on appointments in significant institutions, except where appointments are part of licensing or qualifying holding procedures (these are common procedures for both SIs and LSIs).

Appointments are declared by the significant institutions (or exceptionally by the appointee) to the relevant NCA, using national notification forms. The NCA then informs the ECB. The assessment process and the related interactions between the concerned entities and the supervisors is, to the extent possible, operated via a dedicated digital platform (the Portal). The NCA and the ECB, together, collect the necessary information, carry out the assessment and present a detailed proposal for a decision.

A formal ECB decision is taken after every fit and proper assessment within the deadline provided for by national law, if applicable. An appointee is either considered fit and proper or not. However, the ECB has the power to include ancillary provisions (i.e. conditions or obligations, and exceptionally, recommendations) in positive decisions. Where concerns cannot be adequately addressed by means of these tools, a negative decision will need to be taken. The ECB has the power to remove, at any time, members from the management body of a significant supervised entity who do not fulfil the suitability requirements.

The supervised entity (or exceptionally the appointee) is notified of the decision taken by the ECB. The supervised entity and the appointee also need to comply with any other requirements under national law, such as being registered in a national register, if applicable.

The appointee or the supervised entity has the option to request a review by the Administrative Board of Review or to challenge the decision directly before the Court of Justice of the European Union.

### 4.4 Conducting ongoing supervision

Ongoing supervision of SIs is conducted by the JSTs and supported by the ECB's and NCAs' horizontal divisions. Ongoing supervision entails regular and ad hoc measures and comprises implementing the SEP (see Section 4.1) and performing the SREP (see Section 4.5). In addition, the JSTs ensure coordination with on-site inspection teams and liaise with national supervisors.

The JSTs gather information on the institution on an ongoing basis and maintain a continuous supervisory dialogue.

#### 4.4.1 Gathering information

SSMR Articles 10 and 11

As part of its ongoing assessment of an institution's risk profile, the JST uses a wide range of information sources of a quantitative and qualitative nature. The JSTs



function as a single point of entry for all communication with supervised entities and other supervisory authorities within the SSM. The JST coordinator takes care of the distribution of the information to all the parties involved. All information is stored in the SSM information management system.

For legal and technical reasons there are, however, exceptions to the single point of entry policy. For the gathering of most quantitative information, specific procedural regulations are in place. In the case of regular reporting, for example COREP and FINREP, existing reporting platforms and procedures are used (see Section 3.4).

In general, the ECB may require the submission of documents and obtain written or oral explanations of such information from supervised entities. Examples are internal data and management reports, policies, risk management reports, internal audits, strategies or business and capital plans. The ECB may also use additional data gathered in the course of its supervisory activities as well as information from external providers in order to monitor specific topics and risks.

#### 4.4.2 Maintaining a continuous supervisory dialogue

CRD Articles 10, 97, 104 and 105  
Guidelines on common procedures and methodologies for the supervisory review and evaluation process (EBA/GL/2014/13)

In their day-to-day supervision, the JSTs hold regular and ad hoc meetings with the supervised entities at various levels of seniority. Maintaining this continuous supervisory dialogue is very important for the early identification of risks and the timeliness of corrective supervisory measures. Furthermore, this supervisory dialogue fosters a common understanding between supervised entities and supervisors on the key elements and main drivers of the outcome of supervisory procedures, such as the SREP and supervisory stress tests. Additionally, as part of the supervisory dialogue, institutions are expected to report ongoing and material developments in risks and markets to supervisors in a timely manner.

As part of the annual process of creating a SEP, every JST prepares an annual schedule of key meetings for each supervised entity. This schedule is flexible and can be updated throughout the year. Moreover, ad hoc meetings can be held at the request of the supervisor or the respective supervised entity. Despite this, meetings between the NCAs and the institutions' local management on non-SSM supervisory tasks can be held without JST involvement, but with the JST being informed.

Regular meetings are held both with the group's management and with the management of significant subsidiaries. Typically, there is at least one meeting each year with the Chief Executive Officer (CEO), Chief Risk Officer and Chief Financial Officer, along with the Chair of the Supervisory Board of the supervised entity and the Head of Internal Audit at the group level and for relevant subsidiaries. In addition, meetings with the heads of the main business lines and compliance and support functions may be held, supplemented with thematic meetings at a technical level.

As a key element of the supervisory dialogue, the JST coordinator typically organises a meeting with the management body of the institution to present the conclusions of the SREP and the rationale behind the draft SREP decision. This

allows the institution to understand how it has been assessed and which areas are in need of improvement.

Occasionally, the ECB also organises additional meetings with the industry, such as CEO workshops on dedicated topics.

### 4.4.3 Performing SSM thematic reviews

CRD Article 99

SSMR Articles 4, 6(1), 9(1) and 10

The ECB performs thematic reviews and conducts horizontal activities on topics that typically affect groups of institutions from several jurisdictions operating with different business models of differing size and complexity (e.g. the [Thematic review on governance and risk appetite](#)). The sample of institutions for a thematic review is chosen in accordance with the risk tolerance defined by each JST for its supervised entity in order to ensure sound horizontal analysis and benchmarking. The purpose of this is to capture valuable insights into the risk patterns observed across the participating Member States, whereby general thematic reviews involve the entire population of the supervised entities and horizontal activities only involve a dedicated number of these entities. The thematic reviews aim to acquire in-depth knowledge of the selected topics by focusing on fact-finding. Depending on the topic and findings, the outcomes of thematic reviews may be used for developing SSM guidance, contributing to the identification and/or promotion of best practices, or even resulting in institution-specific qualitative and/or quantitative measures. For institutions included in the sample used for a thematic review, the outcomes of the analysis are taken into account in the annual SREP.

The topics for the thematic reviews are set by the Supervisory Board, which approves the supervisory priorities for the coming year, thereby identifying the topics to be assessed in depth. The identification of potential topics for a thematic review is coordinated by the Directorate Supervisory Strategy and Risk in liaison with other SSM stakeholders, such as DGs, JSTs or other ECB business areas, NCA horizontal divisions and international bodies (e.g. the EBA and the BCBS) and is to be in line with the supervisory priorities defined by the Supervisory Board.

The JSTs communicate the observed findings or areas for improvement through dedicated follow-up letters or supervisory decisions. Depending on the severity of any deficiencies detected, an action plan or specific remedial actions may be required. Aggregated outcomes of thematic reviews may also be communicated to the industry by issuing supervisory expectations.

### 4.4.4 Periodic regulatory review processes

CRD

[Guidelines on common procedures and methodologies for the supervisory review and evaluation process \(EBA/GL/2014/13\)](#)

The periodic regulatory reviews describe supervisory duties deriving from the CRR, the CRD and the BRRD. These include, for instance, the regular assessment of the institutions' recovery plans and remuneration policies, compliance assessments of Pillar 3 disclosures, or dividend distribution policies.

For instance, each JST is responsible for gathering information on the remuneration policy and practices of the supervised entity and for performing a meaningful analysis to assess compliance with the relevant CRD requirements. The assessment is used as input into the SREP decisions (see Section 4.5).

With regard to the application of sound remuneration policies, and in response to applications submitted by the supervised entities, the JSTs are responsible for assessing requests for prior approval of the exclusion of staff members from the presumption of having a material impact on an institution's risk profile (referred to as "identified staff"), or requests to increase the ratio between the variable and fixed remuneration components. In the former case, an ECB decision based on a proposal from the Supervisory Board would be issued by the Governing Council (in line with the ECB's decision-making process). In the latter case, if it is foreseen that the capital base would remain sound, in general no specific decision is needed by the competent authority. Another example is the responsibility of the JST for assessing the compliance of the supervised entity with the Pillar 3 disclosure requirements stemming from the CRD, the CRR, EBA Guidelines and national law. In this context, the JST assesses not only publicly disclosed documents, but also internal arrangements and practices governing disclosure-related decisions and activities. The conclusions of this assessment may also feed into the SREP decision.

## 4.5 The Supervisory Review and Evaluation Process

### 4.5.1 Framework

The SREP is flexible and adjustable to ensure risk-based supervision. In practice, this means that the frequency, scope, and depth with which the elements of the SREP are assessed each year can vary depending on the level of supervisory engagement and the bank's specific circumstances.

In line with the EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (The EBA Guidelines on SREP), the methodology used consists of:

- an assessment carried out by each JST on its own supervised entity based on four key elements: business model analysis, internal governance, risks to capital and risks to liquidity and funding (see Section 4.5.4). This assessment is generally based on year-end data from the previous year, meaning that the SREP 2023 assessment cycle is based on year-end data for 2022. Early benchmarking is performed, culminating in the SREP outcome, which is effectively a list of any key vulnerabilities or supervisory findings that need to be mitigated by way of supervisory measures, these can be qualitative and/or quantitative. The outcomes of the SREP assessment cycle for any given year are formalised in the form of SREP decisions that are applicable to the following year. This means that the outcomes of the SREP 2023 assessment cycle are reflected in SREP decisions applicable to 2024.

[EBA Guidelines for common procedures and methodologies for the supervisory review and evaluation process \(SREP\) and supervisory stress testing \(EBA/GL/2022/03\)](#)

[EBA draft RTS and ITS on colleges of supervisors \(EBA/RTS/2014/16 and EBA/ITS/2014/07\)](#)

- Benchmarking (see Section 4.5.5) performed by the second line of defence, which is used to complement and validate the assessment.
- Informal and formal communication of the outcome of the SREP assessment to the supervised entities. The outcome of the SREP assessment is first communicated informally to the significant institution (as part of the supervisory dialogue) and then formally by means of the resulting SREP decision (see Section 4.5.6). The SREP results are made publicly available in aggregated form (see Section 4.5.7) in line with the spirit of full transparency of European banking supervision.

The ECB conducts the SREP as either home supervisors or host supervisors (see Section 4.5.8) in accordance with the relevant EBA regulatory technical standards.

## Multi-year assessment

The assessment by the JSTs of the different risk areas can be conducted over several years, which is referred to as the multi-year assessment. The minimum level of yearly assessment called the core assessment, complemented by additional components to be carried out on a multi-year basis. These components are broken down into “modules” and are defined in the methodology used for each risk area.

### 4.5.2 Backward and forward-looking perspectives

The SREP aims to assess an institution’s intrinsic riskiness, its position vis-à-vis a group of peers and its vulnerability to exogenous factors.

