Supervision of significant institutions under the Single Supervisory Mechanism

Setting up and organising the JSTs

Margarita Delgado
Deputy Director General
Micro-Prudential Supervision I

CUNEF & KPMG – El comienzo de la Supervisión
Europea

Madrid, 31 Octubre 2014
I. Organization of supervision

II. Joint supervisory teams (JSTs)
   II.1 Definition and responsibilities
   II.2 Composition and governance
   II.3 Setting up
   II.4 Challenges

III. Conclusions
I. Organization of supervision

II. Joint supervisory teams (JSTs)
   II.1 Definition and responsibilities
   II.2 Composition and governance
   II.3 Setting up
   II.4 Challenges

III. Conclusions
I. ORGANIZATION OF SUPERVISION

Organizational chart of the SSM

Direct Supervision over significant banking groups

DG Micro I
- 220 FTEs

Div. 1 Div. 2 Div. 3 Div. 4 Div. 5 Div. 6 Div. 7

DG Micro II
- 190 FTEs

Div. 1 Div. 2 Div. 3 Div. 4 Div. 5 Div. 6 Div. 7 Div. 8

Indirect Supervision over less significant banking groups

DG Micro III

Analysis and Methodological Support Div
Institutional & Sectoral Oversight Div
Supervisory Oversight & NCA Relations Div

DG Micro IV

Sup. Quality Assurance Div
Sup. Policies Div
Methodology & Standard Dev Div
Authorisation Div
Risk Analysis Div

Horizontal Supervision & Specialised Expertise

Enforcement & Sanctions Div
Crisis Management Div
Planning & Coord. of SEP Div
Centralised on-site inspec. Div
Internal Models Div

Secretariat

SB Secretariat Directorate

Organizational structure

- Organizational structure at the service of the SSM supervisory approach
  - Forward looking
  - Homogeneity and consistency
  - Proportionality
  - Risk based approach
  - Integrity and decentralization
  - Effective and timely measures

- Promotion of the sharing of best supervisory practices and insights across
  - Communication
  - Close cooperation
  - Smooth hand over of supervisory works in transition period
  - Exchange of information and views
  - Vertical and horizontal perspectives

STRONG INTEGRATION OF NCAs INTO THE JSTs STRUCTURE
I. ORGANIZATION OF SUPERVISION

Joint Supervisory Teams at the core of direct supervision of significant institution

- Colleges of supervisors
  - After 4 Nov., only if involvement of NCA from non-SSM Member State (European College) or from third country (international College)
  - Colleges where all NCAs are SSM NCAs, will be replaced by JSTs
  - JST is lead (home) or member (host) of the college
AGENDA

I. Organization of supervision

II. Joint supervisory teams (JSTs)
   II.1 Definition and responsibilities
   II.2 Composition and governance
   II.3 Setting up
   II.4 Challenges

III. Conclusions
JST. Definition and responsibilities

- **Organization**
  - A JST for every significant banking group
  - Composition: Staff from both ECB and NCAs of countries where credit institutions, banking subsidiaries or significant cross-border branches are established.
  - Coordinator: ECB staff
  - Tailored in their size, composition and organization, depending on the supervised institution: complexity, size, business model and risk profile
  - Rotation of coordinator and members on a regular basis

- **Responsibilities**
  - Day-to-day supervision
  - Implementation of the annual supervisory examination programme
  - Implementation of the decisions of Supervisory Board / Governing Council
II. JOINT SUPERVISORY TEAMS (JSTs)

Promoting integration of NCA staff into JST processes
Making JSTs operational: set up

Unique concept in inter-institutional banking supervision (vs. colleges of supervisors or working groups)
II. JOINT SUPERVISORY TEAMS (JSTs)

Role of the core JST

- In the case of JSTs comprising a large number of staff
- Chaired by the JST coordinator
- Comprising sub-coordinators of all involved NCAs depending on the materiality of local subsidiaries (always previous consolidated supervisor)
- Operating steering forum of the JST: e.g. allocation of tasks among JST members, preparation and revision of supervisory examination programme (SEP)
- First level of mediation in case of conflicts between NCAs or between NCAs and the ECB
Role of the JST coordinator

