



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Getting to know the Single Supervisory Mechanism

EPOG Master's Program



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Overview

- 1 Importance of Banking Supervision
- 2 Banking Union
- 3 Mandate of the Single Supervisory Mechanism
- 4 Single Supervisory Mechanism insights
- 5 Traineeships at the SSM



1.

Why is it so important
to supervise banks?

Lehman Brothers Files For Bankruptcy, Scrambles to Sell Key Business

CNBC.com With Wires

Published 7:35 PM ET Sun, 14 Sept 2008 | Updated 5:45 PM ET Mon, 2 Aug 2010



Source: CNBC, 2008

Financial Times US & Canadian companies

+ Add to myFT

US agrees bail-out for Citigroup

Source: Financial Times, 2008

Financial Times Pierre Richard

+ Add to myFT

France's losses on Dexia bailout hit €6.6bn

Source: Financial Times, 2013

EU and IMF agree 750 billion-euro fund for crisis-hit eurozone members

Source: France24, 2010

Financial Times US & Canadian companies

+ Add to myFT

JPMorgan to buy Bear Stearns for \$236m

Source: Financial Times, 2008

Impact on society

Almost 10% of Irish young people emigrated during recession

The economic crisis and ensuing austerity measures have deprived almost a quarter of the workforce of jobs and cost the country close to 10% of its young population, according to figures from the EU, IMF, and OECD.

Source: Irish Examiner, 2014

Rise of poverty among EU workers since the financial crisis

Poverty among workers is higher in countries that were badly hit by the financial crisis. In 2017, about 13 per cent of workers in Spain and 12 per cent in Italy were at risk of poverty, largely as a result of underemployment.

Source: Financial Times, 2018

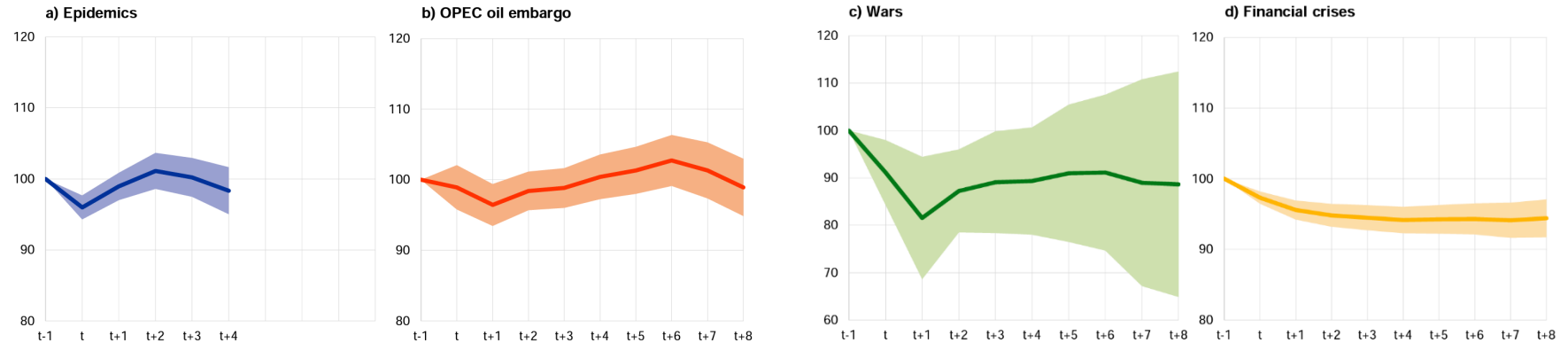
More than 750,000 people in Ireland live in poverty today, an increase of 120,000 since the recession began, according to a new report from Social Justice Ireland. The report said a quarter of those in poverty were children, while as many as 16 per cent of adults in poverty were in employment.

Source: Irish Times, 2014

Impact of crises on potential output levels

Scarring effects of past epidemics and other crises on potential output levels

(indices)



Source: ECB Economic Bulletin, 2020



What distinguishes banks from other companies?



Banks fulfil important **macroeconomic function** (Credit granting, transfer of payments etc.)

