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The Single Supervisory Mechanism
Getting to grips with the new regime

EMEA Centre for Regulatory Strategy

Deloitte Banking Union Centre in Frankfurt

Contents

Executive summary

In the wake of the global financial crisis, regulation and supervision have become integral components of banks' strategies and business models. Bank management teams recognise this; boards and shareholders expect business strategy to anticipate and accommodate regulatory and supervisory change. But for banks in the Single Supervisory Mechanism (SSM), the task of responding to regulatory change is complicated by the new and evolving supervisory framework. It is difficult for banks to define their strategy whilst the supervisory approach is still in flux, and without a clear perspective on trends or on the approach of their peers.

We identify three key planning horizons for banks to consider:

- In the near term, banks need to manage the **uncertainty in the transition to the new regime**. The Joint Supervisory Team (JST) structure initially adds complexity to the supervisory framework. A lot remains to be done with respect to implementation, and putting all the pieces of the new approach into practice.

- It is also important to focus on what the ECB's supervisory priorities mean for banks. The European Central Bank's (ECB) first annual report on the SSM's supervisory activities, published in March, provided some insights: the drive to establish a **more level playing field** is important here.

- Looking forward, a strategic area of focus is **business models and supervisory strategy**. This is a major priority for the ECB. The ECB has emphasised the importance of business model analysis on a number of occasions.

Each of these has implications for the actions banks should take:

- Banks need to **establish strong, sustainable relationships with ECB supervisors,** whilst maintaining links to national supervisors who are still in many instances responsible for the execution of day-to-day supervision. Some banks have strengthened or set up dedicated supervisory relationship teams to establish these links early on.

- The drive for consistency in the application of regulations and in the supervisory approach is leading supervisors to **review options and national discretions**, and to examine risk-weighted asset calculations. The ECB is embarking on major initiatives in these areas. Banks need to understand the implications of changes for their **capital position and capital planning**. In some cases, there may also be consequences for decisions on legal entity and operational structures.

- Senior management needs to engage with its board to discuss what steps should be taken to make the **business model sustainable** from a supervisory perspective, and whether those changes could be a source of additional strength.

Getting to grips with the new regime

Deloitte advises banks across the Banking Union, including those headquartered outside the region, on how best to tackle these issues. Through our network, focused through the Deloitte Banking Union Centre in Frankfurt (BUCF), we have a perspective on the experiences of a large number of banks. This paper draws on that experience to provide insights into how to deal with the new supervisory regime and how the SSM is working in practice.

We begin by taking stock. We compare how the SSM has performed against the expectations we formed in October, and what supervision in the SSM feels like on the ground. In the second part of the paper we look forward to the continuing development of the new regime, and the ECB's priorities for the coming year. We set out how we expect the supervisory approach to evolve and the implications for banks. Finally, we consider the impact of this work on bank business models and strategies.

In the medium term, consistency in supervision of less significant banks is likely to be brought into the spotlight. There have been suggestions from SSM officials that smaller banks should be subject to the same level of transparency as was provided for significant banks by the ECB's Comprehensive Assessment exercise. Also important will be the collaboration with the different European authorities, in particular the Single Resolution Board (SRB). So there will be plenty to occupy banks in the coming quarters.

New to the Banking Union

For readers new to the Banking Union, page 12 includes a short summary of the purpose of the initiative, with links to previous Deloitte publications on the organisation and institutional set-up, and the challenges for banks. It also provides information about Deloitte's Banking Union Centre in Frankfurt, which brings together a multi-disciplinary team of senior experienced professionals from its financial services practices across Europe to support banks in the Banking Union.