Supervisors are required to take all necessary steps in a timely manner to ensure an institution’s future viability, so their assessment also needs to adopt a forward-looking approach. The SREP therefore assesses an institution’s viability over a 12-month horizon, as well as from a medium to long-term perspective, drawing on a wide range of backward and forward-looking quantitative and qualitative information.

Past developments are a key input into this assessment, since reliable data are, in general, widely available and may give an indication of trends in terms of future developments. This must be complemented by forward-looking information, including, for instance, probabilities of default, losses given default, institutions’ capital and liquidity planning, and institutions’ own and supervisory stress tests.

The forward-looking perspective is incorporated into the risk assessment system. Element 1 on the sustainability assessment and Elements 3 and 4 on the ICAAP/ILAAP are analysed from a forward-looking perspective, with the focus being on the near future. The stress tests under Elements 3 and 4 are conducted from a longer-term perspective, e.g., three to five years.

### 4.5.3 Holistic approach

The SREP aims to capture an overall picture of an institution's risk profile that is as comprehensive as possible, considering all relevant risks and their possible mitigants. An institution's risk profile is inevitably multifaceted and many of the risk factors are interrelated. This also holds true for the possible supervisory actions that can be implemented in response. This is why the four elements of the SREP need to be examined in combination with one another when drawing up the overall SREP assessment and preparing the SREP decision.

With regard to possible additional capital requirements, the holistic approach is being broadened to analyse more closely individual risk drivers, since the factors that feed into the overall supervisory assessment of a supervised entity do not all have the same impact on its additional capital requirements.

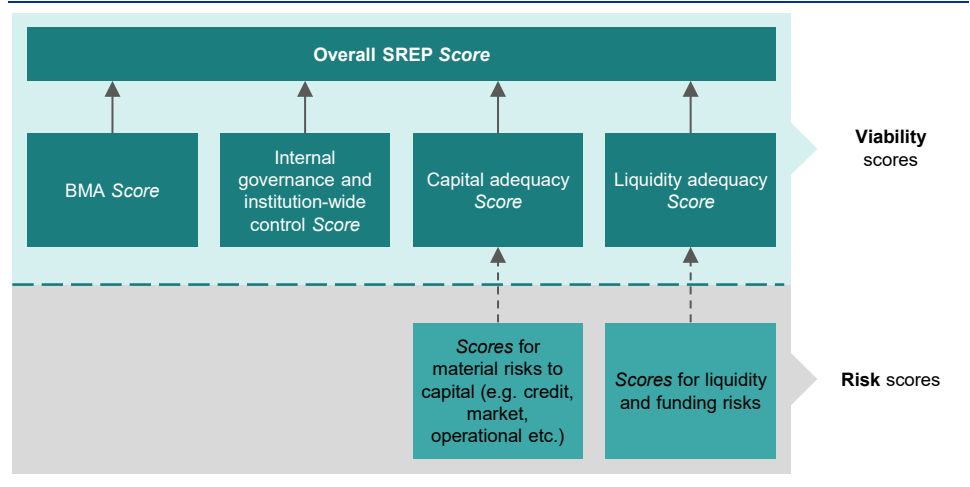
### 4.5.4 Assessment overview

The risk assessment system supports the JSTs in their day-to-day supervisory work. It is used for their ongoing analysis of Element 1 (business model), Element 2 (internal governance and risk management), Element 3 (risks to capital) and Element 4 (risks to liquidity and funding).

Supervisory assessments of these four elements and the overall SREP are formalised by way of a rationale and a score. Under the rationale, the JST highlights the main factors driving its assessment, the key deficiencies and their possible effects on the institution's viability, supported by key evidence such as tables/charts and figures.

Scores are mainly used as a means of summarising the supervisors' views and facilitating high-level, cross-sector comparisons and communication, both within the SSM and with the institution itself. They should not be confused with other types of rating, such as those used by rating agencies or institutions to assess a debtor's ability to pay back its debt or the likelihood of its default.

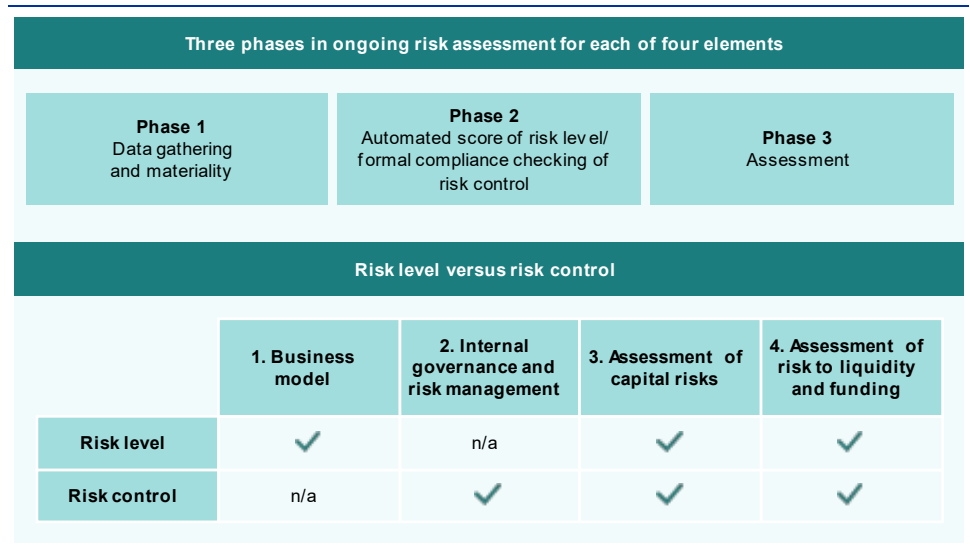
**Figure 14**  
Overview of scoring framework



Risk elements are assessed from both a quantitative (risk level)<sup>9</sup> and a qualitative (risk control)<sup>10</sup> perspective.

For each perspective, assessments are generally performed in three complementary phases<sup>11</sup>.

**Figure 15**  
Three complementary phases of risk level and risk control assessments



<sup>9</sup> “Considerations in relation to inherent risk”, in accordance with the EBA Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing.

<sup>10</sup> “Considerations in relation to adequate management and controls”, in accordance with the EBA Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing.

<sup>11</sup> There are exceptions, such as Capital adequacy assessment, consisting of only of Phases 1 and 3.

These three phases, with Phase 1 consisting of the collection of data and the assessment of the materiality of each sub-risk category, Phase 2 an automatic assessment based on objective indicators and Phase 3 any resulting expert decision taken by the JST, form a logical sequence for performing the risk assessment.

A risk-level assessment examines the intrinsic riskiness of an institution's portfolios and takes into account several different factors, including the institution's position relative to its peers and any macroeconomic factors that may influence its risk profile. The materiality of an institution's risks is taken into account for two main reasons: (i) to identify those activities and risks which are critical for an institution's ability to ensure sound management and risk coverage; and (ii) to focus supervisory work and decisions on those activities that entail risks which threaten the institution's capacity to operate, either in the short term (viability) or in the medium to long term (sustainability), and its ability to cover and manage those risks.

The risk-level assessment considers any relevant materiality assessment, any relevant automatic anchoring phase and a broad range of qualitative and quantitative information to complement any standardised assessment: the conclusion of such assessment consists of a summarising narrative and a score.

#### **Common scores for the assessment of the risk level<sup>12</sup>**

1 = "Low": there is no discernible risk of a significant impact on the prudential elements of the group or its entities, given the inherent risk level.

2 = "Medium-low": there is a low risk of a significant impact on the prudential elements of the group or its entities, given the inherent risk level.

3 = "Medium-high": there is a medium risk of a significant impact on the prudential elements of the group or its entities, given the inherent risk level.

4 = "High": there is a high risk of a significant impact on the prudential elements of the group or its entities, given the inherent risk level.

A risk control assessment examines the adequacy and appropriateness of (i) an institution's internal governance/risk management and (ii) the risk management and controls that are in place at the risk factor level. This includes assessing how institutions monitor their risk exposures, identify the measures that need to be taken and assess the adequacy of their internal policies, organisation and limits. Category-specific risk control arrangements that are assessed need to be consistent with the general internal governance/risk management at the level of the institution.

In the risk control part, the JST assesses how the governance and control framework works in practice. This involves reviewing the adequacy of the risk management and control framework in the light of the scale and complexity (business model, organisational structure, etc.) of the institution, and the degree to which this framework is embedded in its operational processes. The JSTs assess each risk

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<sup>12</sup> Qualifiers "+" and "-" have been introduced for Scores 2 and 3.

control sub-category, identifying the underlying reasons for the score assigned (key strengths and deficiencies, mitigants and other relevant corrective factors).

### **Common scores for the assessment of risk control<sup>13</sup>**

1 = “Strong control”: there is no discernible risk of a significant impact on the prudential elements of the group or its entities, given the quality of management, organisation and controls. The level of risk management and control is high. The risk management and control framework is clearly defined and fully compatible with the nature and complexity of the institution’s activities.

2 = “Adequate control”: there is a low risk of a significant impact on the prudential elements of the group or its entities, given the quality of management, organisation and controls. The level of risk management and control is acceptable. The risk management and control framework is adequately defined and sufficiently compatible with the nature and complexity of the institution’s activities.

3 = “Weak control”: there is a medium risk of a significant impact on the prudential elements of the group or its entities, given the quality of management, organisation and controls. The level of risk management and control is weak and needs improvement. The risks are insufficiently mitigated and controlled, leaving an excessive residual risk. The risk management and control framework is poorly defined or insufficiently compatible with the nature and complexity of the institution’s activities.

4 = “Inadequate control”: there is a high risk of a significant impact on the prudential elements of the group or its entities, given the quality of management, organisation and controls. The level of risk management and control is very low and needs drastic and/or immediate improvement. The risks are not – or only inadequately – mitigated and are poorly controlled. The risk management and control framework is not defined or is not compatible with the nature and complexity of the institution’s activities.

The assessments of a category’s risk level and risk control are combined to provide a “combined assessment”.

Once the four elements have been assessed, supervisors assign an overall SREP score, ranging from 1 to 4. In line with the EBA Guidelines on the SREP, this overall SREP score indicates the supervisory view of the overall viability of the institution based on an aggregate view of the threats to viability (see also relevant section of the banking supervision website for methodological details of each of the assessment elements).

