EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

Mr Jeroen Dijsselbloem, Minister of Finance Minister of Finance of The Netherlands Postbus 20201

NL - 2500 EE Den Haag

Frankfurt am Main, 20 February 2017

Dear Mr Dijsselbloem,

Thank you very much for your letter of 6 February, which takes stock of the ongoing progress in the functioning of the banking union. Indeed, over the last two-and-a-half years, much progress has been made towards creating a system of single European supervision which enhances the soundness of the European banking system.

In your letter you highlight a number of issues, our views on which are summarised below.

You mention the difference between two types of exercises: on the one hand, the comprehensive assessments, which the ECB conducts on all institutions that are likely to newly fall under direct ECB supervision in any given year (130 institutions in 2014, 9 in 2015 and 4 in 2016) as well as in specific situations such as the 2015 recapitalisation of Greek banks; and on the other hand, the stress test conducted in 2016.

We consider comprehensive assessments (including asset quality reviews, or AQRs) to be an appropriate and valuable tool for reviewing specific samples of institutions on given occasions when the accuracy of valuations in a large part of the balance sheet needs to be ascertained, whereas stress tests should be conducted regularly on wider samples of institutions. AQRs are resource-intensive for both banks and supervisors and imply high costs. Consequently, unlike regular stress tests, they cannot be repeated for a large number of institutions on a regular basis. Nevertheless, the "loan tape reviews" conducted during some on-site inspections effectively play the same role as AQRs with targeted asset portfolios.

Website: www.bankingsupervision.europa.eu

By contrast, the stress tests of 2016 were used to inform decisions on Pillar 2 guidance (P2G), a new concept introduced last year in the Supervisory Review and Evaluation Process (SREP), in a holistic manner. Reflecting the different nature of the two exercises, the disclosure regime and the use of "benchmarks" (or "hurdle rates") differed between the 2016 stress test and the comprehensive assessments. The selection of banks for participation in the European Banking Authority (EBA) EU-wide stress test 2016 was made with a view to achieving 70% coverage of banking assets in the Single Supervisory Mechanism (SSM), as had been decided by the EBA and was also the case for other jurisdictions. The omission of pre-defined hurdle rates was a choice made by the EBA, as well as a consequence of the qualification of the 2016 stress test as a supervisory exercise.

With regard to the European Court of Auditors (ECA) and its first report on the SSM, the ECB has fully cooperated with the ECA, allocating considerable resources and time to providing the audit team with a substantial number of documents and explanations related to the object of the audit: operational efficiency of the management of the ECB. The ECB will continue its efforts to ensure a constructive exchange with the ECA.

Regarding our cooperation with the Single Resolution Board (SRB), in 2016 the SRB and the ECB implemented the bilateral Memorandum of Understanding, establishing rules for cooperation and information exchange, which was concluded at the end of 2015. As a result, we had a very close and fruitful cooperation and a full exchange of information within our respective mandates. I am very confident that we will continue supporting each other in our complementary mandates. Let me add that, at the end of last year, the ECB adapted its IT systems to allow staff and Board Members of the SRB more direct access to the supervisory data available at the ECB, in line with the provisions of the Memorandum of Understanding. This replaced the previous, less efficient practice of sharing electronic documents and ensures that the reporting burden on banks is kept to a minimum.

In your letter you also underline the importance of a clear separation between the ECB's monetary policy and supervisory functions and highlight the need to examine risks posed by shared services. The ECB shares your views on the importance of separation, as it ensures that tasks conferred on the ECB by the SSM Regulation will not interfere with, nor be determined by, its tasks relating to monetary policy, as prescribed by Article 25 of said Regulation. The ECB Decision on Separation (ECB/2014/39) regulates the conditions under which "shared services" can be established and sets comprehensive rules regulating the confidentiality regime and information sharing.

With respect to transparency, I fully share the objective of improving the transparency, consistency and predictability of banking supervision. ECB Banking Supervision has made significant efforts to explain its supervisory approach to the public, in particular through the publication of a guide to banking supervision,

a booklet on the SREP, FAQs on stress tests, workshops on SREP with bank CEOs, enhanced supervisory dialogue, etc. Banks are neither prevented nor dissuaded from disclosing information regarding the SREP, although it is important to distinguish between Pillar 2 requirements (P2R), which are relevant in determining the "maximum distributable amount", MDA in short, and P2G, which does not affect the MDA.

I hope this letter helps to clarify the ECB's positions on the topics raised in your letter. I stand ready to meet with you, or to join a dedicated discussion in the Eurogroup, to further elaborate on these issues.

With kind regards,

[signed]

Danièle Nouy

Cc: Mr Mario Draghi (President, ECB)

Ms Elke König (Chair, SRB),

Mr Valdis Dombrovskis (Vice-President)

Ms Margrethe Vestager (Commissioner)