EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Andrea ENRIA
Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Marco Zanni
Ms Francesca Donato
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Members of the European Parliament
European Parliament
60, rue Wiertz
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Frankfurt am Main, 3 July 2020

Re: Your letter (QZ-034)

Honourable Members of the European Parliament,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 29 May 2020.

In your letter you raise the question of whether the *Landesbank* and savings bank groups face systemic risks and whether it would be appropriate to treat these groups as significant institutions. All German savings banks, central giro institutions ("*Landesbanken*") and regional building and loan associations ("*Landesbausparkassen*") belong to the German savings banks sector which is organised through the National Association of German Savings Banks (*Deutscher Sparkassen- und Giroverband* – "DSGV"). Most of these banks chose to apply national accounting standards in their consolidated financial statements on the basis of the national implementation of the options provided to the Member States under Article 5 of the "IAS Regulation"[1]. The aforementioned banks have also put in place an institutional protection scheme (IPS – the "IPS DSGV") approved by the competent authority in March 2007.

Important safeguards in the supervisory framework help counteract the complexity involved in supervising this sector and the national options that are available to these banks.

[1] Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

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Within the Single Supervisory Mechanism (SSM), the ECB, assisted by the national competent authorities (NCAs), directly supervises all institutions that are classified as significant (SIs). The most important credit institutions that belong to the DSGV are classified as SIs.

The NCAs directly supervise the less significant institutions (LSIs), subject to the oversight of the ECB. Most members of the DSGV are classified as LSIs. In its oversight function, the ECB works closely with NCAs to further harmonise the implementation of the rules governing banking supervision, while also ensuring that joint supervisory standards are applied consistently across the system by issuing recommendations to NCAs[2]. This helps to ensure a level playing field for all euro area banks. Where necessary, in exceptional cases, the ECB may take over direct supervision of LSIs (see Article 6(5)(b) of the SSM Regulation[3]). However, the fact that a bank applies national accounting standards is not, as such, a reason to classify a credit institution as significant.

With regard to your statement on the use of the accounting aggregation method to group together significant and less significant institutions (SIs and LSIs) that are members of the saving banks sector, and on the fact that this group is not supervised by the ECB, we would like to provide the following clarification. As explained above, SIs as well as LSIs that are members of the DSGV have put in place an IPS. In 2016 in order to coordinate the monitoring of such IPSs, the ECB implemented a Guideline laying down the principles for the coordination of the assessment[4] and the monitoring of IPSs composed of SIs and LSIs[5]. In the specific case of the IPS DSGV, the ECB and BaFin, where responsible for the supervision of an IPS[6] member, shall monitor at regular intervals the adequacy of the IPS's systems for the monitoring and classification of risk[7] and ensure that the IPS conducts its own risk review[8] on the basis of this Guideline[9]. In order to ensure both a consistent approach to the monitoring and the application of high supervisory standards, the ECB and the relevant NCA shall coordinate their monitoring activities[10]. This monitoring as well as the overall coordination process, as laid down in the ECB Guideline, is performed without prejudice to the responsibilities of the ECB and the NCA for the prudential supervision of the respective IPS members[11].

2 Specifically Recommendation of the European Central Bank of 4 April 2017 on common specifications for the exercise of some options and discretions available in Union law by national competent authorities in relation to less significant institutions (ECB/2017/10).

3 Regulation (EU) No 1024/2013 of the Council of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

4 Pursuant to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

5 Guideline (EU) 2016/1993 of the European Central Bank of 4 November 2016 laying down the principles for the coordination of the assessment pursuant to Regulation (EU) No 575/2013 of the European Parliament and of the Council and the monitoring of institutional protection schemes including significant and less significant institutions (ECB/2016/37).

6 IPS DSGV being also a deposit guarantee scheme, BaFin is also the German designated authority within the meaning of the DGS Directive.

7 Pursuant to Article 113(7)(c) of Regulation (EU)No 575/2013.

8 Pursuant to Article 113(7)(d) of Regulation (EU)No 575/2013.

9 Article 10(1) of the European Central Bank Guideline (ECB/2016/37).

10 Article 10(2) of the European Central Bank Guideline (ECB/2016/37).

11 Article 1(2) of the European Central Bank Guideline (ECB/2016/37).

The mere size of the IPS DSGV and its constituent entities highlight their systemic importance. But the effective supervision of SIs by the ECB, and of LSIs by the NCAs under the oversight of the ECB, together with the coordinated IPS monitoring by the ECB and the NCA, ensure that this systemic importance is taken into account. In particular, the main focus of the IPS monitoring is to ensure that the IPS is at all times able to support ailing institutions both in terms of governance and in terms of adequate financial resources. It should be noted that the monitoring builds on an annual consolidated or aggregated financial report that the IPS has a duty to draw up and publish. According to the “ECB Guide on options and discretions”, the respective annual report has to be audited. In this context, the external auditor reviewing annually the report prepared by the IPS, confirms that the multiple use of elements eligible for the calculation of own funds, as well as any inappropriate creation of own funds between the members of the IPS, has been eliminated. In case room for improvement is identified for an IPS, the ECB, together with the NCA, follows up accordingly.

Yours sincerely,

[signed]

Andrea Enria