The overall SREP score should take account of the outcome of the assessments of individual risks: higher scores reflect an increased risk to the viability of the institution stemming from one or more features of its risk profile, including its business model,

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<sup>13</sup> Qualifiers “+” and “-” have been introduced for Scores 2 and 3.



its internal governance framework and individual risks to its solvency or liquidity positions.

The JST can then adjust this anchoring overall SREP score by applying constrained judgement based on (i) the JST's knowledge of the institution, (ii) peer comparisons (also in the context of early benchmarking) and SREP benchmarking (see Section 4.5.5), (iii) the macro environment in which the institution operates, (iv) the institution's capital/liquidity planning to ensure a sound trajectory towards full implementation of the CRR/CRD IV, and (v) the SSM's risk tolerance. It may want to reflect in the overall SREP score weaknesses identified during the SREP that it considers particularly important for the institution.

The aim is to provide a holistic assessment of an institution's risk profile and, if need be, determine the most appropriate supervisory measures (formalised in the SREP decision (see Section 4.5.6)) such as own funds requirements, liquidity requirements, or other qualitative supervisory measures.

#### 4.5.5 Benchmarking of SREP outcomes

While supervisors perform the SREP assessments, and before the supervisory dialogue and the finalisation of the SREP decisions, the supervisory outcomes undergo a benchmarking process performed by the second line of defence.

The aim of this review is to support the JSTs and to ensure consistency across and the effectiveness of SREP outcomes, based on a level playing field and the fair treatment of all supervised entities. The benchmarking analyses focus on the supervisors' risk assessments, individual risk scores and the overall SREP score, as well as the qualitative and quantitative factors. Benchmarking is performed across different peer groups in line with the SREP methodology, i.e. to reflect business model specificities, and in accordance with the strategic priorities and the risk tolerance framework. Where supervisors identify concerns that banks need to address, the benchmarking process helps to determine supervisory measures that are consistent across banks with similar vulnerabilities, monitoring that past measures are followed up in a timely manner.

Overall, the concept behind the benchmarking is to supplement the assessment, besides the JST's own view, with a horizontal comparative view. Potential inconsistencies are discussed with JSTs to prompt a discussion over SREP outcomes in the same cycle. Based on this discussion, the supervisory outcomes may be adjusted by the JSTs.

#### 4.5.6 Supervisory dialogue and SREP decisions

The JSTs initiate the supervisory dialogue by sharing with the supervised entity the preliminary outcome of their assessment and the qualitative and quantitative measures they plan to take. The supervisory dialogue is key to ensuring the

transparency and predictability of supervisory actions, as well as allowing significant institutions to provide feedback before the conclusion of the SREP.

The SREP decision is taken under Article 16 of the SSM Regulation and is issued following a hearing (see Article 22(1) and Article 31 of the SSM Framework Regulation). It must be duly reasoned (see Article 22(2) of the SSM Regulation and Article 33 of the SSM Framework Regulation).

SREP decisions are adopted by the Governing Council under the non-objection procedure on the basis of complete draft decisions proposed by the Supervisory Board and may include the following:

#### **Own funds requirements**

- a total SREP capital requirement composed of minimum own funds requirements (8%) under Pillar 1 and additional own funds requirements under Pillar 2
- combined buffer requirements

#### **Institution-specific quantitative liquidity requirements**

- Liquidity coverage ratio higher than the regulatory minimum
- higher survival periods
- national measures

#### **Other quantitative and qualitative supervisory measures**

- additional supervisory measures stemming from Article 16(2) of the SSM Regulation (such as the restriction or limitation of business, a requirement to reduce risks, restrictions on or prior approval for the distribution of dividends, and the imposition of additional or more frequent reporting obligations)
- Pillar 2 guidance expressed as a Common Equity Tier 1 ratio add-on

#### **Leverage ratio requirements and guidance under Pillar 2**

- Similarly to the own funds requirements, ECB Banking Supervision may impose a Pillar 2 requirement on the leverage ratio as well as Pillar 2 guidance.

### **Capital and liquidity requirements**

If a SREP assessment reveals that the arrangements, strategies, processes and mechanisms implemented by the significant institution, and the own funds held by it, do not ensure sound management and coverage of risks, the ECB may impose a Pillar 2 requirement and Pillar 2 guidance, as well as a specific leverage ratio Pillar 2 requirement and Pillar 2 guidance. The ECB sets the Pillar 2 and leverage ratio Pillar 2 guidance above the level of binding capital requirements (minimum and additional)

and in addition to the combined buffers. If a supervised entity does not comply with its Pillar 2 guidance, this will not result in automatic action being taken by the supervisor and will not trigger any limitations on the distributable amount. However, the ECB will closely monitor institutions that do not comply with the Pillar 2 guidance and will consider whether – and, if so, which – measures are to be taken to address the specific circumstances.

Liquidity measures may be also imposed if there are material risks that are not covered by the liquidity coverage ratio and the institution is not seen to be adequately mitigating these risks.

### Qualitative requirements

In addition to the quantitative measures, the banks may be asked to implement a wide range of qualitative measures.

#### 4.5.7 Publication of SREP results

The annual SREP cycle concludes with the publication of the SREP's aggregated results, bank-specific Pillar 2 requirements and leverage ratio Pillar 2 requirements on the ECB's banking supervision website. These are presented in a dedicated press conference led by the Chair of the Supervisory Board of the ECB. All significant institutions that receive a SREP decision are asked to consent to the publication of their Pillar 2 and leverage ratio Pillar 2 requirements. The aim of the publication of the SREP's aggregated results is to inform the public of the key developments in the SREP supervisory cycle, such as changes in SREP scores and quantitative and qualitative requirements, as well as to share information on key supervisory concerns and measures.

#### 4.5.8 ECB acting as host supervisor

If the ECB is the host supervisor, the JST follows the timeline and templates provided by and agreed with the home supervisor. The consolidating supervisor chairs the college meetings and keeps all college members informed about the organisation of the meetings, the main issues to be discussed and the activities to be considered.

At a minimum, the JST needs to prepare the risk assessment and liquidity risk assessment reports on the supervised entity based on all available information. It then needs to submit these assessments to the home supervisor. On the basis of these draft reports, the JST forms preliminary views on capital quantification, liquidity quantification and qualitative measures, which are then discussed in the college meetings.

The JST then receives the final group risk assessment report and group liquidity risk assessment report from the home supervisor. On the basis of these final reports, the JST prepares the supervisory contribution to the joint decisions, which is submitted to the home supervisor. After the assessment by the home supervisor, the draft joint decision is then shared with the JST.

Once the legal and quality checks have been performed, the JST then has to submit the draft joint decision and the draft ECB implementing decision to the Supervisory Board for approval. After approval, the draft ECB implementing decision is notified to the supervised entity and the hearing period begins. The draft decisions are notified to the supervised entity in its own language, if applicable. The JST then needs to assess the comments made and agree on the assessment of the comments and on the amendments to the draft joint decision with the home supervisor. For this purpose, it participates in the college meetings held by the home supervisor.

Once agreed, the JST sends the final joint decision to the Supervisory Board for approval and thereafter to the Governing Council for adoption under the non-objection procedure. Once adopted, the ECB notifies the final ECB implementing decision to the significant institution and notifies the ECB's agreement on the joint decision to the home supervisor. The home supervisor notifies the joint decision to the parent institution.

## 4.6 Ongoing monitoring of internal models

[CRD Article 101](#)

[SSMR Article 16](#)

[Ongoing model monitoring](#)

[Guide to on-site inspections and internal model investigations](#)

The objective of ongoing model monitoring is to verify a significant institution's compliance with the regulatory requirements concerning internal models used for the calculation of minimum capital requirements pursuant to the CRR. These requirements include requirements concerning the risk sensitivity of the model, the validation of the model, the management of model risk, adaptations of the model, processes surrounding the model as well as benchmarking of the model. The ECB should assess on a regular basis whether the significant institution uses well-developed and up-to-date internal model techniques. The information gained from ongoing model monitoring is incorporated into the ongoing assessment of the institution and feeds into the SREP decision.

Ongoing model monitoring helps to fulfil the requirements of Article 101 of the CRD, which requires that competent authorities review institutions' compliance with the requirements concerning internal models on a regular basis, and at least every three years. This requirement is fulfilled by a combination of:

- ongoing model monitoring, based primarily on off-site reviews, including dedicated meetings with the supervised entity; and
- internal model investigations, which mostly amount to an on-site inspection.

When findings are identified in an ongoing model monitoring review, they are addressed to the institution directly or a further internal model investigation could be initiated in order to collect sufficient evidence to justify the imposition of supervisory

measures (as set out in Article 16 of the SSM Regulation). As a final recourse, powers of enforcement and sanction may be exercised in the cases contemplated by the relevant legislation.

Ongoing model monitoring assessments need to be performed at least at the highest level of consolidation of the group within the supervised entity. In cases where the home supervisor of a group entity with an approved model is outside the European Union, dialogue with the home supervisor is promoted to improve ongoing monitoring of the model.

Ongoing model monitoring is a permanent legal requirement (as per Article 101 of the CRD). In general, no triggers need to be activated to justify the ongoing monitoring reviews.

Ongoing model monitoring has many components; the assessments can be performed at a frequency that is appropriate for each component.

At a minimum, ongoing model monitoring should include on an annual basis:

- an assessment of the significant institution's compliance with the legal requirements, supervisory conditions, limitations, obligations (e.g. remedial actions) imposed in ECB decisions on model approvals, as well as the institution's compliance with implementation plans and any other supervisory measures pertaining to the model which have been imposed on the institution;
- where appropriate, an analysis of back-testing results and time-series analysis for institutions authorised to use internal models for the calculation of own funds requirements for market risk (Articles 368(1)(f) and 369 of the CRR);
- an analysis of significant institutions' internal model validations;
- where appropriate, an assessment of the outcomes of the annual benchmarking process (Article 78 of the CRD);
- an assessment of non-material model changes and extensions;
- where appropriate, an assessment of other internal reports of the institution on the internal model.
  - At least one supervisory meeting per institution per year is included among the ongoing monitoring activities. The agenda for this meeting may include, for example, a review of the evidence of the continuing appropriateness of the existing internal models in the light of the institution's recent business strategy, plans for future model changes and other ongoing projects in the institution that are relevant for the internal modelling of the different risk categories.

## 4.7 Conducting on-site inspections

[Guide to on-site inspections and internal model investigations](#)

Please refer to the [Guide to on-site inspections and internal model investigations](#).