Managing uncertainty in the transition to the new regime

Ahead of the start of the SSM, uncertainty about the supervisory approach and the mechanism for collaboration between the ECB and NCA supervisors were key concerns for banks. Since the ECB formally took responsibility for the SSM in November 2014, it has worked hard to deploy and embed its new approach. The approach has not yet been fully established though, not least because all the ECB's supervisory staff were recruited during the past year, and the collaboration within and across supervisory teams is in the process of being established. Considerable progress has been made, but Danièle Nouy, Chair of the SSM Supervisory Board, has stated that existing national processes and practices apply until further notice by the ECB.[1]

The result has been a rather heterogeneous approach across the Eurozone. In our experience, day-to-day most supervisory activity is undertaken by supervisors from National Competent Authorities (NCAs), with varying degrees of intervention and guidance from ECB members of Joint Supervisory Teams (JSTs). In some cases, NCAs appear to retain significant direct influence, but in most cases ECB supervisors provide oversight and make decisions. As a result, some banks report that supervisory responsiveness has decreased, and that duplication has emerged, increasing uncertainty about how the new approach should operate. In itself this experience is hardly surprising: the task of establishing the SSM is significant and the supervisory architecture is still in transition. None the less for banks looking to manage their supervisory relationships, and their business in the Banking Union, the uncertainty has increased complexity.

The JST structure is intended to break the direct link between a bank and its home country supervisors, eliminate national biases, and improve supervisory transparency. Moreover, greater central control is a prerequisite for the SSM's objective of achieving a level playing field and a consistent approach to supervision across the Banking Union. Besides the work on national discretions, outlined in the next section, implementing a genuinely single supervisory approach will be essential for this objective.

The ECB's supervisory approach is reflected in a number of sources. The high level aspirations are set out in various statements and speeches, and the ECB's Guide to Banking Supervision provides an overview of the supervisory principles of the SSM, its functioning and the supervisory cycle. The ECB does not intend to publish the more detailed supervisory manual that it is developing internally.

Against this background, banks need to maintain flexibility, to be able to adapt to new developments and keep track of their new peers. We observe banks establishing new governance structures for supervisory interactions. Most of the larger banks across the Eurozone have already set up dedicated supervisory relationship teams to establish the link to the SSM early on or have significantly strengthened existing teams.

Supervisory priorities

In December, the ECB sent out the first letters on the outcome of the annual Supervisory Review and Evaluation Process (SREP), as it set capital requirements for all banks directly under its supervision. SREP results were based mainly on activities conducted by the NCAs and the results of the asset quality review (AQR) carried out by the ECB last year. While a SREP capital add-on was communicated to banks, little information was disclosed with respect to the areas of concern that lay behind the numbers. It will therefore be interesting to see the outcome of the first ECB-led SREP – results are expected to be discussed with the banks in November 2015. Banks are expecting more information to enable them to remediate the areas of concern.

Key inputs into the assessment include the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports, as well as data gathered via the ECB's Short Term Exercise (STE), which requires detailed quarterly reporting on credit risk, market risk, interest rate risk in the banking book, profitability, liquidity and funding.

In addition to the SREP activities, the follow-up to the Comprehensive Assessment exercise has been a point of focus in the supervisors' work agenda. The ECB has now approved the capital plans of the banks that failed the stress test, having mandated the incorporation of the AQR results either via changes to the 2014 financial statements or via adjustments to prudential numbers. Banks are also starting to remediate the issues identified during the AQR, often in conjunction with BCBS 239 initiatives.[2]

1 https://www.bankingsupervision.europa.eu/banking/letterstobanks/shared/pdf/2015/150127letter_supervision_processes.en.pdf

2 Principles for effective risk data aggregation and risk reporting (http://www.bis.org/publ/bcbs239.pdf)

Looking back; looking forward

Before the SSM went into operation, we made some predictions on what its approach would look like. Box 1 considers how far the SSM has travelled and what still needs to be done to implement the new supervisory framework.

Box 1. How have the high expectations from the SSM played out so far?

In our previous paper, published a few days before the SSM went live, we outlined four features of the new supervisor. How have these played out? What should banks expect next?

