



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Andrea ENRIA

Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Nikolaos Chountis
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 9 April 2019

Re: Your letter (QZ-022)

Honourable Member of the European Parliament, dear Mr Chountis,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 1 March 2019.

In your letter you request clarifications on loans granted, in recent years, by Greek credit institutions to Greek government representatives or, more generally, to the political system. Specifically, you raised questions concerning both the supervisory review of loans granted to the Greek political system by systemic and non-systemic banks, and the regulatory framework in place for granting loans to politicians and political parties, with which banks in the euro area need to comply.

As mentioned by my predecessor in a previous response¹, it is worth stressing that it is primarily the responsibility of banks, and in particular of their boards of directors and senior management, to devise, implement and oversee sound internal governance arrangements. This includes the process of extending loans to all types of counterparties, as well as the establishment and maintenance of effective internal control mechanisms to verify compliance with internal governance arrangements at all times. The provision of loans to political representatives, like loans to any counterparty, must be subject to these established procedures and be adequately monitored by the institutions.

Regarding significant credit institutions, as part of the tasks conferred upon the European Central Bank (ECB) as of 4 November 2014 by the Single Supervisory Mechanism (SSM) Regulation², the ECB carries out the Supervisory Review and Evaluation Process (SREP) on a regular basis. Key elements underpinning these activities are the review of the adequacy of an institution's governance and control framework in order to ensure that the institution adequately identifies, measures and monitors risks to which it is, or may be, exposed. Depending on the specific circumstances, these reviews may lead to the imposition of qualitative requirements aimed at improving the institution's internal credit-granting system. Moreover, as part of the

¹ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter180831_Chountis.en.pdf

² Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

supervisory priorities for 2019, ECB Banking Supervision will also focus on credit underwriting criteria and exposure quality, with a view to fostering best practices across the euro area.³

Regarding less significant credit institutions, the SSM Regulation provides that the national competent authorities are responsible for carrying out supervisory reviews in order to determine whether the governance arrangements and the internal control mechanism ensure an adequate management of risks, as well as for adopting all relevant supervisory decisions. The ECB exercises oversight over the functioning of the system, fostering a consistent application of high supervisory standards. In this context, the ECB closely cooperates with the Bank of Greece regarding the on-site and off-site supervision of less significant institutions in Greece.

As regards the regulatory framework, it should be furthermore noted that the Anti-Money Laundering (AML) Directive⁴ contains specific requirements for banks and other obliged entities when establishing and maintaining business relationships with (i) politically exposed persons, and (ii) legal entities whose beneficial owners are politically exposed persons⁵; political parties may fall under the latter category⁶. Monitoring, and taking measures necessary to ensure, compliance with the AML Directive is a task that has not been conferred on the ECB and remains with national authorities⁷. Therefore, more detailed information on the implementation of this specific aspect of the AML Directive in Greece can be provided by the responsible national authority, namely the Bank of Greece.

Finally, let me highlight that the ECB has recently signed an agreement on the practical modalities for the exchange of information between the ECB and the national supervisors in the European Economic Area which are responsible for ensuring compliance of credit and financial institutions with obligations regarding AML and countering the financing of terrorism (CFT).⁸ ECB Banking Supervision is committed to providing information to the relevant AML/CFT supervisory authorities, inter alia, about sanctions imposed on the directly supervised entities for shortcomings in governance and internal controls which is relevant and necessary for their AML/CFT supervisory tasks and expects to be informed by AML/CFT supervisory authorities about their findings that could be relevant and necessary from a prudential supervisory perspective, where envisaged under the AML Agreement.

Yours sincerely,

[signed]

Andrea Enria

³ See https://www.bankingsupervision.europa.eu/banking/priorities/html/ssm.supervisory_priorities2019.en.html

⁴ Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

⁵ See Article 20 of the AML Directive, as well as paragraphs 19, 52 and 53 of the Risk Factors Guidelines (JC/2017/37) issued jointly by the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority.

⁶ Through the application of the "beneficial owner" criterion; see Article 3(6)(a)(ii) in conjunction with Article 2(9)(b) or (c) of the AML Directive.

⁷ See Recital No 28 of Council Regulation (EU) No 1024/2013 of 15 October 2013.

⁸ See <https://esas-joint-committee.europa.eu/Publications/Other%20Documents/Agreement%20between%20CAs%20and%20the%20ECB%20on%20exchange%20of%20information%20on%20AML.pdf>