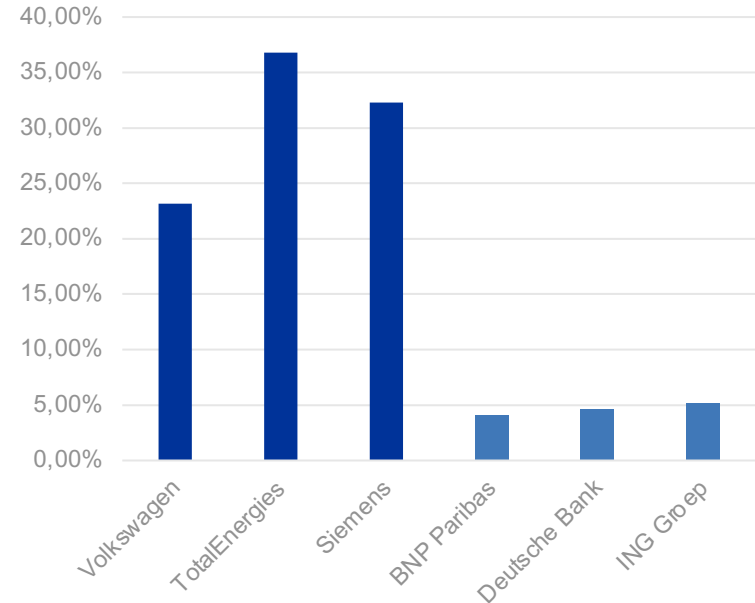


Banks safeguard people's **savings**



Banks have a disproportionally **high leverage ratio** (= low equity ratio)