Stages	Features	What we have seen so far	What to expect in future
	Harmonising risk-based, forward-looking supervision	• Early days • Instance of 'double supervision' as NCA and ECB supervisors establish roles • Tools and resources necessary for forward-looking supervision building up gradually	• Supervisory interactions will increasingly move towards highlighting areas of concern, placing a premium on tackling quickly issues raised by the supervisor • For some banks the intensity of supervision will increase, e.g. where internal coordination among risk programmes is weak, or risk poorly linked to strategy • Demands from the SRB are also likely to become increasingly relevant over the next few years
	More quantitative approach	• ECB rules on financial reporting • ECB database (AnaCredit) for credit exposures • Data collection tools	• Data needs to be timely and accurate; supervisors are relying on it. Data governance, risk data aggregation and automation of processes such as stress testing and AQR will be a key investment. Cost of inefficiencies in processes will increase • Quantitative peer group analysis will highlight disparities between banks. Banks need to prepare to justify such disparities and meet supervisory challenge • Greater reliance on quantitative approach whilst judgement-based supervision is in development
	Supervisory consistency as a driver for change	• Slow progress on consistency of supervisory practices under the JST regime. Divergent national practices remain • Review of risk-weighted asset (RWA) models announced • Determination to address inconsistencies revealed in the Comprehensive Assessment	• Supervisors will revisit a number of important decisions, e.g. the application of past exemptions or waivers. Banks may find some of these key decisions challenged or reversed • Unclear what further guidance the ECB will publish on supervisory strategy
	Peer group analysis as a key tool	• No transparency yet over peer groups • Benchmarking and peer analysis might involve a high degree of judgement (which carries risks, although it may possibly lead to a more level playing field)	• Likely to result in some novel, challenging comparisons. Remains to be seen how judgement will interact with quantitative approach • JSTs, horizontal assessments and peer group analysis will have implications for supervisory standards, i.e. a better informed and more consistent application of rules • Possible outcome is to encourage spreading of 'best' practice across banks

En route to a more level playing field

As the SSM transitions to its new supervisory framework, banks need to understand where the ECB will focus as a supervisor, driven by its aspiration for a consistent, coherent approach. The ECB wants to ensure that the application of rules results in comparability across banks regardless of size or scope. The Comprehensive Assessment exercise, which largely relied on the calculation of regulatory capital based on existing legal requirements and national transitional arrangements, helped to identify areas where action is most urgent. It brought to light discrepancies in the definition of eligible capital and risk-weighted assets under EU capital requirements (the Capital Requirements Directive IV and Capital Requirements Regulation, referred to collectively as "CRD IV").

Of course, the level playing field concept is not new, certainly not within the EU. The Single Rulebook for banking, instigated by the European Commission, aims to provide a single set of harmonised prudential rules, consistent with the ambition to establish a unified regulatory framework for the EU financial sector. But the consolidation of 19 national supervisory regimes introduces new challenges and the Single Rulebook is not by itself sufficient to ensure consistency. The ECB has to deliver a certain degree of standardisation in the approaches and practices of supervisors in applying the rules.

Quantitative analysis will play an important role in the ECB's approach. While the emphasis on the quantitative approach will be particularly marked early on for significant banks, for smaller banks it will continue to play an important role in steady state. However, there is no "one size fits all approach" and a quantitative supervisory approach might result in lots of "false positives" if applied without judgement. The degree of freedom supervisors have in this respect is crucial. Individual bank characteristics across countries have to be taken into account, although the ECB will put processes in place to ensure that discretion in this area is constrained, and judgements consistent.

In addition, the ECB has stated that benchmarking of ICAAP models will also play an important role. In doing so, the ECB will need to guard against creating a standardised economic capital model, where Pillar II capital is transformed into a Pillar I capital requirement, and with the potential for systemic risk to arise if banks all end up using similar models.

This will remain work in progress for several years, but the ambition already dominates the ECB's priorities (Box 2, page 7). It will mean a lot of work at both the EU and national levels and is likely to require changes to existing legislation. Danièle Nouy has signalled that the SSM is prepared to take the lead and initiate changes to national regimes.