## 4.8 Assessing ad hoc requests, notifications and applications

This section describes the processes through which certain permissions can be granted to significant institutions by a supervisory authority upon their request. The significant institutions need to submit all of the relevant information. The requests need to meet the supervisory requirements set out in the relevant legislation (i.e. EU laws or their national transposition).

### 4.8.1 Capital instruments

#### Issuance of CET1 instruments

[CRR Article 26\(3\) and Articles 27-29](#)

[RTS on own funds and eligible liabilities requirements for institutions \(EU/241/2014\)](#)

Supervised entities may classify capital instruments as Common Equity Tier 1 (CET1) instruments only after permission is granted by the competent authority. Upon the request of a significant institution, an individual ECB supervisory decision is adopted either by (conditionally) granting or denying the permission.

After the submission of all relevant documentation by the significant institution, the JST checks the compliance of the submitted information with the relevant regulation. If all relevant information has been received, the JST sends confirmation to the significant institution that the documentation submitted is complete. If necessary, additional information is requested. Next, the JST assesses whether the relevant regulations are complied with and establishes whether the capital instrument is listed in the EBA's public list of CET1 instruments. If the instrument is not in the EBA's public list, before adopting any decision, the ECB consults the EBA.

Subsequent issuances of instruments for which the significant institution has already received permission to classify them as CET1 instruments may be included in CET1 capital following a specific notification procedure. Further details are available in the [ECB Guide on options and discretions available in Union law](#).

#### Inclusion of interim and year-end profits in CET1 capital

[CRR Article 26\(2\)](#)

[RTS on own funds and eligible liabilities requirements for institutions \(EU/241/2014\)](#)

[ECB Decision on conditions under which credit institutions are permitted to include interim or year-end profits in CET1 capital \(ECB/2015/4\)](#)

A significant institution may include interim or year-end profits in its CET1 capital prior to a formal decision confirming the final profit or loss only with prior approval. This approval is either based on Decision ECB/2015/4 on conditions under which credit institutions are permitted to include interim or year-end profits in CET1 capital (the so-called "Umbrella Decision") or on Article 26(2) CRR.

If the supervised entity wishes to make recourse to Decision ECB/2015/4, it must submit a formal letter addressed to the ECB using the relevant template and provide the information and documentation listed in the annex of Decision ECB/2015/4. The JST notifies the relevant significant institution as to whether this documentation contains the information required under Decision ECB/2015/4, whether the conditions set out in that decision are met and whether the credit institution may include interim or year-end profits in its CET1 capital.

If the conditions for Decision ECB/2015/4 to apply are not met, or if the institution submits an application for a case not covered by that decision, the JST will individually assess the request for permission to include interim or year-end profits in CET1 capital in line with either the standard decision-making procedure or the delegated procedure, as applicable

## Reduction of own funds instruments

[CRR Articles 77 and 78](#)

[RTS on own funds and eligible liabilities requirements for institutions \(EU/241/2014\) Articles 27-32](#)

The ECB may authorise a reduction of own funds upon the request of a supervised entity. The JST first establishes that all of the relevant documentation has been submitted by the institution, as listed in Commission Delegated Regulation (EU) No 241/2014. The JST may waive the submission of parts of these documents if the information necessary to assess the request for authorisation is already available to it. A positive or negative decision on the request for authorisation to reduce own funds is taken by the ECB and notified to the institution.

## Ex post assessment of Additional Tier 1 and Tier 2 instruments

[CRR Recital 75 and Articles 52-55, 63 and 65](#)

[RTS on own funds and eligible liabilities requirements for institutions \(EU/241/2014\)](#)

The CRR does not provide for mandatory preapproval for Additional Tier 1 and Tier 2 instruments. This is, however, without prejudice to any requirements in respect of the recognition of Additional Tier 1 or Tier 2 instruments under applicable national law.<sup>14</sup> If national law requires preapproval, the ECB has the power to grant such preapproval to the supervised entity in question. In the other cases, the ECB conducts an ex post review of Additional Tier 1 and Tier 2 instruments, the details of which are included in the [Public Guidance on the review of the qualification of capital instruments as Additional Tier 1 and Tier 2 instruments](#).<sup>15</sup>

<sup>14</sup> As of September 2023, the following countries require preapproval of Additional Tier 1 and Tier 2 instruments under applicable national law: Bulgaria, Croatia, Luxembourg, Portugal, and Slovenia.

<sup>15</sup> Given the amendments brought by Regulation (EU) 2019/876, the ECB has updated the templates available in the public guidance to reflect the newly introduced eligibility criteria. The updated template can be found in [Amendments to the Annexes to the public guidance on the review of the qualification of capital instruments as Additional Tier 1 and Tier 2 instruments](#).

## 4.8.2 Capital and liquidity waivers

CRR Articles 7 and 8

ECB Regulation on the exercise of options and discretions available in Union law (ECB/2016/4)

The ECB has the power to waive compliance with the prudential requirements laid down in Parts Two to Four and Parts Seven, Seven A and Eight of the CRR (Article 7(1), (3) CRR). The ECB also has the power to waive compliance with the liquidity requirements laid down in Part Six of the CRR for an institution and all or some of its subsidiaries and supervise them as a single liquidity sub-group if the regulatory conditions are met (Article 8 CRR). Upon the request of the supervised entity, an individual ECB supervisory decision will be adopted either granting or denying the waiver.

The supervised entity needs to submit a formal waiver application form and all supporting documentation, as specified in the ECB Guide on options and discretions available in Union law. First, the JST checks whether the waiver application refers to the relevant legislation and includes all relevant information and supporting documents as set out in the ECB Guide. If all relevant information is duly received, the JST sends confirmation to the supervised entity that the documentation submitted is sufficient. If necessary, additional information is requested.

The JST then assesses whether the relevant criteria, as laid down in the CRR and specified in the (non-binding) ECB Guide, have been met. In complex cases, ECB horizontal and specialised expertise functions provide support. The final decision may set forth/lay down additional conditions for the approval of the waiver.

## 4.8.3 Intragroup financial support

BRRD Articles 19, 20 and 22-

EBA draft RTS on the conditions for group financial support (EBA/RTS/2015/08)

EBA Guidelines on conditions for group financial support (EBA/GL/2015/17)

Before entering into a proposed intragroup financial support agreement, a significant institution must apply for the ECB's authorisation. The ECB will authorise or prohibit the proposed agreement depending on its consistency with the conditions set out in the BRRD, as further specified in the EBA Regulatory Technical Standards (RTS) and the EBA Guidelines.

Before providing support under a group financial support agreement, the management body of a group entity that intends to provide financial support must notify the ECB and the EBA with a reasoned decision and details of the proposed financial support, including a copy of the relevant agreement. The JST assesses compliance with the aforementioned provisions. In particular, the JST assesses whether the provision of financial support has the objective of preserving or restoring the financial stability of the group. The JST forwards the application to the competent authorities of each non-SSM subsidiary that proposes to be party to the agreement with a view to reaching a joint decision. The JST also informs the Single Resolution Board by forwarding the group financial agreements that have been authorised, and any changes thereto, so that the effects on the resolvability of the group can be assessed.

The final decision is then adopted.



## 4.8.4 Monitoring of risk transfer for securitisations

[CRR Articles 244, 245 and 250](#)

[CRD Article 98\(3\)](#)

[EBA Guidelines on significant credit risk transfer \(EBA/GL/2014/05\)](#)

[EBA Guidelines on implicit support for securitisation transactions \(EBA/GL/2016/08\)](#)

The CRR sets out the conditions under which a significant risk transfer by an originator institution is recognised. The EBA Guidelines on significant credit risk transfer provide further details on the recognition process.

Originator institutions that have initiated or are considering initiating the process of structuring a securitisation transaction for which they intend either:

- to recognise a significant risk transfer in accordance with Articles 244(2) or 245(2) of the CRR; or
- to apply for permission in accordance with Articles 244(3) or 245(3) of the CRR;

should notify the ECB of their intentions at least three months in advance of the expected closing date of the transaction, in accordance with the [ECB public guidance on the recognition of significant credit risk transfer](#). Originator institutions should also provide the final version of the documentation no later than 15 days after the closing date of the transaction.

Based on the documentation provided by the institution, the JST will assess the transaction and the credit risk that has been transferred to third parties. The JST may also ask the institution to provide any other information necessary to perform its assessment of the transaction, e.g. the specific features of an individual transaction.

As the conditions for the significant risk transfer need to be met on a continuous basis over the life of the securitisation transaction, the ECB also continuously reviews the securitisation transactions to which originator institutions apply a significant risk transfer for determining their capital requirements. In cases where originator institutions rely on the quantitative tests set out in Article 244(2) or 245(2) of the CRR to demonstrate a significant risk transfer, the ECB will only adopt an individual decision if the securitisation does not meet the conditions for the significant risk transfer and this transfer is rejected.

In cases where originator institutions apply for approval under Article 244(3) or 245(3) of the CRR, a significant risk transfer will only be recognised once the ECB adopts an individual decision to that effect.

Article 250(1) of the CRR establishes a general prohibition of implicit support for securitisations, which applies to originator institutions that have made recourse to Article 247(1) and (2) of the CRR or have sold instruments from their trading book with the effect that they are no longer required to hold own funds for the risks of those instruments, and shall not provide support, directly or indirectly, to the securitisation beyond its contractual obligations with a view to reducing potential or actual losses to investors.

The EBA Guidelines on implicit support for securitisation transactions detail the transactions which go beyond the contractual obligations of a sponsor institution or an originator institution. Such transactions need to be notified to the ECB by significant institutions, in accordance with the [ECB public guidance on information on](#)

transactions which go beyond the contractual obligations of a sponsor institution or an originator institution under Article 248(1) of Regulation (EU) No 575/2013.

Based on the notifications received from significant institutions:

- if the institution declares that there is implicit support, the JST checks that the institution at a minimum holds own funds against the securitised exposures as if they had not been securitised (Article 250(5) of the CRR);
- if the institution declares that there is no implicit support, the JST checks the institution's assessment and, in case of disagreement, prepares a draft supervisory decision.

Finally, if the institution has provided implicit support on more than one occasion, the ECB could also impose additional measures as prescribed under Article 98(3) of the CRD, such as the prohibition of significant risk transfer in the future.