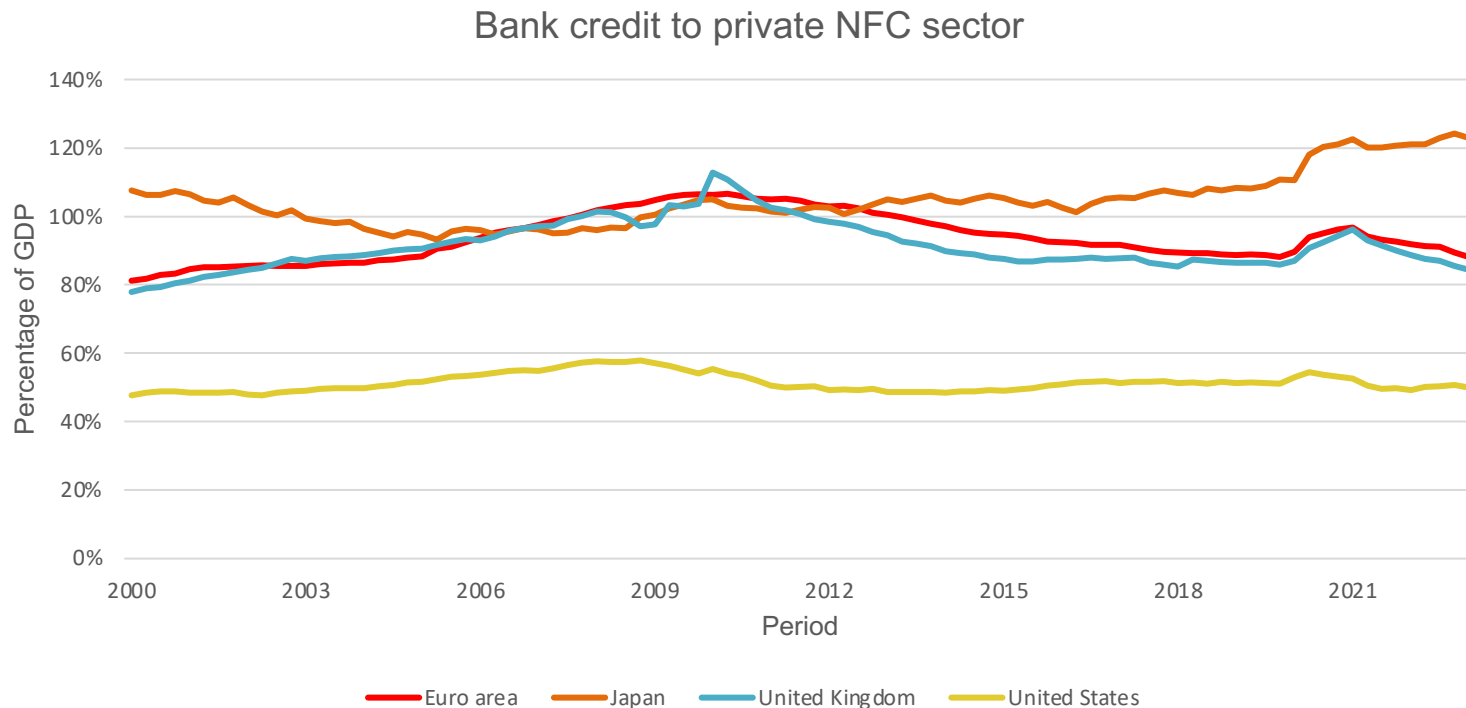
Equity-to-assets ratio



Increasing banking regulation



Reliance on bank financing in EU



Source: BIS statistics



2.

Banking Union

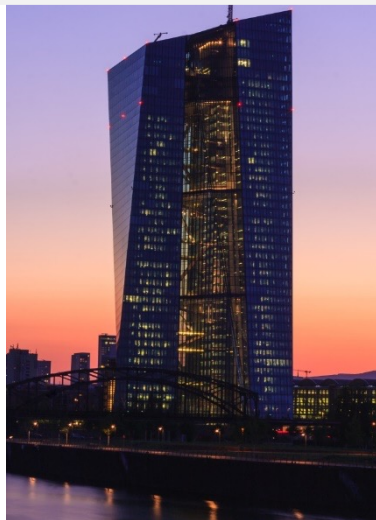
What is the banking union?



ECB, Eurosystem and SSM

Eurosystem

Responsible for monetary policy



ECB

Single Supervisory Mechanism (SSM)

Responsible for banking supervision



Single Supervisory Mechanism

European Central Bank

Banking Supervision department

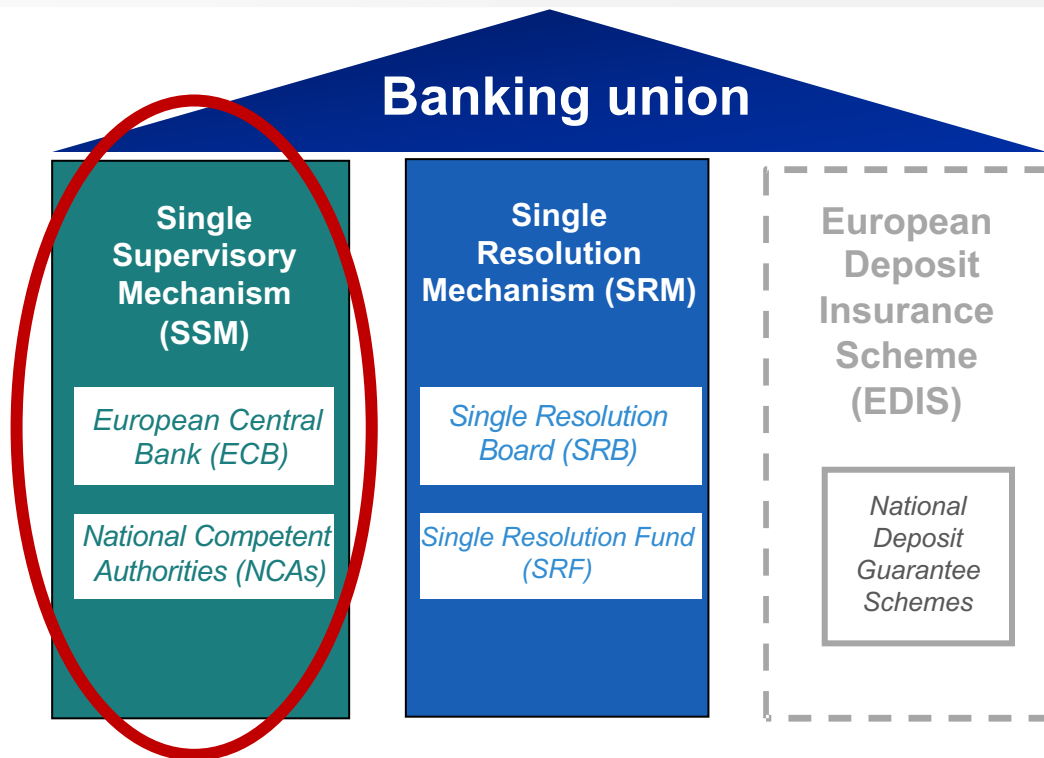


National Competent Authorities

21 National Central Banks



The SSM as part of the Banking Union





3.