Implications for banks

The prudential bar is as a result expected to be raised quite substantially for some SSM banks over the next year or so. In the meantime, it is likely that these ambitions will play out to some degree in the next stress testing exercise. Work by the European Banking Authority (EBA) will be crucial, particularly in identifying best practices through peer reviews, surveys and impact studies tailored to understand the significance of the various options and discretions.

While achieving these ambitions may require changes to EU and national legislation, in the near future banks could be faced with a more stringent capital regime. Banks are already considering the costs of future changes to models as they have spent enormous efforts and resources to build up their existing capabilities. All of this is part of a bigger global picture, alongside the upcoming challenges of the leverage ratio and liquidity frameworks.

The ECB wants to ensure that the application of rules results in comparability across banks regardless of size or scope.

Options, national discretions and risk-weighted asset variability

The ECB has prioritised addressing these shortcomings through broader harmonisation of the more than 100[3] transitional provisions, national discretions and options set out in CRD IV, as well as its work on the alignment of RWA models. As an example of the importance of these, the ECB calculated that as at 1 January 2014, adjustments to (Common Equity Tier 1) regulatory capital to reflect transitional provisions amounted to EUR126.2 billion (as at 1 January 2014) for banks included in the Comprehensive Assessment, with more than half of this amount concentrated in three countries, Germany, Spain and Italy.[4]

Whilst the transitional provisions will even out over the next few years, other provisions permit permanent discrepancies in the application of capital rules. One example is the treatment of deferred tax assets (DTAs). Certain types of DTAs (i.e. those that are not contingent on future profitability) do not have to be deducted from capital.

Another area of focus is banks' internal models, which banks use for calculating RWAs. According to the ECB, some banks' calculations of the capital requirements were too low, and sometimes models were used when empirical data was insufficient to do these complex calculations.

Few details have been disclosed by the ECB of its work plan at this stage. Due to the complexity and volumes of data required, the review will be rolled out as a multi-year project and is expected to start with credit risk models.

In parallel to the ECB's review, there will be important RWA-related developments that the ECB may need to take into account or at least consider in planning the timeline for any follow-up. Currently, the Basel Committee on Banking Supervision (BCBS) is reviewing the Standardised Approach for credit risk, operational risk, market risk and counterparty credit risk. It has also proposed a capital floor based on standardised approaches, meant to mitigate model risk and measurement error. It will cover all risk categories and will be used to ensure internal model-based capital requirements "do not fall below prudent levels". In the meantime, the EBA has been undertaking work on the consistency of RWAs in the EU banking sector and recently consulted on the assessment methodology for internal ratings-based (IRB) approaches.

This broader context at global and EU-wide banks creates opportunities for the SSM to enhance supervisory consistency. In particular, while it may be too early for the ECB to use the BCBS proposals to build on for its review of internal models, the EU legislation for implementing the revised Basel approaches could be the vehicle for harmonising national discretions and options (set out above).

3 http://www.eba.europa.eu/supervisory-convergence/supervisory-disclosure/options-and-national-discretions

4 https://www.bankingsupervision.europa.eu/ecb/pub/pdf/aggregatereportonthecomprehensiveassessment201410.en.pdf

Box 2. Summary of ECB priorities in 2015

For significant banks, the ECB has highlighted several areas of focus for its supervisory activity. Its ambition for simplification and greater comparability will drive the design of the supervisory framework.

The EBA work plan mentions the ECB in work streams on the revised EU Payment Services Directive. The ECB's annual report refers to cooperation with the EBA on data, including providing data to feed into the EBA's work on the Single Rulebook.