#### 4.8.5 Intermediate EU parent undertaking requirement

[CRD Article 21b](#)

[EBA Guidelines on the monitoring of the threshold and other procedural aspects on the establishment of intermediate EU parent undertakings under Article 21b of Directive 2013/36/EU \(EBA/GL/2021/08\)](#)

[EBA Opinion of the European Banking Authority on the set-up and operationalisation of Intermediate EU Parent Undertaking\(s\) under Article 21b CRD \(EBA/Op/2022/12\)](#)

[ECB FAQs on the intermediate EU parent undertaking requirement](#)

Article 21b of Directive 2013/36/EU requires banks and investment firms in the EU that are subsidiaries of third-country groups to set up a single intermediate EU parent undertaking. The requirement applies if the third-country group has two or more institutions (banks and investment firms) established within the EU with a combined total asset value of at least €40 billion, including the assets of the third-country group's branches in the EU.

In most cases, operationalising the intermediate EU parent undertaking requirement triggers some form of restructuring on the part of the third-country group, which could, for example, take the form of a change in the chain of control (requiring authorisation by way of a qualifying holding procedure) or the establishment of a new parent undertaking. In the case of a financial holding company, the latest revision of the Capital Requirements Directive (CRD V) introduces a new approval requirement (Article 21a CRD). In the case of a credit institution or investment firm, the corresponding licensing procedures in accordance with Article 8 or 8a of CRD V, or Article 5(1) of Directive 2014/65/EU, respectively, shall apply. For further information, please see the [ECB's banking supervision authorisations webpage](#).

In accordance with Article 21b(2) CRD, competent authorities may allow two intermediate EU parent undertakings to be set up if they determine either of the following conditions to hold true:

- establishing a single intermediate EU parent undertaking would be incompatible with the mandatory requirement for the separation of activities imposed by the rules or supervisory authorities of the third country where the ultimate parent undertaking of the third-country group has its head office;
- establishing a single intermediate EU parent undertaking would render resolvability less efficient than in the case of two intermediate EU parent

undertakings according to an assessment carried out by the competent resolution authority of the intermediate EU parent undertaking.

Supervised entities looking to apply for this exemption should contact their supervisor.

#### 4.8.6 Other formal permission requests and notifications

SSMR  
CRD

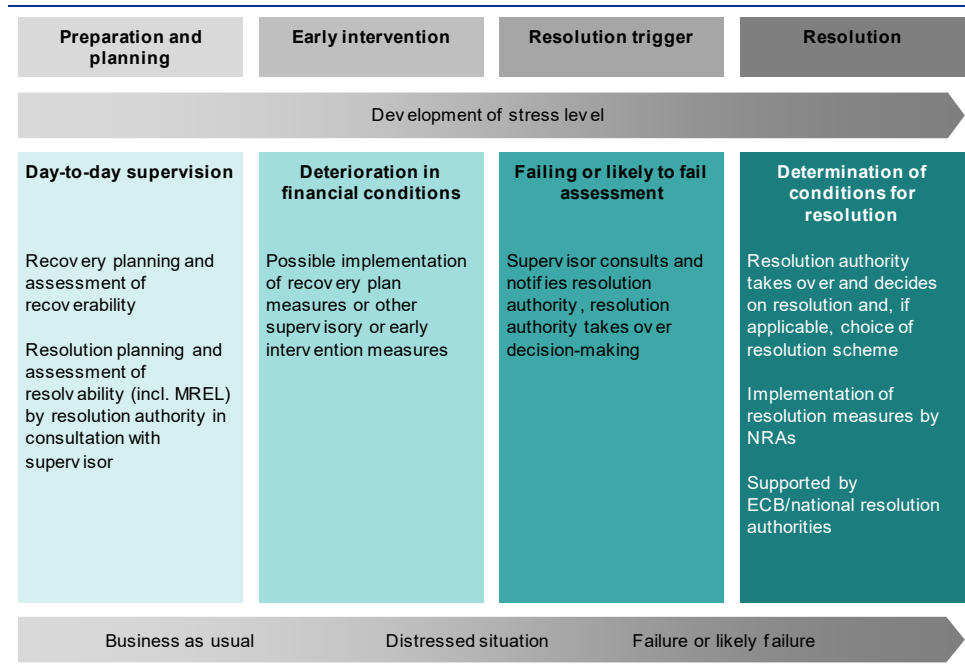
Besides the formal permission requests and notifications mentioned above, the CRR and CRD provide for various cases where an application or notification by the significant institution requires a decision by or reaction from the ECB. Furthermore, formal permission requests and notifications may be set out under national law. These require a decision by or reaction from the ECB whenever they fall within the scope of the ECB's tasks and support a supervisory function under EU law. Generally, the JSTs are responsible for the execution of the whole process.

Upon the request of a significant institution, the JST assesses whether the permission request refers to the relevant legislation and includes all relevant information and documents. If necessary, additional information is requested from the institution. The JST then assesses whether the relevant criteria, as laid down in the CRR, SSMR, SSMFR and/or national law, are met. In complex cases, ECB horizontal and specialised expertise functions provide support. The final decision may impose conditions and/or obligations for the approval of the permission request.

#### 4.9 Preventing and managing crisis situations

The ECB crisis prevention and management framework initiates both timely and effective responses and allows for adequate flows of information prior to, during and after times of crisis. Moreover, the framework enables opportune decision-making in crisis situations and during the potential resolution of banking groups. The crisis management framework covers several phases depending on the specific situation of the credit institution. The scope of the framework ranges from ensuring robust crisis preparedness in the ongoing supervision to involvement in decisions on the failure of banks. The role of the ECB in less significant institution crisis management is described in Section 5.4.

**Figure 16**  
Crisis prevention and management framework



#### 4.9.1 JSTs' responsibilities

The JSTs, in close cooperation with the Business Model, Capital & Crisis Division, are responsible for crisis preparedness and management across different phases. The degree of involvement of the Division depends on the situation of the significant institution.

Throughout the process, the Crisis Team of the Division provides expert support to the JSTs and shares its expertise on, among other things, the processes established in the applicable legal framework, the early identification of crisis situations, the assessment and operationalisation of recovery plans and the consultation on resolution-related topics. The following sections describe the different stages in preventing and managing crisis situations.

## 4.9.2 Preparing recovery and resolution

### Recovery planning

SSMR Articles 3-5, 9, 13, 16, 18 and 30

BRRD Articles 5-9, 10-18, 27-30 and 32

CRD Articles 74 and 104

EBA Guidelines on triggers for use of early intervention measures (EBA/GL/2015/03)

EBA Guidelines on the conditions for group financial support (EBA/GL/2015/17)

MoU between the SRB and the ECB in respect of cooperation and information exchange

During normal operations, one of the ECB's tasks conducted by the JSTs is ensuring that the significant institutions prepare, and update at least annually, detailed recovery plans that include measures to restore the financial position of an institution following a significant deterioration of its financial situation. JSTs analyse and review recovery plans, focusing in particular on the credibility and feasibility of the available recovery options and on overall recovery capacity. In the context of recovery planning, if the ECB assesses that a recovery plan is materially deficient, the ECB has the right to require a supervised entity to submit a revised recovery plan within a short time frame of up to three months. If the revised recovery plan does not address the material deficiencies or impediments identified by the ECB, the ECB can require the institution to make specific changes to it. If such changes to the recovery plan do not adequately remedy these deficiencies or impediments, the ECB can ask the institution to identify changes that it could make to its business model in order to increase its ability to recover from a crisis situation.

As part of the ongoing supervision, the JST continuously monitors the financial situation of the supervised entity, checking for any potential deterioration in recovery indicators and for the proper and timely activation of escalation procedures when moving from a normal to a crisis situation.

The Division provides expert support to the JSTs in the assessment of recovery plans and in follow-up actions, e.g. by drafting guidance on horizontal topics and conducting benchmarking analyses.

### Resolution-related consultations

BRRD Article 15

The ECB is formally consulted on an annual basis on the draft resolution plans and resolvability assessments conducted by the Single Resolution Board. The JSTs perform the relevant assessments and the Business Model, Capital & Crisis Division provides expert support. The JSTs also share with the Single Resolution Board the relevant information for resolution plans and resolvability assessments in accordance with the [MoU](#) between the ECB and the Single Resolution Board. Some informal interactions between the ECB and the Single Resolution Board also take place, such as in the context of resolution colleges, of which the ECB is also a member. In addition, the ECB is consulted by the Single Resolution Board on the proposed ex ante contributions to be paid to the Single Resolution Fund by significant institutions. As soon as the target level of the Single Resolution Fund reaches at least 1% of covered deposits of all credit institutions in the participating Member States, such a consultation will not necessarily be conducted on a yearly basis, but only if additional ex ante contributions need to be collected. The JSTs' assessment forms the basis for the ECB's response to the official consultation.

### 4.9.3 Identification of a deterioration in financial conditions

#### Deterioration in financial conditions

When a deterioration in financial conditions is identified, the JST responds by determining the appropriate supervisory action and stepping up the supervisory activity for the institution (e.g. it conducts further specific analyses, mandates on-site inspections, increases the number of requests for information and data, etc.). In particular, when the JST sees the financial situation of a supervised entity deteriorate materially, either in a short period of time or gradually with a clear trend, cooperation and information exchange between the JST and the Crisis Team intensify. NCAs are involved through the JST.

Subject to the applicable laws and interinstitutional arrangements, such as the MoU between the ECB and the Single Resolution Board, the ECB informs the Single Resolution Board of the material deterioration in the financial conditions of the respective supervised entity/banking group and exchanges views and knowledge with the Single Resolution Board and the Internal Resolution Teams.

A specific liquidity monitoring template can be used in order to gather a minimum set of liquidity information relevant for crisis situations. The template is provided to the ECB by the supervised entities on a weekly basis starting from September 2023. In addition to the supervisory liquidity template, the ECB and the Single Resolution Board developed a joint liquidity template which was tested on institutions in October 2023 for the first time. The joint template is almost identical to the supervisory liquidity template but it will replace the supervisory liquidity template if the testing is successful.

#### Need for early intervention

If the JSTs see that the financial situation continues to deteriorate, the conditions justifying early intervention apply and early intervention measures are therefore considered, with cooperation and information exchange between the JST and the Business Model, Capital & Crisis Division intensifying. Cooperation with the Single Resolution Board is escalated in accordance with the Memorandum of Understanding (MoU). The JST, in close cooperation with the Business Model, Capital & Crisis Division, provides the Internal Resolution Team with all available information specified by the Team as necessary in order to update the resolution plan and prepare for the possible resolution of the institution. In the case of a supervised entity with a presence in non-euro area Member States or in third countries, interactions with supervisory colleges or other similar arrangements are ensured.