Mandate SSM

The main aims of European banking supervision

- 1 Ensure the **safety** and **soundness** of the European banking system
- 2 Increase **financial integration** and **stability**
- 3 Ensure **consistent** supervision

Tools to achieve supervisory aims

Microprudential tools (Article 4 SSMR):



Grant or withdraw **bank licences**

Authorise **acquisitions** of qualified holdings

Monitor **compliance with all prudential requirements** laid down in EU banking rules

Conduct **investigations** and **on-site inspections**

Set **prudential requirements** (own funds, large exposure limits, liquidity, leverage and disclosure, internal governance and controls, “fit and proper tests”)

Carry out **supervisory reviews**

Impose **corrective measures and sanctions**

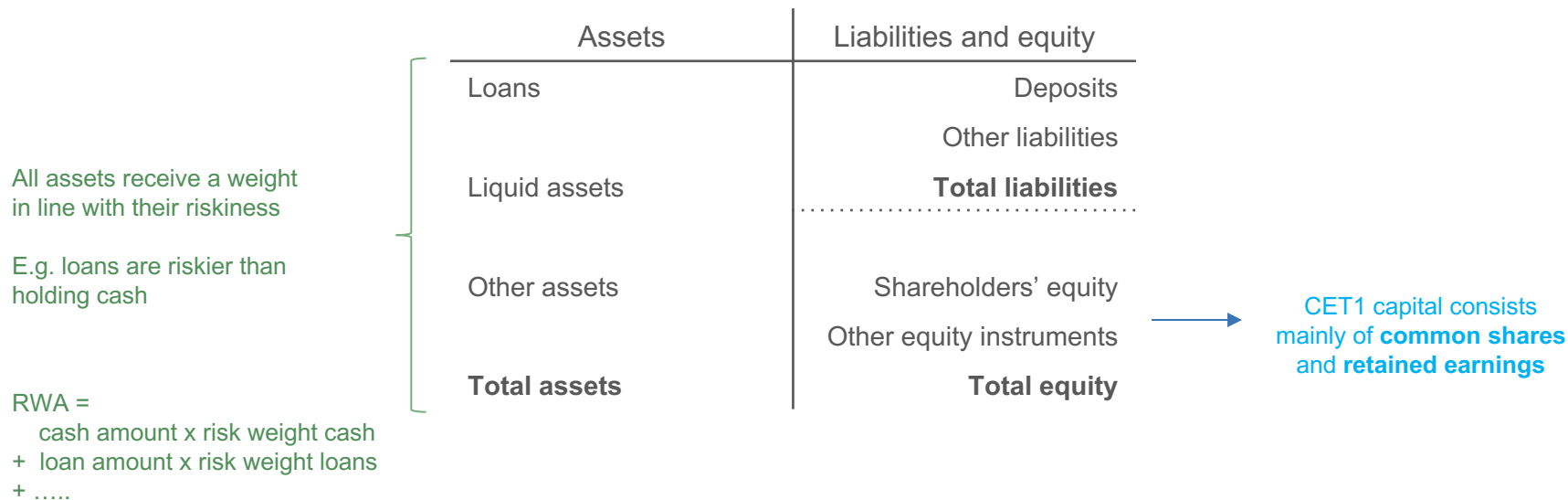
Macroprudential tools (Article 5 SSMR):



Define higher **requirements for capital buffers** than applied by national supervisory authorities and set a buffer rate if the national supervisor has not done so



Capital requirements calculation under Basel III



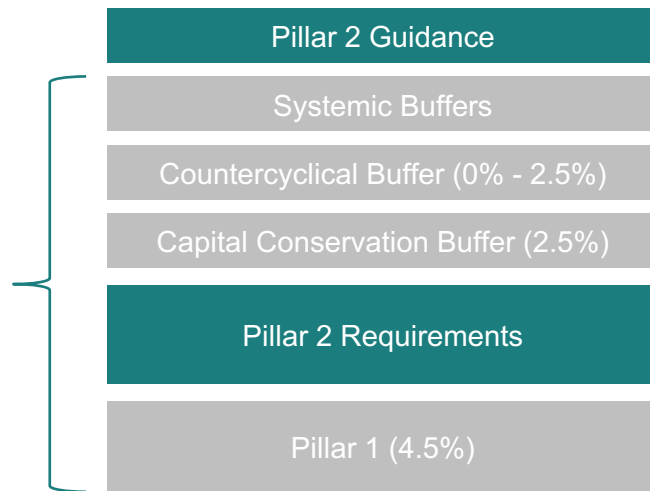
$$\text{Common equity Tier 1 Ratio} = \frac{\text{CET1 capital}}{\text{Risk-Weighted Assets}}$$