Credit risk management functions	• Focus on effectiveness and robustness with a view to assessing the risk mitigation capacity of the control environment
Viability of business models	• The ECB is keeping an eye on aggressive "search-for-yield" strategies with a view to identifying lax credit standards and defective pricing policies
Governance at the institutional level	• Assessment of the set-up of the board, its expertise, diversity, challenges and culture • Assessment of the quality of management information • Assessment of the quality of the banks' risk appetite frameworks and business practices
Internal stress testing practices	• As a key input to a credible risk appetite framework, the ECB is developing a deeper understanding of the governance of stress-testing frameworks, the integrity of the methodologies used and the quality of the underlying data
Validation of internal models	• Consistency in internal model frameworks is essential for the credibility of institutions' RWA and capital ratio calculations • Monitoring is under way to enhance consistency in validation practices and to address possible shortcomings arising from the use of models
National discretions	• A dedicated work stream has been set up to review the implications of options and national discretions applied by NCAs
Operational risk	• Banks that are considered materially exposed to "conduct risks" are being requested to provide a quantification of potential litigation costs

For horizontal activities, a priority for 2015 is to foster greater harmonisation of supervisory approaches across the SSM including development of a supervisory approach for less significant banks. Promoting a more intrusive approach to banking supervision is a second area of strategic focus.

Sources: ECB Annual Report on Supervisory Activities 2014 and Deloitte analysis.

Macro prudential policy

The ECB's macro prudential powers may also be applied to enhance consistency across SSM Member States. CRD IV permits both transitional and discretionary use of certain buffers, including the countercyclical capital buffer (CCB), capital buffers for global and other systemically important institutions (G-SII and O-SII buffers), and the systemic risk buffer. While national macro prudential authorities will lead on introducing and setting rates for macro prudential tools, the ECB will have the authority to impose higher requirements.

There are also other macro prudential measures that the ECB can influence, including adjusting risk weights to target asset bubbles in the residential and commercial property sector, public disclosure requirements, liquidity requirements, requirements for large exposures, and intra financial sector exposures.

Sabine Lautenschlaeger, Deputy Chair of the SSM Supervisory Board, hinted that the ECB would be keen to extend its macro prudential powers beyond the CRD IV tools to include measures that are currently set out in national legislation such as loan-to-value and loan-to-income ratios.

Other items on the SSM's 'wish list' include powers to set exposure limits to non-bank financial intermediaries, extend the regulatory perimeter to systemic non-bank institutions and activities, and steer margin and haircut requirements in securities lending.[5] Another candidate is the leverage ratio.

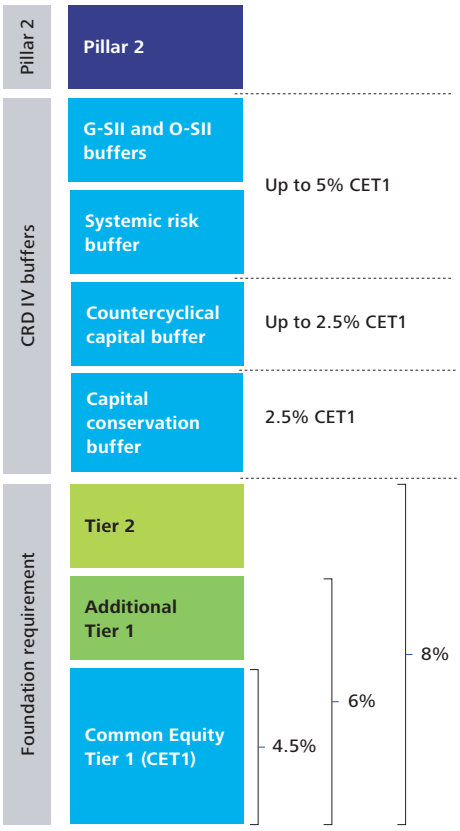
Box 3. Application of macro prudential policy tools in CRD IV under the SSM

National authorities have to notify the ECB at least ten working days prior to setting or introducing any of the CRD IV macro prudential instruments. The ECB then has five working days to object to the proposed measures (although the ECB's opinion will not bind national authorities). The ECB will also be able to raise capital buffers and impose stricter measures if it considers that appropriate.