[BRRD Article 27](#)

[SRMR Articles 13 and 20](#)

[MoU between the SRB and the ECB in respect of cooperation and information exchange](#)

## Grounds for determining an institution as failing or likely to fail

If the JST considers that the institution is in severe distress or the grounds for determining that an institution is failing or likely to fail are justified, the JST and the Business Model, Capital & Crisis Division propose establishing an institution-specific Crisis Management Team, which acts as a coordination and decision forum. This Crisis Management Team is convened by the Chair and Vice-Chair of the Supervisory Board of the ECB. If the ECB considers it necessary to determine that an institution is failing or likely to fail, it also consults the Single Resolution Board in advance.

Coordination with host authorities is ensured through interactions with the supervisory college or other similar arrangements. If a supervised entity is considered to be failing or likely to fail, the Single Resolution Board is duly notified, as are, without undue delay, the relevant host competent and resolution authorities, competent ministries, central banks and deposit guarantee scheme(s), in accordance with the legal framework.

A high-level monitoring group is set up to monitor and identify potential liquidity and solvency-related difficulties arising in several significant institutions and less significant institutions at the same time in the context of a systemic crisis.

## Resolution

The main decision-makers in cases of resolution are the resolution authorities, i.e. the Single Resolution Board and the national resolution authorities. Within this context, the ECB, i.e. the JSTs and the Business Model, Capital & Crisis Division, predominantly plays an advisory role. Once it has been determined that an institution is failing or likely to fail, the Business Model, Capital & Crisis Division coordinates, within European banking supervision, the advice to the Single Resolution Board/national resolution authorities at the resolution stage, as well as the necessary follow-up actions, for example the authorisation of a bridge bank and the withdrawal of the residual institution's authorisation, where necessary. The JST may provide additional advice on the potential business model implications of the various resolution options. The Business Model, Capital & Crisis Division coordinates any interaction with the Single Resolution Board and the national resolution authorities.

## 4.10 Supervisory measures, enforcement measures and sanctions

SSMFR Article 124

For the purpose of carrying out the tasks conferred on it by the SSM Regulation, the ECB has at its disposal a broad set of supervisory tools to address relevant issues identified in the oversight of the supervised entities. As part of this supervisory toolkit, the ECB may decide to take one or more of the following actions in order to address issues:

1. adopt supervisory measures;
2. directly impose enforcement measures or require the national competent authorities to use their national enforcement powers;
3. impose administrative penalties or request the NCAs to open sanctioning proceedings.

All these measures, which have varying objectives, are compatible and may be used in parallel or sequentially depending on the circumstances of the case.

#### 4.10.1 Supervisory measures

SSMR Articles 9(1) and 16  
CRD Article 64

The ECB, without prejudice to the other powers conferred on it, is empowered to require significant institutions, financial holding companies or mixed financial holding companies in participating Member States and significant branches of institutions from non-participating Member States to take the necessary measures at an early stage if (i) a breach of prudential requirements has occurred; (ii) the ECB has evidence that such a breach will occur within the next 12 months; or (iii) the arrangements, strategies, governance, culture, processes and mechanisms implemented by the institution and the own funds and liquidity held by it do not ensure sound management and coverage of its risks.

For this purpose, the SSM Regulation sets out a non-exhaustive list of the possible supervisory measures which can be taken by the ECB. The ECB may also take other measures by using the powers available to it under national legislation and under other directly applicable EU law, in particular EU regulations.

Supervisory measures aim to ensure that supervised entities take the necessary action at an early stage to address any lack of compliance or risk of non-compliance with prudential requirements. These measures can be taken in the form of ECB decisions (adopted by the Supervisory Board/Governing Council upon the proposal of the relevant ECB business areas) or by means of operational acts (taken by the relevant ECB business areas outside the formal decision-making procedure). JSTs which directly supervise their institutions and/or the ECB business areas in charge of specific supervisory processes identify and assess the possible supervisory measures to be adopted. In this process, they take into consideration their effectiveness (i.e. degree of awareness, capability and reliability of the management bodies and other relevant staff) and proportionality and propose the most appropriate measure(s) for ensuring, within a reasonable time frame, the safety and soundness of the supervised entity. Supervisory measures include, for instance, requests to the supervised entities to hold additional own funds, to present a plan to restore compliance, to reinforce its governance arrangements, processes and strategies, to apply a specific provisioning policy or treatment of assets in terms of own funds requirements, to limit variable remuneration, to use its net profits to strengthen own funds, to restrict or prohibit distributions to shareholders or holders of Additional Tier 1 instruments, to restrict or limit the business, operations or network of institutions and to divest activities that pose excessive risks to the overall soundness of an

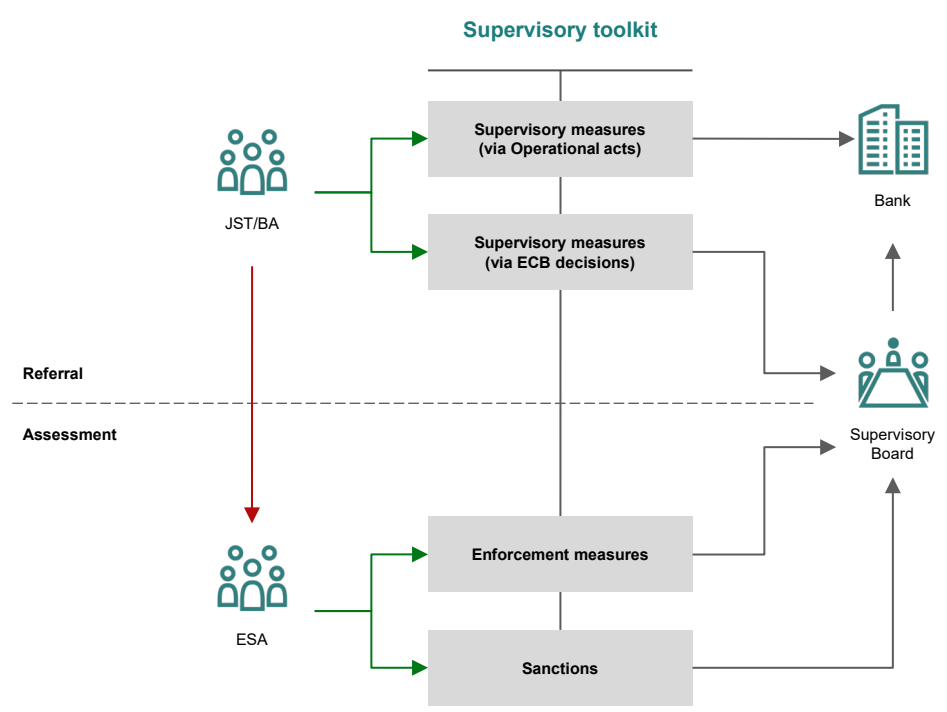


institution. The JSTs and/or other ECB business areas also select the instrument(s) to be used for implementing the relevant supervisory measures (i.e. operational act or formal ECB decision).

If supervised entities do not take the necessary measures in a timely manner and the situation which justified the intervention of the supervisor persists, further supervisory measures will be taken.

In any case, where the facts/circumstances also qualify for exercising enforcement and/or sanctioning powers, the respective processes may run in parallel.

**Figure 17**  
Allocation of tasks between Enforcement and Sanctions Division and JSTs



## 4.10.2 Enforcement measures

SSMR Article 9  
SSMFR Articles 25-35 and Article 129  
Council Regulation concerning the powers of the ECB to impose sanctions (EC/2532/98)

Enforcement measures aim to compel supervised entities to comply with the prudential requirements laid down in regulation, a national law implementing a EU directive or a decision. In cases where supervisory decisions are directly addressed to individuals, the relevant enforcement measures may also be imposed on those particular individuals.

### 4.10.3 Enforcement measures directly available to the ECB

#### Periodic penalty payments

The enforcement measures directly available to the ECB are known as “periodic penalty payments”. Periodic penalty payments are not intended to punish the supervised person concerned. They are enforced when a breach of an ECB decision or regulation is still ongoing in order to compel the supervised person concerned to comply with the obligations that have been imposed.

Periodic penalty payments may be imposed on significant institutions and on less significant institutions if the relevant ECB decision or regulation imposes obligations on less significant institutions vis-à-vis the ECB. They need to be effective and proportionate. The total amount that a supervised entity may be obliged to pay in the form of a periodic penalty payment is based on the number of days that elapse until it fully complies with the ECB decision or regulation breached. Periodic penalty payments may be imposed for a maximum period of six months from the date stipulated in the relevant decision or regulation. The upper limit on periodic penalty payments shall be 5% of the average daily turnover of the supervised entity concerned per day of infringement.

#### Publication

Periodic penalty payments imposed by the ECB are published on the ECB’s banking supervision website. However, the publication may be anonymised or delayed if (i) the publication would jeopardise the stability of financial markets or an ongoing criminal investigation, or (ii) the publication would cause, insofar as it can be determined, disproportionate damage to the person concerned.

#### Other tools directly available to the ECB

Under the applicable legal framework, for the exclusive purpose of carrying out its tasks, the ECB has all the powers and obligations which NCAs have under the relevant EU law. In particular, in the event of ongoing breaches of relevant EU law, the ECB may also adopt directly those measures that are available to NCAs under the relevant EU law that are considered as enforcement measures under the national legislation implementing relevant EU directives. The CRD is one of the main sources of enforcement measures under relevant EU law. For example, depending on the national implementation of the CRD, cease-and-desist orders could be included in this category.

## Enforcement measures indirectly available to the ECB

To the extent necessary to carry out its tasks, the ECB may also require NCAs, by way of instructions, to make use of their enforcement powers granted by national laws other than those implementing relevant EU directives under and in accordance with the conditions set out in national law, where the SSM Regulation does not confer such powers on the ECB.

### 4.10.4 Sanctions

[SSMR Articles 9 and 18](#)  
[SSMFR Articles 120-137](#)  
[Council Regulation concerning the powers of the ECB to impose sanctions \(EC/2532/98\)](#)

Sanctions aim to punish supervised entities for failing to comply with prudential requirements and to deter future breaches by the supervised entity, its managers and the entire banking system. Sanctioning proceedings may be initiated not only in the event of ongoing breaches but also after the breach has ceased to apply, provided that the limitation period for enforcing sanctions has not elapsed. The ECB is empowered to impose administrative penalties by virtue of Article 18 of the SSM Regulation.