Capital requirements (CET1)

Definition in Basel III:

“**CET1** is the **highest quality** of regulatory capital, as it **absorbs losses immediately** when they occur.”

$$\text{Common equity Tier 1 Ratio} = \frac{\text{CET1 capital}}{\text{Risk-Weighted Assets}} >$$



→ Leverage ratio of 3% of backstop

Capital requirements

Pillar 2 requirement	Pillar 2 guidance
<ul style="list-style-type: none">▪ Determined as part of the annual Supervisory Review and Evaluation Process (SREP)▪ Bank-specific capital requirements▪ Legally binding▪ Publicly available	<ul style="list-style-type: none">▪ Determined as part of the EU-wide stress tests▪ Bank-specific capital requirements▪ Supervisory expectations, not legally binding



4.

SSM insights

Scope European banking supervision

✓ Euro Area:

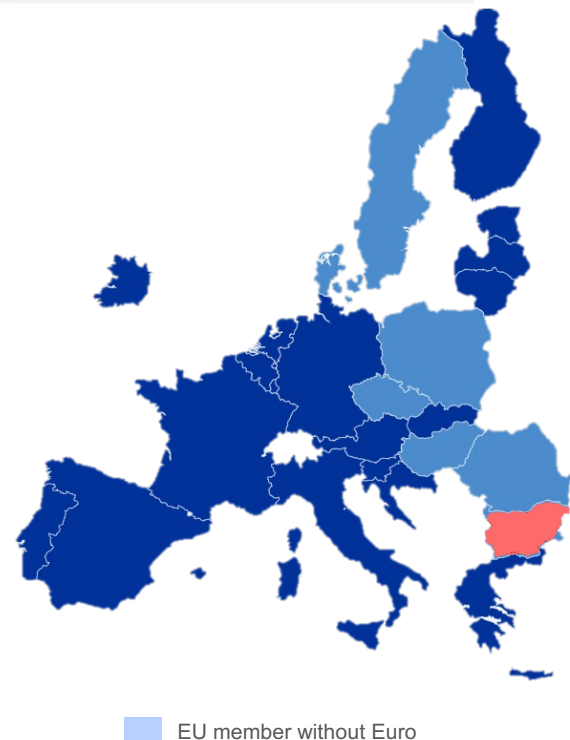
Member States' supervisory authorities under mandatory participation
(‘National Competent Authorities’)

→ 20 Euro area Member States

✓ Participating Member States:

Supervisory authorities under close cooperation agreement

→ Euro area + Bulgaria



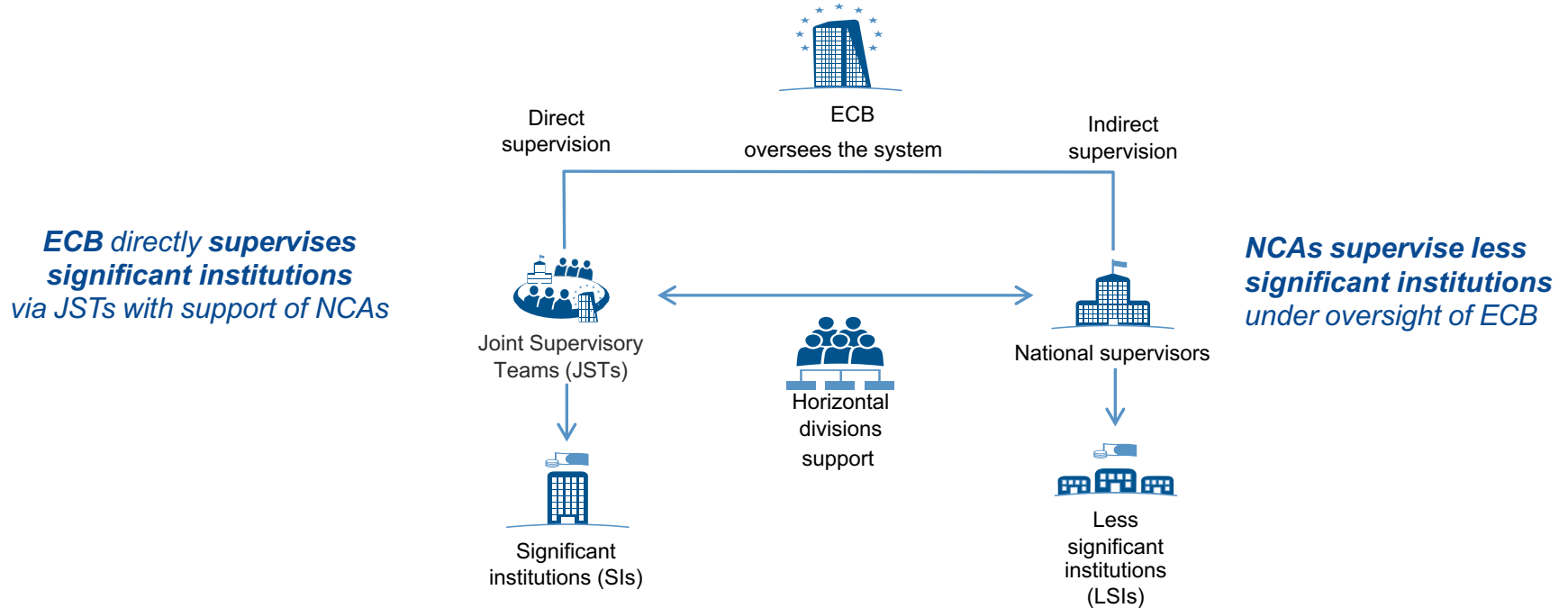
SSM facts and figures

- As of 1 July 2023: **109 banks** in 21 SSM participating countries under direct ECB supervision
 - Total balance sheet size of **26,4 trillion EUR**
 - 82% of euro area banking assets
 - > 2x GDP of the Euro area
- Circa **3,500 smaller institutions** are directly supervised **by NCAs**, with the ECB being responsible for the system at large

Key distinction: significant & less significant institutions – SIs & LSIs.

- To cover its supervisory tasks the ECB levies an **annual supervisory fee** on all significant and less significant banks.