Prior to the changes introduced by the SSM Regulation, the European Systemic Risk Board (ESRB) was the only EU-level body with an explicit macro prudential mandate, but also with limited powers over national measures (the ESRB can only issue warnings and recommendations which are non-binding).[6]

How does this tie in with broader work on national options and discretions? Calibration of capital buffers may present a challenge to the level playing field given that macro prudential policy is driven by country-specific circumstances and sometimes encompasses capital requirements for groups of banks in a particular country. What will change for macro prudential measures that are already in place? How will the interaction between the ECB and national authorities work out?

The capital framework



The buffers will be phased in from 2016, and need to be met with Common Equity Tier 1 regulatory capital (CETI).

- The capital conservation buffer is designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. It will be set at a mandatory rate of 2.5% of RWAs for all institutions, at both group and solo level
- The countercyclical capital buffer is targeted at mitigating the effects of the economic cycle on banks' lending activity. It will be set by the designated authority in each Member State, on a quarterly basis at a rate between 0% and 2.5% of RWAs
- Buffers for Global Systemically Important Institutions (G-SII) and Other Systemically Important Institutions (O-SII) will need to be set for qualifying institutions in a Member State, at rates of 1-3.5% and up to 2% respectively
- Finally, the systemic risk buffer can be used to target all or a specific group of institutions to cover structural or systemic risks.

5 https://www.ecb.europa.eu/press/key/date/2014/html/sp141113.en.pdf?ecc224b3598915181ad17152ad62ddc9

6 http://ec.europa.eu/economy_finance/articles/governance/pdf/2014-08-08_esrb_review_en.pdf

Business models and supervisory strategy

Supervisors are becoming increasingly interested in the strategies and business models chosen by individual banks, and are gearing up to assess them and take action where they identify cause for concern. The ECB is no exception: it has emphasised on several occasions that it will look closely at the business models of the banks under its authority. This analysis is core to the new paradigm of forward-looking, judgement-based supervision.

The ECB's approach will be aligned to the framework set out in the EBA's guidelines on SREP methodologies and processes, (which it has to implement by 1 January 2016), which takes business model analysis as the starting point. Box 4 provides an overview of the approach proposed by the EBA.

According to the guidelines, supervisors should assess viability and sustainability, drawing on various sources of information including financial statements, management information, regulatory reporting and the ICAAP. The analysis is both quantitative and qualitative. Supervisors will draw on business and capital plans, and consider developments in the business and macroeconomic environment.

Plausibility of assumptions and projected financial performance will be assessed against the supervisory view of the current and forward-looking environment, and the potential impact of any mismatch. The result of stress tests will be a key input into this. Supervisors will also assess where and how a firm makes money, and the risks it takes in doing so. Vulnerabilities might include unsustainable expectations of growth, or inadequate management capabilities.

Supervisors are clearly interested in complexity more generally, including in relation to banks' legal entity structures. This leads to questions about whether some banks are "too complex to manage" and whether convoluted and intertwined legal entity structures make some banking groups more difficult to resolve in an orderly fashion. This in turn raises important questions about whether "excessive" complexity in a bank's structure could be reduced, while leaving the underlying business model intact.

Since a single flaw in the business model could become a source of failure, the ECB will try to identify each point, and assess whether the model as a whole is sound.

Implications for banks

The challenge for bank boards and ultimately shareholders is to recognise where their perspectives and those of their supervisors are likely to differ – to see their strategy and business model as supervisors see them – and be prepared to take steps to make them sustainable from a supervisory viewpoint.

Banks should assess whether their business model is defined and implemented to satisfy supervisory expectations. Banks need to ensure that they have a framework that demonstrates that all key components are in place. A holistic governance framework, a risk appetite statement and a clearly articulated risk appetite framework are needed to ensure that all components are aligned. All elements need to be defined, documented and implemented. Further, the strategy has to be able to withstand times of stress.

