



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Andrea ENRIA

Chair of the Supervisory Board

COURTESY TRANSLATION

Ms Bettina Stark-Watzinger
Member of the German Bundestag
Platz der Republik 1
11011 Berlin

Frankfurt am Main, 20 March 2020

Re: Your letter of 17 January 2020

Honourable Member of the Bundestag, dear Ms Stark-Watzinger,

Thank you for your letter, which was passed on to me by Dr Wolfgang Schäuble, President of the German Bundestag, accompanied by a cover letter dated 20 January 2020, in line with the right of national parliaments to put questions to ECB Banking Supervision.¹

Before addressing the questions, I would like to underline that ECB Banking Supervision does not, in principle, discriminate among banks under its direct supervision on the basis of their location. The same applies to our staff, who are all considered Europeans and are not assigned to specific tasks on the basis of their nationality. The only exception to this rule is that, in principle, the coordinators of the Joint Supervisory Teams (JSTs) should not have the nationality of the country in which the bank they supervise is headquartered.

Regarding your first question on the clustering of banks, size and complexity are indeed among the aspects considered when deciding on the frequency and intensity of supervision, i.e. the supervisory engagement, for a particular institution. These factors, among others, are also taken into account when assigning supervised institutions to clusters, with “Cluster 1” covering the largest and most complex institutions. For German significant institutions (SIs), the distribution across clusters is as follows (taking into account that in accordance with the Capital Requirements Directive (CRD IV), I cannot disclose any confidential bank-specific information): one “Cluster 1” institution; two “Cluster 2” institutions; six “Cluster 3” institutions; five “Cluster 4” institutions; and seven “Cluster 5” institutions. Since the inception of the Single Supervisory Mechanism (SSM) in 2014, the following changes in the allocation of German SIs across clusters have occurred: the addition of one “Cluster 2” institution; the subtraction of two “Cluster 3” institutions; and the

¹ In accordance with Article 21(2) of 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 (SSM Regulation).

addition of one “Cluster 4” institution. These changes reflect adjustments in banks’ significance status and reclassifications of banks among clusters.

Regarding your questions on the composition of JSTs, I would first like to remark that both the ECB and national competent authorities (NCAs) are subject to a duty of cooperation in good faith.² JSTs are composed of staff from the ECB and the NCAs of the countries in which the credit institutions, banking subsidiaries or significant cross-border branches of a given banking group are established. The size, overall composition and organisation of a JST is tailored to the size, business model and risk profile of the bank it supervises. JST coordinators lead the teams and steer their supervisory activities. JST coordinators and members are expected to rotate on a regular basis, although not all JST members can rotate at the same time. The Supervisory Board receives regular updates on which coordinators have been assigned to the different JSTs.

On the assignment of NCA resources to JSTs, the ECB and the NCAs consult and agree on the related appointments.³ The initiative to appoint a JST member lies with the NCA concerned, but the ECB may require NCAs to adjust their appointments. An NCA appointing more than one staff member to a JST shall select a local coordinator from among the appointees.

The NCAs contributing to the staffing of JSTs are selected according to the geographical weight of the banking group. There are no numerical limits to the proportion of NCA staff in a JST, but a disproportionate representation of a specific NCA in a JST would be an aspect to be raised between the ECB and the relevant NCA. Thus, NCAs have broad but not full discretion in assigning supervisors to a JST. For countries such as Germany, where the national central bank (NCB) assumes a role in banking supervision in addition to the NCA, both institutions contribute to the staffing of the JSTs.

Since the start of the SSM, ECB Banking Supervision has organised annual JST staffing surveys to monitor the number of staff assigned by NCAs to JSTs. On the basis of the survey outcomes, the ECB and NCAs review at several levels, including the Supervisory Board, the adequacy of JST staffing. These discussions focus on the number of staff assigned by the NCAs to work in the JSTs, as the ECB staffing available for JST work is determined by the above-mentioned clustering model.

Since 2019 the ECB has been implementing a new methodology to determine the adequate target level of NCA staff per JST by organising what are known as JST-by-JST discussions. In these discussions, the JST coordinator and the local coordinator examine JST staffing adequacy in case personnel levels have been found to deviate relative to the JSTs for other banks of a similar size and complexity. This leads to a target number of staff being assigned to a JST by the ECB and the NCAs based on the clustering model developed by the ECB.

The average share of NCA staff in JSTs currently stands at approximately 60%, the remainder being employed by the ECB. This percentage has decreased slightly compared with the start of the SSM in 2014, when the initial headcount of ECB Banking Supervision proved insufficient to cover the workload deriving

² Article 6(2) of the SSM Regulation.

³ Article 4 of Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation).

from the ECB's mandate. For this reason, from 2015 ECB Banking Supervision increased the human resources available for allocation to JST work.

With regard to the share of ECB employees in JSTs by contract type, as of 1 January 2020 around 4% of JST staff were employed on the basis of "ESCB/IO-contracts", i.e. contracts for staff seconded from NCAs or NCBs, which may have a duration of up to 36 months; about 10% were employed on the basis of short-term or fixed-term contracts, i.e. contracts of a limited duration between three months and a maximum of five years; and the remaining 86% were employed on the basis of either fixed-term contracts, with the possibility of conversion to a permanent contract, or permanent contracts. While most secondees on "ESCB/IO-contracts" from NCAs or NCBs return to their previous employer, some have successfully applied for fixed-term positions through ECB recruitment campaigns. Regarding the salaries paid to the ECB's JST team members, we refer to the ECB's salary table published on our website.⁴ The ECB has no information regarding the salaries of JST staff from NCAs or NCBs.