### Allocation of sanctioning powers between the ECB and NCAs

The ECB may impose pecuniary penalties on significant institutions that breach directly applicable EU law, including ECB decisions or regulations. The ECB may also sanction less significant institutions for breaches of ECB regulations or decisions and impose on those entities certain obligations vis-à-vis the ECB.

As regards significant institutions, in the event of breaches of national law implementing EU directives, breaches committed by natural persons, or the imposition of non-pecuniary penalties, the ECB may request the relevant NCA to initiate sanctioning proceedings. The NCA shall conduct these proceedings and decide on the resulting penalties in accordance with applicable national law.

### Independent Investigating Unit

In order to ensure compliance with prudential rules and decisions based on these rules, the ECB has established an independent Investigating Unit (IU) whose tasks fall under the remit of the Enforcement and Sanctions Division.

The IU is responsible for investigating alleged breaches of directly applicable EU law, including ECB supervisory decisions or regulations, committed by significant institutions.

The IU is responsible for carrying out investigations, for granting significant institutions the right to be heard and, in cases where it considers an administrative penalty should be imposed, for preparing a proposal to the Supervisory Board for a complete draft decision.

In cases where sanctions need to be taken at the national level (i.e. breaches of national law implementing EU directives, breaches committed by natural persons, or non-pecuniary penalties), the IU prepares a proposal for a complete draft ECB decision requesting that the relevant NCA open proceedings.

## Investigation

If a suspected breach is referred to the IU, the unit is entitled to initiate an investigation. For this purpose, the IU may exercise the powers granted to the ECB by the SSM Regulation, meaning that it may request documents, examine relevant books and records, request explanations, as well as hold interviews and conduct on-site inspections. The IU may also request the NCAs, by way of instructions, to make use of their investigatory powers under applicable national law.

On the basis of the available evidence, the IU assesses whether there is reasonable suspicion of possible breaches. Should the IU come to the conclusion that no breach has been committed or the evidence is inconclusive, it closes the case.

## Hearings

Once it has completed its investigation, the IU may initiate sanctioning proceedings by addressing a statement of objections to the supervised entity concerned. The supervised entity is given the opportunity to comment on the facts, the objections raised by the IU and the intended amount of the penalty. The IU may also invite the supervised entity to an oral hearing.

## Sanctions adopted by the ECB

The ECB may impose pecuniary penalties of up to twice the amount of the profits gained or losses avoided because of the breach, or up to 10% of the supervised entity's total annual turnover in the preceding business year.

When deciding on the amount of the penalty, the ECB applies its [Guide to the method of setting administrative pecuniary penalties](#). The penalties imposed must be effective, proportionate and dissuasive.

## Publication

Administrative penalties imposed by the ECB are published on the ECB's banking supervision website. However, the publication may be anonymised or delayed if (i) the publication would jeopardise the stability of financial markets or an ongoing criminal investigation, and (ii) the publication would cause, insofar as it can be determined, disproportionate damage to the person concerned.

## 4.10.5 Breach reporting mechanism

SSMR Article 23

SSMFR Articles 36-38

The ECB has developed a breach reporting (i.e. “whistleblowing”) mechanism that allows anyone who, in good faith, has reason to suspect that a breach of relevant EU law has been committed by a supervised entity or a competent authority to report it to the ECB. The report is treated as a protected report, meaning that all personal data concerning both the person who submits the report and the person who is allegedly responsible for the said breach are duly protected in compliance with the applicable confidentiality and data protection standards enshrined in Regulation (EC) No 45/2001. The identity of a person who has submitted a protected report is not revealed without first obtaining the person’s explicit consent, unless its disclosure is required by a court order in the context of further investigations or subsequent judicial proceedings.

### Submission of a breach report

Different entry points exist within European banking supervision for a whistleblower to send a report.

1. There is an ECB reporting channel implemented via a [web form](#) on the ECB’s banking supervision website that directly forwards the report to the Enforcement and Sanctions Division. In addition to this dedicated channel, alleged breaches may also be reported to the ECB by other means (e.g. letters).
2. NCAs also have in place mechanisms to receive reports of alleged breaches from whistle-blowers.

The ECB is responsible for the reports relating to significant institutions in respect of alleged breaches of relevant EU law or national law implementing EU directives related to the supervisory tasks conferred on the ECB. The ECB is also responsible for the reports relating to less significant institutions in respect of alleged breaches of ECB regulations or decisions where they impose on those institutions obligations vis-à-vis the ECB.

NCAs are responsible for the reports concerning alleged breaches committed by less significant institutions other than breaches of ECB regulations or decisions imposing on those institutions obligations vis-à-vis the ECB.

The ECB and the NCAs reciprocally forward the reports received according to their competences. This is done without disclosing the identity of the person who submitted the report, unless that person gives explicit consent. The ECB also exchanges information with NCAs on the outcome of the follow-up to the reports forwarded to the NCAs or received from the NCAs.

## Assessment of the breach report and follow-up actions

The Enforcement and Sanctions Division assesses the reports that fall within the competence of the ECB and, where relevant, forwards the information contained in these reports to the relevant JSTs or other relevant ECB business areas for follow-up action. Breach reports fall under the ECB's competences, and are therefore assessed by the ECB, if they (i) relate to an NCA, the ECB or a supervised entity and (ii) refer to an alleged breach of relevant EU law or national law implementing EU directives.

### 4.10.6 Criminal offences

[SSMFR Article 136](#)

[ECB Decision on disclosure of confidential information in the context of criminal investigations \(ECB/2016/19\)](#)

Where the ECB, in carrying out its tasks under the SSM Regulation, has reason to suspect that a criminal offence may have been committed, it must request the relevant NCA to refer the matter to the appropriate authorities for investigation and possible criminal prosecution.

## 4.11 Assessing the eligibility of and monitoring institutional protection schemes

[SSMR Articles 6\(1\) and 6\(5\)\(c\)](#)

[CRR Article 113\(7\)](#)

[ECB Guideline on the principles for the coordination of the assessment and the monitoring of IPS for SIs and LSIs \(ECB/2016/37\)](#)

[ECB Guide on the approach for the recognition of IPS for prudential purposes](#)

An institutional protection scheme (IPS) is defined in the CRR as a contractual or statutory liability arrangement which protects its member institutions and, in particular, ensures that they have the liquidity and solvency needed to avoid bankruptcy where necessary. The competent authorities may, in accordance with the conditions laid down in the CRR, waive selected prudential requirements or allow certain derogations for IPS member institutions, as specified by the ECB [Guide on the approach for the recognition of institutional protection schemes for prudential purposes](#). The CRR provides that the competent authority can grant permission to credit institutions to apply a 0% risk weight to exposures to other counterparties that are members of the same IPS, with the exception of exposures giving rise to Common Equity Tier 1, Additional Tier 1 and Tier 2 items. This is the key provision in relation to the eligibility of an IPS for prudential purposes. Common criteria for the assessment of IPS eligibility are further specified in the aforementioned ECB Guide.

In some cases, both significant and less significant institutions under ECB and NCA banking supervision, respectively, are members of the same IPS. In the case of a request from a new IPS composed of significant and less significant institutions, the ECB and the relevant NCA need to assess jointly whether the IPS is eligible for preferential treatment under the CRR, and accordingly, whether related permissions and waivers could be granted by the relevant competent authority to individual members of the IPS. The ECB and the relevant NCA responsible for the direct supervision of the IPS member institutions should coordinate their monitoring activities in order to ensure that the criteria for the IPS eligibility assessment and the related granting of waivers are being applied in a consistent manner across

European banking supervision/the relevant supervised entities. This process is further laid down in the aforementioned ECB Guide.

## 5 Supervision of less significant institutions

As laid down in the SSM Regulation, the ECB is responsible for the effective and consistent implementation of the Single Rulebook and of the European Union's policy on the prudential supervision of all institutions in all Member States concerned.

The SSM Framework Regulation lays down the applicable practical arrangements and the framework of cooperation within the SSM established by the SSM Regulation, by specifying the allocation of responsibilities between the ECB and the national competent authorities (NCAs) for the supervision of institutions.

The ECB is entrusted with the responsibility for the direct supervision of significant institutions (SIs). The NCAs retain full responsibility for the direct supervision of less significant institutions (LSIs), in close collaboration with the ECB which is responsible for supervisory oversight.

In exercising its supervisory oversight mandate, the ECB ensures that the supervisory activities carried out by the NCAs meet high supervisory standards and promote a level playing field. In this role, the ECB is guided by the principle of proportionality, which translates into oversight activities being performed in accordance with each LSI's risk profile and the potential impact on financial stability.

### 5.1 Oversight activities

[SSMR Article 6](#)

[SSMFR Part VII](#)

[SSMFR Articles 19-21, 31\(1\), 43\(4\), 52, 99-100, 103 and 135](#)

[SRMR Articles 30\(2\), 30\(7\) and 34\(1\)](#)

In order to ensure a high standard of supervision across the SSM, the ECB has a wide set of tools at its disposal in the exercise of its oversight function. These include:

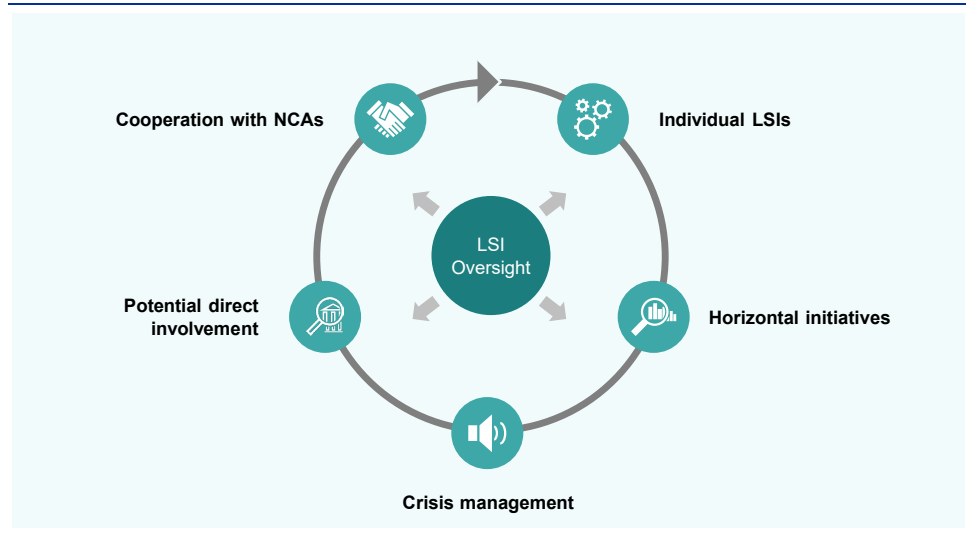
1. ongoing cooperation and regular interaction between the ECB and the NCAs at the technical and managerial level (further details in Section 5.1.1);
2. the oversight of individual LSIs and groups/sectors of LSIs (further details in Section 5.1.2);
3. the analysis of relevant supervisory topics across jurisdictions (further details in Section 5.1.3).