Way of working within SSM



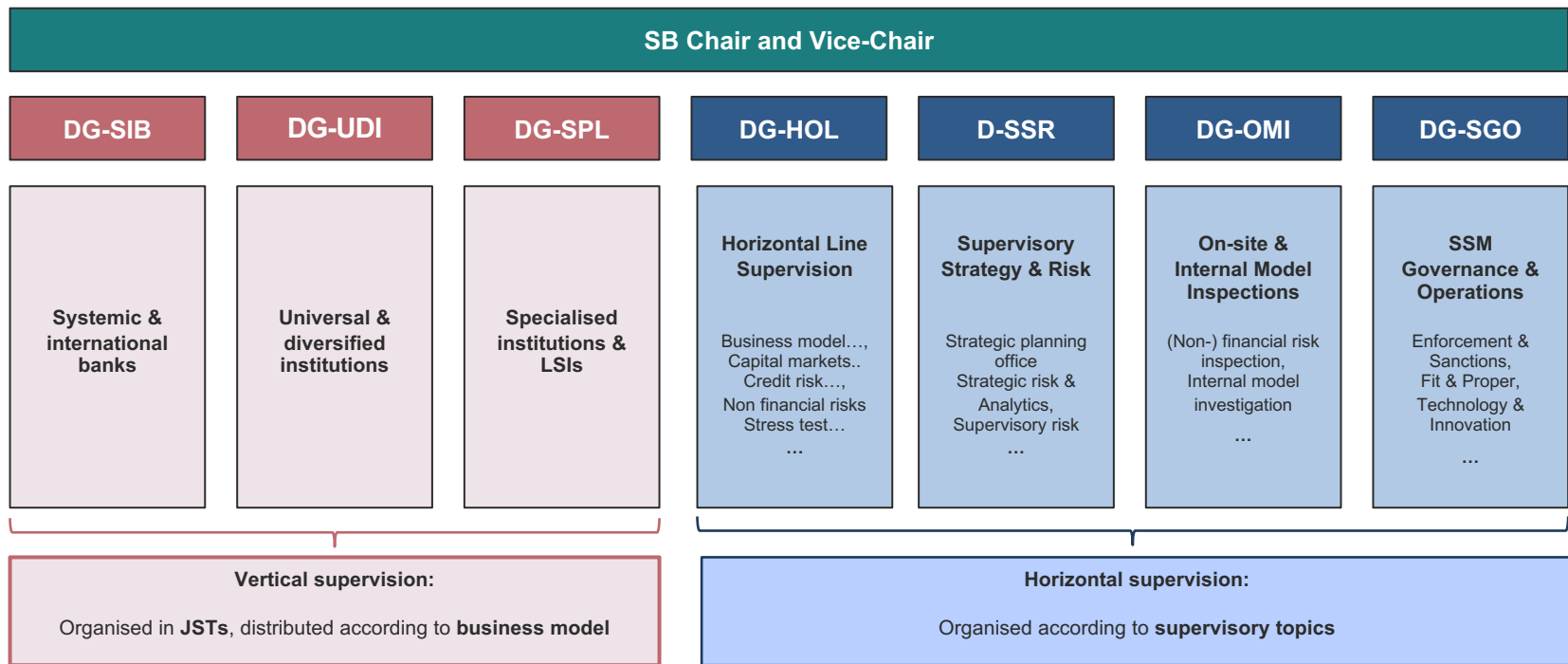
Determining bank significance

What makes a **bank significant**?

Significance criteria

- ✓ **Size** total value of assets > €30 billion **or** one of the three largest banks in a country
- ✓ **Economic importance** for specific country or EU economy as a whole
- ✓ **Cross-border activities** total value of assets > €5 billion and ratio of cross-border assets/liabilities (in more than one other country) to total assets/liabilities > 20%
- ✓ **Public financial assistance** requested or received funding from European Stability Mechanism or European Financial Stability Facility

Overview of different departments



JST members assigned to risk teams

Financial risks

Credit risk	Analyse quality of loan book
Internal models	Approve model changes
Liquidity risk	Scrutinize funding structure
Market risk	Analyse interest rate risk
Capital risk	Check capital adequacy

Non-financial risks

Business models	Challenge digitalisation plans
Governance	Fit-and-proper assessment
Operational risk	Data management
Climate risk	Analyse exposures to climate change



5.

Traineeships



Is the traineeship at the SSM the right fit?

What the traineeship offers you:



First-hand **practical experience** and knowledge about the ECB and banking supervision



Various **learning opportunities** (training courses, workshops, conferences, etc.)



Being part of an **international team** that strives to have a **positive impact** on European community



Various social events organised by the **trainee community**



The opportunity to live in **Frankfurt am Main**

What you bring to the ECB:



You are **motivated** to **learn about banking supervision**, supervisory standards and practices, financial regulations & risk analysis



You have a keen interest in **protecting the stability** of the banking system for the **benefit of the people** of Europe



You have a high motivation to work in a **multicultural environment**, which you might show by previous experience abroad

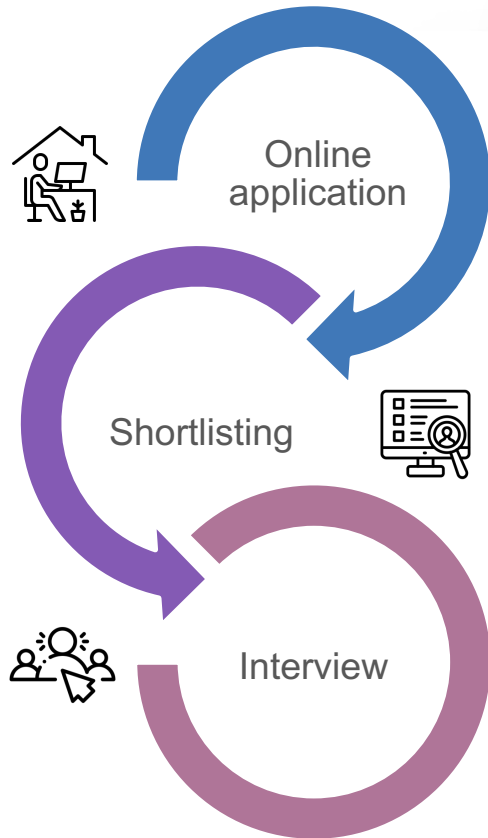


You have a **very good** (C1) command of **English** and an **intermediate** (B1) command of at least one **other official language** of the EU