- Coordinate JST staff

- Reception of information and reports on supervisory issues from both ECB and NCA staff

- Responsible for
  - Determining whether an issue is taken up to the level of the Supervisory Board
  - Submitting the draft decision proposals prepared by the JST

- May ask other supervisors with specific expertise within ECB or NCAs to support the JST (e.g. internal models)

- Determine on the conduct of ad-hoc supervisory tasks by the JST that may be necessary to respond to emerging risks or other developments
Role of the JST sub-coordinators

- Support the JSTC in organizing the work on national and potentially on ECB level
- Coordinate the on-going supervision on a national level
- Ensure quality of national work and consistency with SSM policies and procedures
- Bring views of NCA management into the decision process
- Contribute to preparation and revision of SEP
- Contribute to preparation of JST decisions
- Might be mandated with the management of specific tasks
- Responsible for providing relevant information to the JST on material procedures that are remit of the NCA (e.g. AML/CTF) so that the risk profile of a significant institution can be fully assessed
II. JOINT SUPERVISORY TEAMS (JSTs)

Decision making process
Roles of ECB, JST and NCA

ECB: entry point for requests (unless expressly provided otherwise)

JST analyses and prepares a draft decision

Decision-making Supervisory Board submits draft decisions to Governing Council

NCA
- Assist the ECB by preparing a draft decision upon request or on their own initiative
- Follow the ECB’s instructions
II. JOINT SUPERVISORY TEAMS (JSTs)

Challenges
Integration of NCAs staff into JSTs processes
How to promote integration?

ECB needs to rely on experience and knowledge NCA has got through years

Promoting integration before the operational start of the SSM

→ Establishment of organizational structures that allow and facilitate it: supervisory structure and model, allocation of tasks and responsibilities with the participation of the NCAs

→ Communication with the NCAs as a key priority for the JSTs coordinators → Emotional intelligence against the change and new responsibilities framework → Respectful approach; strong interaction between ECB & NCA management; need to reach consensus and consistency at JST level

→ JST needs to be based on clear and consistent communication about roles and responsibilities

→ Kick-off meetings of core and full JSTs after senior management visits to countries
II. JOINT SUPERVISORY TEAMS (JSTs)

Challenges
Integration of NCAs staff into JSTs processes
How to promote integration?

ECB needs to rely on experience and knowledge NCA has got through years

- Promoting integration after the operational start of the SSM
  - Refresh messages: clarity and consistency about roles and responsibilities
  - Establishment of communication and information exchange routines
    - Within the core JST: regular meeting both physical and conference calls
    - Within the JST: regular conference calls with non-core JST sub-coordinators, and whole team meetings (probably once or twice a year)
    - Bilateral contacts as often as needed
    - Ad-hoc meetings (e.g. workshops on specific issues)
II. JOINT SUPERVISORY TEAMS (JSTs)

Challenges
Integration of NCAs staff into JSTs processes
How to promote integration?

ECB needs to rely on experience and knowledge NCA has got through years

- Progressive evolution (vs. revolution):
  1. Learning about practices
  2. Promoting overtime best and more consistent practices across the Eurozone
  3. Close cooperation with NCA intermediate structures
I. Organization of supervision

II. Joint supervisory teams (JSTs)
   II.1 Definition and responsibilities
   II.2 Composition and governance
   II.3 Setting up
   II.4 Challenges

III. Conclusions
Some conclusions

- The Joint Supervisory Teams (JST) will be the core of the direct supervision of the significant institutions

- A new organization, with new rules and procedures but...

- … also with strong expertise and deep knowledge within the NCAs that must be integrated into the new structure

- Against the challenge to integrate NCA staff:
  - Clear and consistent communication about roles and responsibilities
  - Active participation of NCAs in JST processes
  - Establishment of efficient communication channels
Thank you for your attention

Margarita Delgado
Deputy Director General
Micro-Prudential Supervision I
EUROPEAN CENTRAL BANK
Margarita.Delgado@ecb.europa.eu
+49 69 1344 4283