EUROPEAN COURT OF AUDITORS

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Press Release
Luxembourg, 18 November 2016

New EU banking supervisory system: a good start but important issues still need to be addressed, say Auditors

The European Central Bank (ECB) succeeded in setting up and staffing the Single Supervisory Mechanism (SSM) within a narrow timeframe, according to a new report from the European Court of Auditors. Through the SSM the ECB is now responsible for direct supervision of some 120 of the most important banking groups in the euro area. However, it is too heavily reliant on national competent authorities to ensure 'full and effective supervision', as required by EU law.

The Single Supervisory Mechanism was set up in 2014 to take over much of the work previously done by national banking authorities. It operates under the authority of the ECB but also closely involves the Member States.

This was the ECA's first audit of the ECB's operational efficiency with respect to the SSM, and the audit findings are mixed, say the auditors. They found that in setting up the SSM the ECB has not analysed supervisory staffing needs in the necessary detail, and that current staffing levels are insufficient.

Although the SSM Regulation put the ECB in charge of directly supervising large banking groups, ECB staff led only 12% of on-site inspections of these banks, and overall the inspection teams were predominantly staffed (92%) by the national competent authorities. Similarly, off-site supervision is heavily dependent on staff appointed by the Member State authorities, with the ECB having little effective say over the composition and skills of joint off-site supervisory teams.

The auditors also found that the ECB lacks a complete staff evaluation system for staff of national supervisors participating in joint supervisory teams and a proper database of skills to ensure the effectiveness of both on-site and off-site supervision teams. They point out that, while the SSM Regulation requires monetary and supervisory tasks to be carried out in full separation, the ECB has taken the view that this allows the use of certain shared services. This saves on resources, say the auditors, but the risk of possible conflicts of interests in some areas needs to be addressed.

The auditors have expressed concern about their lack of access to many documents during this audit. Speaking of the audit process, **Neven Mates, the ECA Member responsible for the report, had this to say**: "*We were able to fulfil our task only partially, since the information provided to us by the ECB was insufficient to completely assess the operational efficiency of its management in respect of the supervisory function. The ECB withheld many documents that we considered necessary for this purpose, arguing that they did not concern the operational efficiency of its management. The Court is currently considering its options with regard to the access to documents it considers necessary to audit the operational efficiency of the ECB's management.*"

The purpose of this press release is to convey the main messages of the special report adopted by the European Court of Auditors.
The full report is on www.eca.europa.eu

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Based on the audit findings, the auditors have recommended that the ECB take the following main actions:

- On-site supervision: The presence of the ECB in on-site inspections should be substantially strengthened;
- Off-site supervision: The ECB should ensure that staff numbers and skills are adequate and enhance its skills identification and staff allocation tools;
- Accountability: The ECB should provide documents as required for audit purposes and establish a supervision performance framework;
- Governance: Decision-making should be simplified and the risks posed by shared services should be examined.

The ECB has accepted these recommendations in full, with one exception concerning the shared services and the influence of SSM Supervisory Board officers over the ECB's budget for supervisory activities. The ECB view is that the Supervisory Board does not exercise control over the supervisory budget or human resources as it is not a decision-making body of the ECB but was grafted on to the ECB institutional structure by the SSM Regulation.

Notes for Editors

The 2008 global financial crisis caused severe disruption to many European economies. The knock-on effect on the banking sector, after years of deregulation and increasing risk-taking, was that many lending institutions were forced to turn to governments for financial support. To break the "vicious circle" of excessive risk-taking and government bail-outs, in 2012, seeking a lasting solution in the euro area, EU leaders formally announced the common regulation of banks through a European banking union.

The main pillars of banking union were to be the centralised supervision of euro-area banks, a mechanism to ensure that failing banks were wound up at minimal cost to the taxpayer and the economy, and a harmonised system of deposit guarantees. The first step - centralised supervision - entailed the creation in 2014 of the SSM to take over much of the supervisory work previously done by national authorities. The SSM was placed under the authority of the European Central Bank but also closely involves national supervisors, or national competent authorities (NCAs), in the Member States.

Special Report No 29/2016: "Single Supervisory Mechanism - Good start but further improvements needed" is available in 23 EU languages.