Box 4. Definition of viability and sustainability, and factors to consider

Viability	Sustainability
Ability to generate acceptable returns over the following 12 months.	Ability to generate acceptable returns over a forward-looking period of at least three years.
What supervisors will be looking for:	
• Capital – Comparison of return on equity (ROE) against the cost of equity (COE); additional metrics such as return on assets or risk-adjusted return on capital may be considered • Funding – Appropriateness of funding mix for business model and strategy • Risk appetite – Both for individual and aggregate risks, its consistency with the stated strategy, and its capacity to manage within its risk appetite. Supervisors will take a view on what is an appropriate risk appetite for each bank, as well as for the system as a whole	• Riskiness of the strategy, especially the ambition and complexity of the strategy set against the current business model, and the likelihood of successful delivery of the strategy based on assessment of the board and senior management team's ability to execute it.

Source: EBA Guidelines.

When conducting their regular business planning process, banks should already be asking themselves what their ideal business mix should look like, and should reconsider this each year. Besides identification of the most profitable business lines today, banks need to incorporate future regulatory requirements, including those around capital, conduct, liquidity, leverage and resolvability into their business planning processes, as well as trying to anticipate market developments. Thoughts on diversification need to be added to ensure that there is no risk concentration that might be penalised by additional capital. Given that the ECB will examine the economic assumptions underlying the business planning exercise, consideration needs to be given to how to justify assumptions that deviate from those of the supervisor or peers. Understanding and managing that complexity is potentially a source of competitive advantage.

Putting it into practice

In carrying out their analysis, supervisors will build peer groups, both for institutions and for activities (e.g. mortgage lending, leveraged lending, and so on) and seek to identify, investigate and understand deviations from trend or outliers. A key innovation of the new approach in the SSM is that these peer groups will cross national borders.

While 'extreme' outliers ought to be easy to identify, deviations often require more judgement to spot. There is likely to be a degree of bunching in the middle of each peer group. Moreover, supervisors also worry about the 'herding' effect that can arise from too many banks being reliant on very similar business models and strategies. Ultimately supervisors tend to value moderation in banking. For example, a bank may draw attention with loan growth that is high compared to its past trend, even if compared to peers it remains 'normal'. All these factors though are only triggers for further analysis.

Supervisors with significant concerns about a bank's business model or strategy have a range of responses at their disposal – asking for the business model or strategy to be revised to one that is consistent with more realistic assumptions or available resources; requiring changes to controls, governance and risk management, or imposing an additional capital charge under Pillar II.

It will be interesting to see what opinion the SSM will have on the risks in different business models and how that will influence SREP scores and capital add-ons. Even if strategic decisions remain the senior management's responsibility, a particular scoring of certain business models could result in incentives for banks to change theirs.

Conclusion

Since the ECB formally took responsibility for the SSM in November 2014 it has worked hard to deploy and embed its new approach. The approach has not yet been fully established though, not least because all the ECB's supervisory staff were recruited during the past year, and the collaboration within and across supervisory teams is in the process of being established. For banks in the SSM, that complicates the task of embedding their response to the new supervisory framework in their regulatory strategy.

In this paper we have identified three areas for banks to focus on, which should form the basis of strategic discussion about the implications of the SSM for their business:

- Taking steps to establish a strong, sustainable relationship with ECB supervisors, whilst maintaining links to national supervisors, in order to manage the uncertainty in the transition to the new regime;

- Understanding the implications of the ECB's drive for consistency, and a more level playing field, on capital requirements and capital planning; and

- Ensuring the senior management team and board can clearly articulate how the business model is sustainable, both in business terms and from a supervisory perspective.

Understanding the SSM

The Banking Union project originated from the 'never-again' attitude that Eurozone decision makers adopted in the wake of the financial and sovereign crises. The project's scale, scope and timelines were ambitious from the start, capitalising on a strong political will to safeguard financial stability. Since the original commitment in 2012, deadlines have slipped and resolve on some issues, for example the creation of a common deposit guarantee scheme for the Eurozone, has weakened. Yet the shape of the Banking Union has not been greatly changed, and continues to be moulded by the objectives national leaders set themselves at the onset of the project.

