



Press Release

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Crisis management by the European Central Bank: a substantial framework but flaws remain, say EU Auditors

The European Central Bank (ECB) has established a substantial framework for crisis management, but some flaws remain to be addressed, according to a new report from the European Court of Auditors (ECA). Guidance to staff for early intervention assessments as well as for “failing or likely to fail” assessments should be enhanced, say the auditors.

The ECB assumed extensive responsibilities for banking supervision in 2014. There are now around 120 banks in the euro area under its remit. Recent legislation provides for increasingly intensive supervisory attention from the ECB when a “systemically important” bank in the EU exhibits signs of being in difficulty. Should a bank reach the point where it is failing or likely to fail, it is then for the Single Resolution Board to take charge of its resolution. The auditors found that the ECB has in fact established a substantial framework for crisis management within its supervisory remit.

Resources for the assessment of bank recovery plans and the supervision of banks in crisis appear satisfactory, despite some weaknesses in initial planning and a need to improve the allocation of staff to the most urgent situations.

The ECB is finalising arrangements for external cooperation and coordination with other supervisory authorities and the Single Resolution Board. Nevertheless, the outstanding issues have the potential to delay and restrict information-sharing and detract from the efficiency of coordination, say the auditors.

Procedures for assessing banks’ recovery plans are in place, and the assessors have access to useful tools and guidance. However, the results of recovery plan assessments are not systematically used for crisis identification and response.

The ECB’s operational framework for crisis management has some flaws, say the auditors, and there are some signs of inefficient implementation. Guidance for early intervention assessments is underdeveloped and does not define objective criteria or indicators for determining that a bank has entered a crisis situation. There is no guidance on the best use of the ECB’s powers in specific scenarios and guidance on “failing or likely to fail” assessments is lacking in scope and detail.

The auditors make a number of recommendations to improve the operational efficiency of crisis management by the ECB. These include better use of the insights gained from recovery plan assessments

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

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and obtaining assurance about the asset quality of institutions whose financial condition has markedly deteriorated.

The auditors also note that despite some positive cooperation, the ECB nonetheless refused to provide important evidence which the ECA had requested. This had a negative impact on the audit work to the extent that the ECA was able to draw overall conclusions about the design of the ECB's processes, but was unable to confirm the operational efficiency, in practice, of its crisis management.

Wider context

The ECA has a mandate to audit the 'operational efficiency' of the management of the ECB. This is the ECA's second audit of the ECB's involvement in banking supervision and complements its audit of the Single Resolution Board (SRB), published just last month. As one would expect, there are common themes in the reports, and we found in both this audit report and the report on the SRB that there is a need for improvement in the interactions between the two bodies. Early engagement, a good flow of information and ensuring there are no important regulatory or supervisory gaps between them is essential to the efficient management of a bank in crisis. There is a memorandum of understanding between the ECB and SRB to provide guidance on these things, but this needs to be improved, and legislators should consider a number of actions to align the mandates of the SRB and ECB and improve the information flow between them.

The auditors note that both the ECB and the SRB have accepted most of the recommendations in their respective audits. Auditors will follow these up in the future to check on implementation.

Notes to Editors

The 2008 financial crisis prompted large changes in financial regulation in the EU. The legal framework for banking supervision was strengthened and the Single Supervisory Mechanism (SSM) was established in 2014. Supervision of large banks in the euro area became the responsibility of the European Central Bank (ECB). The SSM comprises the ECB and the national supervisory authorities of the participating countries. One of its main aims is to enhance the stability of the euro area banking system. There are more than a thousand supervisory staff at the ECB.

For the purposes of this audit, the auditors examined the ECB's crisis management within its supervisory capacity. Crisis management involves identification by the supervisor of a deterioration in the financial situation of a bank and, where necessary, the use of early intervention powers. It also includes advance recovery planning by banks in order to be prepared for a crisis.

Reflecting their importance, the ECA has carried out a number of audits of the regulatory and supervisory infrastructure for banks and other financial firms, with further audits in prospect. This is the second ECA report in a month on the EU's systems for handling banks in difficulty. The first was published in December 2017 and is entitled "Single Resolution Board: Work on a challenging Banking Union task started, but still a long way to go".

This report should also be read in conjunction with the ECA's 2016 audit of the "Single Supervisory Mechanism - Good start but further improvements needed". This first report on the ECB's supervisory functions dealt with the operational efficiency of the management of the general supervisory system established by the ECB.

Special Report No 2/2018: "The operational efficiency of the ECB's crisis management for banks" is available on the ECA website (eca.europa.eu) in 23 EU languages.