Sabine Lautenschläger: One year of SSM

Speech by Ms Sabine Lautenschläger, Member of the Executive Board of the European Central Bank, at an international conference on "One year of SSM effective and efficient supervision in a volatile world?", organised by the Institute of Law and Finance, Frankfurt am Main, 2 November 2015.

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Ladies and Gentlemen,

Let me thank the organisers of this conference, and especially Professor Schneider, for their kind invitation. I very much welcome this opportunity to share our experience of one year Single Supervisory Mechanism, in particular as our first year anniversary is only two days ahead of us.

> Back in November 2014, in a speech for the start of the Single Supervisory Mechanism (SSM), I compared the new system, the SSM, to an athlete at the start of his career. We only had a short period of training before going into our first competition. Today, almost one year later, we have gained experience and won some contests.
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> Let me mention some figures to give you some insight into the sport we practice:
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> The SSM directly supervises 122 banking groups. From January 2016 onwards this number will increase to 130. The balance sheets of these banks count for 25 trillion euro in assets and 82% of the banking business done in the euro area.
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> Overall, the ECB issued more than 1.200 supervisory decisions last year; our planning cycle for the first year included more than 8.000 activities.
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> Not only did we hire 1.000 new staff members at the ECB, but we also integrated 5.000 staff members from 26 national supervisory authorities, who were formerly responsible for supervision in their home country, into the SSM.
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> Since November 2014, the SSM is responsible for directly supervising 1200 individual banks, which until that point in time had been supervised according to 19 national interpretations of European law and according to specific national regulations, following a national supervisory tradition with varying degrees of quantitative and qualitative elements, with a historically grown reporting universe.

It was a busy first year.

And it was a successful first year as we made progress on many fronts.

> We achieved a lot regarding our main objective: we improved the resilience of 122 significant banking groups, of the 19 national banking systems, and of the European banking system as whole. The comprehensive assessment was the most publicly visible success, but many smaller and less visible steps followed and will still follow on our way to a safer and more sound banking system in the Euro Area.
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> As the SSM changed the way supervision addresses problems and communicates what it expects to be done by banks, it also changed the timing and the way banks, their management and their owners acknowledge shortcomings and find solutions.
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> One important step led to a common methodology for the supervisory review and evaluation process, the core of supervisory activities and the basis for the capital level the SSM expects a bank to hold according to its individual risk profile.
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> Starting with 19 different supervisory practices and information levels, it was pivotal to set a basis of quantitative as well as qualitative information about individual banks and the differences in national banking systems. We can now reap the fruit from

having a single European supervisor by moving our capacity for benchmarking to a European level.

But it was not only a busy year, it was a very special year, too. Everything we decided, we decided for first time. Everything we did set a precedent. Thus, everything had to be discussed in the Supervisory Board of the SSM, consisting of the representatives of the 26 national supervisory authorities as well as of 6 ECB representatives. We formulated supervisory policies in all major areas, for example large exposure limits, the fitness and properness of board members, conditions for changes in qualifying holdings, prerequisites for capital reductions and issuances, model approvals, capital and liquidity waivers, IPS etc.

We also discussed and agreed on concepts and processes for supervisory planning, onsite inspections, risk analysis, reporting of banks.

Integrating 19 national supervisory cultures and traditions with a wide range of administrative practices demanded and still demands organisational and methodological rigour. This rigour is sometimes misinterpreted as being not proportional or not in line with qualitative supervision. But common concepts and methods have helped and are helping us to put in place the fundamental pillars of a truly European supervisory approach. Some stakeholders had grown fond of some habits and customs. Those customs had to be abandoned to make room for a new common approach, as the objective of the SSM is not to preserve 19 national approaches but to foster convergence towards best standards of supervision.

It is not my intention to only look back at our past achievements. We cannot lean back and hope for easy wins in the years to come. There are still a lot of challenges ahead of us, which we have to face and address.

Firstly, there are issues for which we still lack a common approach. For example, what are our supervisory expectations regarding banks' liquidity risk management? What contingency planning do we expect from banks for outsourced services?

To answer these questions, we will establish common administrative practices via the already described process of collecting national and international best administrative practices, of benchmarking concepts and by taking into account the lessons learnt from the crisis.

Second, we need to further refine our benchmarking by using the knowledge we gained last year. Last year, we had to be tough on banks and on us to collect a lot of harmonised quantitative as well as qualitative information. This was necessary to lay the foundation for our work and to exploit that we are one of the biggest supervisors of the world. We are exceptionally well placed to look for the best practices and to identify emerging risks by using our unique database.

Good benchmarking combines strong analysis and data-driven assessment with expert judgement. It allows taking into account the specificities of individual banks while still fostering consistency of assessments across banks and countries. Good benchmarking looks at risks from multiple perspectives and helps to develop a deep, holistic understanding of each institution's overall risk profile and viability.

Third, we need to further analyse in detail and for each topic individually where we are able to create a harmonized approach within the SSM, where we are able to remove uneven playing fields. We already did so for the options and national discretion. In November we will consult on the legal text we drafted for executing the discretion given to us regarding the 122 OND identified and decided upon by the SB.

Apart from the famous ONDs, the current legal environment in which we operate is characterised by many different interpretations and national gold plating. In this context, we face a particular challenge. It goes without saying that the SSM applies national law; consequently, the SSM is not always able to ensure a level playing field when national laws diverge. Things get even more difficult when national supervisory practices are transferred into national law limiting the usual range of discretion needed by a supervisor to correctly do his job. These new national rules risk not removing but creating new elements of fragmentation and supervisory arbitrage.

Conclusions

Let me conclude by recalling a key lesson from the recent financial crises. The crises did not solely result from weaknesses in the regulatory framework. It is important to remember that the supervision of banks did not function optimally, either. We can all agree that banks should be subject to consistent prudential requirements based on their business model, risk profile and governance arrangements; to only name the most important characteristics. Prudential requirements should not be driven by the location of a bank's business or headquarter. Ultimately, banks which face comparable economic and financial conditions should receive the same regulatory and supervisory treatment. This is why a truly European Banking supervisor, the SSM, was created. The SSM's first year of supervision was overall a successful one. But we continue to face challenges so there is no reason at all to stop training. We have to stay vigilant and keep on with the work we have started.