As of January 2020, within ECB Banking Supervision, 23 European nationalities were represented at the level of divisional management, i.e. the positions Head of Division, Head of Section and Adviser; six European nationalities were represented at the level of senior management, i.e. Director-General and Deputy Director-General; and five European nationalities were represented at Supervisory Board level, i.e. the positions of Chair, Vice-Chair and ECB Representatives. Across all managerial levels, 24 European nationalities were represented.

Turning to your question on supervisory fees, please note that ECB Banking Supervision provides every year an overview of the expenditure incurred for the conduct of its supervisory tasks and of the fees collected in a dedicated Chapter of the ECB Annual Report on supervisory activities.⁵ The Annual Report also includes a breakdown of expenditure across SIs and less significant institutions (LSIs). Generally, the cost of indirect supervision of LSIs makes up approximately 10% of the total. In line with Article 1(2) of the ECB Regulation on supervisory fees⁶, the annual fees are calculated at the highest level of consolidation. This means that one entity pays the fee for the entire banking group regardless of where the individual entities are located. A country-by-country breakdown would therefore be misrepresentative.

With regard to the impact of supervisory activities on German SIs, I would like to highlight that the various JSTs are closely monitoring the risks in German SIs with a view to ensuring consistency and proportionality within the European banking supervision. The supervisory risk assessment scores for German SIs have been largely stable at a level of around 2.5-2.6 within the scale of increasing risk from 1 to 4, which translates into a medium to medium-high risk score. While some improvements were observed in the areas of business model and credit risk over time, concerns over banks' governance have increased.

⁴ See the Minimum net salary table available at <https://www.ecb.europa.eu/careers/what-we-offer/benefits/html/index.en.html>.

⁵ See Chapter 6 of the ECB Annual Report on supervisory activities 2019 published on 19 March 2020 and made available at <https://www.bankingsupervision.europa.eu/press/publications>.

⁶ Regulation (EU) No 1163/2014 of the European Central Bank of 22 October 2014 on supervisory fees (ECB/2014/41).

To further outline the process of our supervisory activities and measures, let me share some insights on the supervisory findings addressed to German SIs. The findings draw on data collection and investigations conducted via on-site inspections, deep dives and internal model assessments conducted as part of the SSM-wide targeted review of internal models (TRIM). We have observed that the level of newly generated findings have remained constant over the past few years and have been on average of moderate severity. Supervisory findings in 2019 were mostly related to credit risk, followed by governance issues and market risk. German SIs have been comparatively quick in addressing supervisory findings in the past, but the constant level of new findings reflects the need for JSTs to continue their ongoing and intrusive supervision.

The aggregate Common Equity Tier 1 (CET1) ratios⁷ of the German banking sector and all euro area banks under the direct supervision of the ECB have both followed an increasing trend over the past four years (+1.09% for German SIs and +1.45% for all euro area SIs). These observations are the main consequences of the entry into force of the Capital Requirements Regulation and Capital Requirements Directive 4 which requires banks to hold progressively more capital and of better quality.

As for the supply of credit, our data shows that exposures in the credit portfolio of German banks under our direct supervision have increased, while the portfolio mix remained largely stable. However, and similarly to all euro area banks directly supervised by the ECB, it cannot be determined whether European banking supervision has had an impact on the credit supply. Changes in loans growth are a result of changes in demand and supply, with loans supply constituting an individual business decision by banks based on several internal and external factors. It is therefore not possible to isolate a specific impact of supervisory action.

Your last question relates to audits of the European Court of Auditors (ECA) of ECB Banking Supervision. The ECB highly values the ECA's external perspective on what can be further improved in banking supervision. In 2019 the ECB and ECA agreed a Memorandum of Understanding (MoU) that establishes practical information-sharing arrangements between the two institutions. This is a sign of goodwill between both parties and of the shared intention to cooperate constructively in the context of ECA audits of ECB Banking Supervision.

Following the ECA audit on crisis management, ECB Banking Supervision received eight recommendations on various issues, including cooperation with external actors, the use of recovery plans for crisis identification and management, and guidance on early intervention assessments. The ECB has accepted the majority of the recommendations and has developed precise action plans and follow-up measures.⁸ These have nearly been completed and are due to be finalised in the course of 2020. For instance, ECB Banking Supervision further developed its guidance on early intervention assessments and enhanced the relevant indicators and thresholds for determining a potential deterioration in the financial condition of a bank. Furthermore, with regard to recovery planning, additional guidance was provided to supervisors to promote a consistent approach across banks with similar business models. Lastly, it should also be noted that the status of

⁷ Fully loaded CET1 ratio. Please note that the observations in this and the subsequent paragraph are based only on a constant sample of German and euro area SIs that have reported in each of the periods since the fourth quarter of 2015.

⁸ For further details, see Annex 1 of ECA Special Report, "The operational efficiency of the ECB's crisis management for banks", No 2, 2018.

implementation of all ECA recommendations is monitored regularly by the ECB, while the ECA also conducts follow-up exercises.

Yours sincerely,

[signed]

Andrea Enria