Preferably you have **capabilities in data management**, data analytics and data visualisation tools (e.g. Tableau), including coding skills (e.g. R or Python)

Recruitment process



Outcome
(feedback report for interviewed candidates, possibility to be placed on reserve list)



Eligibility criteria:



- ✓ EU nationality
- ✓ Fluency in English & in another EU official language (your native language counts!)
- ✓ Maximum of 12 months' professional experience
- ✓ Not having been a trainee for more than six months
- ✓ Not have worked for the ECB previously

Key information

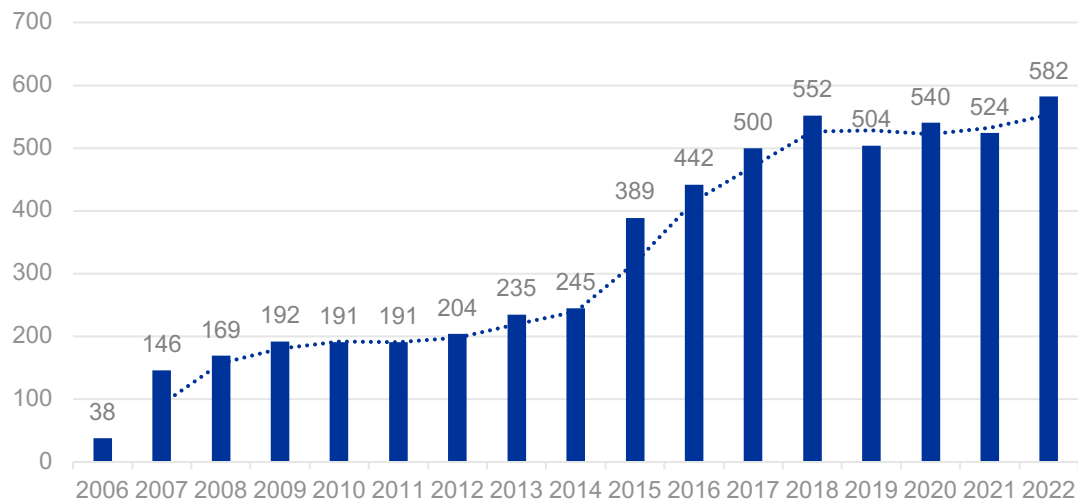
Traineeship Conditions

Focus:	Unique learning experience by supporting the work of the SSM
Minimum criteria:	Completed first cycle qualification (bachelor's degree).
Duration:	6 months, can be extended to 1 year.
Monthly grant:	€1,170 + Accommodation allowance (or €750 lump-sum)

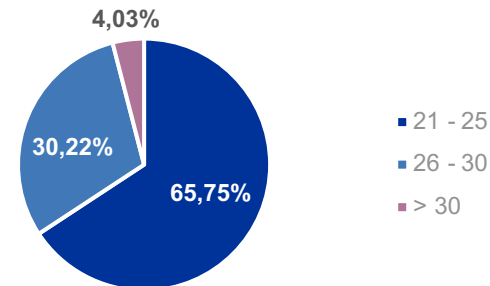


Traineeships in numbers (ECB & SSM)

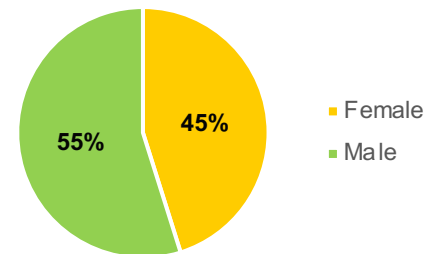
Total number of trainees per year



Age distribution



Gender distribution



After the traineeship

- You will have gained unique and valuable experience within a prestigious **European institution**
- Possibility to be offered extension via **short-term contract** of up to 1 year
- Consider applying for **entry-level positions** at the ECB (e.g. Analyst)



Q&A

Thank you for your attention!