These objectives – set out below – can be particularly helpful in interpreting how the Banking Union, and the SSM within it, is likely to evolve and what the detailed framework will look like in practice.

- Complete the Eurozone integrated financial framework and enable it to address any institutional shortcomings.
- Break the "vicious circle" between banks and sovereigns.
- Build a capability that allows country-specific shocks to be absorbed.

The SSM formally opened for business on 4 November 2014. For months before that, supervisors and banks prepared for the transfer of prudential supervisory responsibilities to the ECB, including through the Comprehensive Assessment exercise, which included a thorough review of the quality of bank assets.

The scope of the SSM covers authorisation and micro prudential supervision, and joint responsibility for macro prudential supervision of credit institutions ("banks") in participating Member States (MS) – currently the 19 Eurozone MS. The ECB has ultimate responsibility for the supervision of all banks in these countries, and direct responsibility for the supervision of larger, 'significant' banks. Conduct supervision remains the responsibility of national supervisors.

The Deloitte Banking Union Centre in Frankfurt

In order to respond to the new regulatory environment, Deloitte has established the Deloitte Banking Union Centre in Frankfurt (BUCF). Led by Hans-Jürgen Walter, Financial Services Industry leader for Germany, the BUCF brings together a multi-disciplinary team of senior experienced professionals from its financial services practices across Europe.

Through the lens of the Banking Union, the BUCF is responsible for:

- Proactively identifying challenges facing banks in scope for the SSM and providing direct support to their C-suite.
- Acting as a catalyst for pooling Deloitte's capabilities across the SSM region. The Centre will provide a single point of contact for the cross-border support that our internationally active clients require.
- Channelling and sharing insights from Deloitte professionals into key issues facing senior-level decision makers within banks.
- Supporting and extending Deloitte's existing strong relationships with the ECB/SSM and national supervisors.

For more information see
www.deloitte.com/bankingunion

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Meeting the challenge of the SSM
How banks should get ready for the new regime

This and other publications are available on the Deloitte website: www.deloitte.co.uk

Contacts

Francisco Celma
EMEA FSI Co-lead & FSI Leader Spain
fcelma@deloitte.es

Nick Sandall
EMEA FSI Co-lead & FSI Leader UK
nsandall@deloitte.co.uk

EMEA Centre for Regulatory Strategy

Clifford Smout
Partner
csmout@deloitte.co.uk

Simon Brennan
Senior Manager
simbrennan@deloitte.co.uk

Katrin Budy
Manager
kbudy@deloitte.de

Kateryna Bobrova
Assistant Manager
kbobrova@deloitte.co.uk

Banking Union Centre in Frankfurt

Hans-Jürgen Walter
BUCF Leader
hawalter@deloitte.de

Dan Keeble
BUCF Partner, UK
dkeeble@deloitte.co.uk

Miguel Ángel Bailón
BUCF Partner, Spain
mbailon@deloitte.es

Ronald Koppen
BUCF Partner, Netherlands
RoKoppen@deloitte.nl

Jean-Vincent Coustel
BUCF Partner, France
jcoustel@deloitte.fr

Diego Messina
BUCF Partner, Italy
dmessina@deloitte.it

Bernard de Meulemeester
BUCF Partner, Belgium
bdemeulemeester@deloitte.com

Marijan Nemet
BUCF Partner, Germany
mnemet@deloitte.de

Martin Flaunet
BUCF Partner, Luxembourg
mflaunet@deloitte.lu

Alexandra Kostara
BUCF Partner, Greece
akostara@deloitte.gr

Oana Petrescu
BUCF Partner, Central Europe
opetrescu@deloittece.com

Colm McDonnell
BUCF Partner, Ireland
cmcdonnell@deloitte.ie

Designed and produced by The Creative Studio at Deloitte, London. 43839A