Ultimately, oversight activities are meant to foster the consistent implementation of high supervisory standards, in line with the objectives established under the SSM Regulation.



**Figure 18**

Activities performed by Directorate General Specialised Institutions & LSIs for oversight of LSIs



### 5.1.1 Cooperation with NCAs

Open and ongoing cooperation between the ECB and NCAs is key for the effective and efficient supervision of LSIs.

A key element in the oversight of LSIs are the regular interactions between the ECB and NCAs. These can be organised in different formats and at varying frequencies, and according to the specific needs. The most common interactions between the ECB and NCAs are the online and on-site technical and middle management level meetings. Senior management workshops/conferences are also scheduled on a regular basis. Both these types of interaction can be multilateral, i.e. involving all NCAs. An example of multilateral set-ups are senior management network meetings, where representatives of the ECB and all NCAs gather, discuss, and agree on relevant supervisory topics concerning LSIs.

To foster the cooperation and exchange of information among NCAs and the ECB, other forms of cooperation may include joint supervisory activities and staff exchanges. Moreover, the effective and efficient exchange of information and data on NCA supervisory activities concerning LSIs allow the ECB to collect and share good practices.

## 5.1.2 Individual oversight and the proportionality principle

[SSMR Articles 6, 12\(1\) and 31\(2\)](#)

[SSMFR Articles 96-98](#)

[ECB Guideline on the principles for the coordination of the assessment and the monitoring of IPS of SIs and LSIs \(ECB/2016/37\)](#)

[ECB Guideline on the approach for the recognition of IPS \(ECB/2016/38\)](#)

Without prejudice to the responsibility of the NCAs to directly supervise LSIs, the ECB engages in a range of activities aimed at analysing the situation in individual LSIs. These activities benefit greatly from specifically designed/specific data tools and on ongoing dialogue with the NCAs. NCA notifications are one typical example of official communication between the ECB and NCAs on LSI topics. Notifications are written documents and/or templates sent by the NCAs to the ECB. The ECB receives and assesses NCA notifications (as detailed in Box 2) and provides its views in line with both the SSM Regulation and the SSM Framework Regulation. The ECB's views are meant to provide the ECB's perspective on how any particular case could or should be handled by the relevant NCA.

The principle of proportionality steers the oversight activities and it means that individual LSIs are prioritised according to their risk profile and their relevance. The intensity of institution-specific and sectoral oversight activities, including the resources allocated to them, are tailored accordingly. They are prioritised on the basis of a risk-based methodology that classifies LSIs and LSI sectors according to their riskiness or/and systemic impact, as detailed in Box 1.

[SSMFR Parts IV and VII](#)

[SSMR Article 6](#)

[ECB Regulation on reporting of supervisory financial information \(ECB/2015/13\)](#)

The involvement of the ECB in the oversight of individual LSIs may become more intense as the financial situation of the institution deteriorates. This may occur in the event of crisis situations (further details in Section 5.1.4) or the ECB's direct takeover of supervision (further details in Section 5.1.5).

### Box 1

#### LSI classification framework

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As previously mentioned, the ECB oversight function is guided, among others, by the proportionality principle. The intensity of the oversight is determined, by the level of priority attributed to each institution, its riskiness and relevance for and within the SSM. The process of assigning a rank to individual LSIs is based on the classification framework and is driven by two key factors: (i) the potential impact of the failure of an LSI on the stability of the domestic or area-wide financial system, and (ii) the intrinsic riskiness of the institution. The ECB performs the impact assessment on a yearly basis and assesses several indicators for each institution, such as size, importance for the local economy, cross-border activities and the business model. LSIs with the highest potential impact on the system are classified as "high-impact LSIs". The assessment of the risk profile/intrinsic riskiness of each LSI is, however, performed on a quarterly basis. LSIs that are identified as most risky are defined "high-risk LSIs".

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### Box 2

#### Guidance on notification requirements for NCAs

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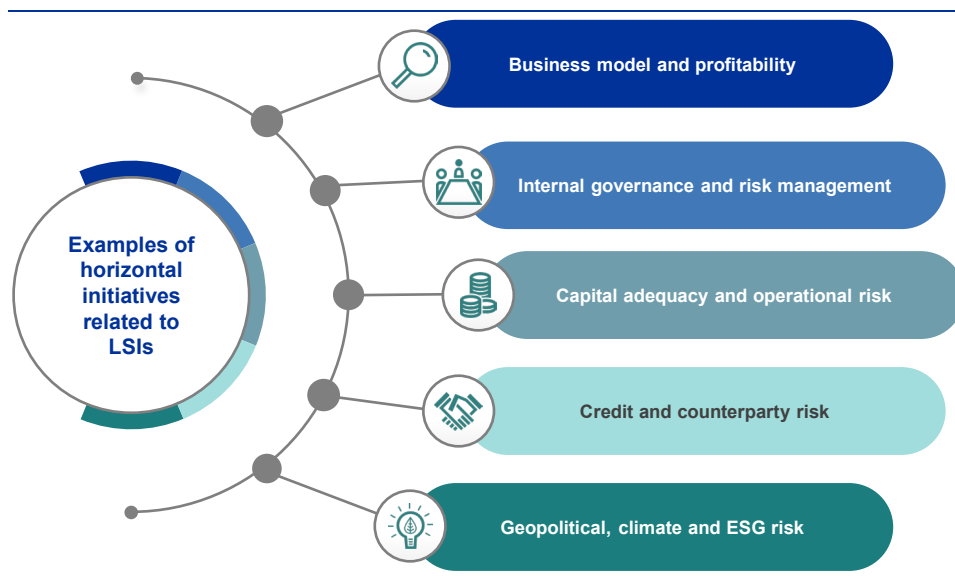
As mentioned above, notifications by NCAs are a key tool for fulfilling the ECB's mandate concerning LSI oversight. They ensure the timely and effective exchange of information on key

developments in individual LSIs. Notifications are official, written documentation formally submitted by the NCAs to the ECB when specific circumstances arise. For example, in relation to high-impact and/or high-risk LSIs, NCAs are expected to submit a notification to the ECB at the early stages of any material supervisory procedures and/or material draft supervisory decisions. At the same time, in accordance with predefined criteria, the NCAs must notify the ECB (i) in the event of any financial deterioration in individual LSIs, regardless of their classification, and (ii) for the annual and semi-annual ex post reporting.

### 5.1.3 Thematic reviews and horizontal deep dives

In addition to the activities presented above, the ECB, in close coordination with the NCAs, performs thematic reviews and deep dives on LSI sectors and on NCA supervisory practices. These reviews typically focus on specific risk areas, such as capital, credit, governance, IT and climate-related and environmental risks and are generally aligned with the relevant supervisory priorities and ongoing work relating to the significant institutions. These reviews and deep dives are often performed across countries to enable benchmarking at SSM level. Relevant NCA supervisory practices and emerging risks in the LSI sectors can be better identified through benchmarking. It also enhances the exchange of information and the sharing of good supervisory practices.

**Figure 19**  
Horizontal initiatives focusing on specific risks

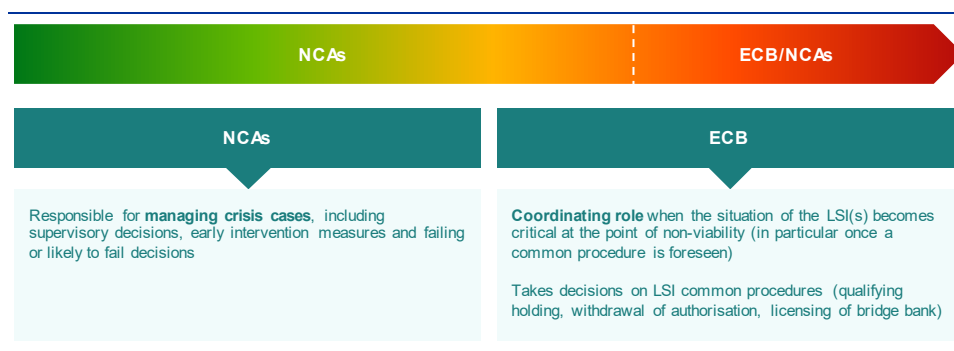


## 5.1.4 The role of the ECB in crisis management

In accordance with the SSM Framework Regulation, the responsibility for managing LSIs during a crisis lies with the NCAs and other relevant authorities at the national level. That said, when managing any crisis situation involving an LSI, the information exchange and coordination of the multiple stakeholders needs to be intensified to include other authorities in addition to the ECB and the NCA, including the national resolution authority and the Single Resolution Board. In this regard, while the NCA is still responsible for taking supervisory decisions in its capacity as direct supervisor of LSIs, the ECB is the competent authority for taking decisions on common procedures, for instance the withdrawal of banking authorisations.

**Figure 20**

Key responsibilities for crisis management



## 5.1.5 Potential direct involvement of the ECB

[SSMR Articles 6\(4\), 6\(5\)\(b\) and \(7\)](#)  
[SSMFR Articles 67-69](#)  
[SSMFR Part IV](#)

In accordance with the SSM Regulation and the SSM Framework Regulation, the ECB is entitled to increase its oversight activities, such as directly collecting data from individual LSIs, or participating in and/or conducting on-site inspections. However, in some specific cases and as outlined in the SSM Framework Regulation, the ECB may also become involved in the direct supervision of LSIs. These cases include taking over supervisory activities to ensure the consistent application of high supervisory standards or to follow up on a specific request by the NCA. Ultimately, the ECB also becomes responsible for direct supervision if the status of an institution changes from being an LSI to an SI as a result of a significance assessment.

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For specific terminology please refer to the [SSM glossary](#) (available in English only).

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