



**EUROPEAN CENTRAL BANK**  
BANKING SUPERVISION

**Danièle NOUY**

Chair of the Supervisory Board

Mr Alfred Sant  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 10 January 2018

**Re: Your letter (QZ-107)**

Honourable Member of the European Parliament, dear Mr Sant,

Thank you for your letter regarding the publication of methodologies for the supervision of less significant institutions (LSIs), which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 4 December 2017.

Since the very start of European banking supervision, the ECB has made significant efforts to clearly explain its actions and approach to all stakeholders, thus demonstrating its commitment to transparency. The purpose of the methodologies and joint supervisory standards that are developed by the ECB and the national competent authorities (NCAs) for the supervision of LSIs is to define consistent supervisory approaches as regards the supervision of these entities by the NCAs in accordance with the SSM supervisory model. The ECB, in liaison with the NCAs, decides on a case-by-case basis whether a methodology or joint supervisory standard can be made public or not, following an assessment that strikes a balance between the need for transparency and for keeping certain aspects of supervision confidential. At the same time I wish to highlight that publishing a methodology or policy document is not the only way to ensure transparency on supervisory expectations, as I will explain below in more detail.

Legal instruments implementing joint supervisory standards and policies for the supervision of LSIs by NCAs that have been subject to public consultation and were subsequently published mainly relate to areas where the industry has a legitimate interest<sup>1</sup>. In your question, you refer in particular to the LSI SREP methodology and the IFRS 9 methodological guidance.

The LSI SREP methodology is currently being finalised, having been tested by all NCAs on a sample of LSIs last summer. The NCAs will implement the resulting methodology and retain full responsibility, as direct

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<sup>1</sup> Documents published along these lines include: the guidelines on the assessment and monitoring of institutional protection schemes (Guideline (EU) 2016/1993) and Guideline (EU) 2016/1994), the Guideline and Recommendation on the exercise of options and discretions available in Union law by NCAs for LSI supervision (Guideline (EU) 2017/697 and Recommendation of the ECB of 4 April 2017). The final guide to assessments of fintech credit institution licence applications is expected to be published at the beginning of 2018.

supervisors, for carrying out the assessments and deciding on capital and liquidity measures. NCAs will start using the LSI SREP methodology from the 2018 supervisory cycle onwards, possibly following a staggered approach such that, by 2020, all LSIs should be assessed using this common methodology. In the future, the methodology will be reviewed to the extent needed and further developed to keep pace with legislative and supervisory developments.

While the SREP methodology used in the assessment of significant institutions (SIs) and that used in the assessment of LSIs – the latter of which derives from the first but applies the principle of proportionality – are not published in detail, they rely on the EBA guidelines on SREP, which are public and well known to the banking sector and provide extensive information on the applicable general supervisory framework. A revised version of these guidelines is currently under public consultation, allowing the industry and the general public to be informed about the framework applicable in the European Union and to provide comments on it<sup>2</sup>.

At the same time, the SREP methodology developed by ECB Banking Supervision for LSIs, similarly to the one for SIs, contains a higher level of detail than the EBA guidelines it implements and cannot therefore be made available in detail outside the community of supervisors, as publishing it would be similar to disclosing in advance the questions to be asked in an examination, thus putting the effectiveness of the exercise at risk. At the same time, candidates in an examination would still expect to receive adequate information on the areas covered by the examination. We have already started to communicate on the LSI SREP methodology to increase transparency vis-à-vis the LSIs. For example, in August 2017, a dedicated article was published on the ECB's Banking Supervision website as part of our Supervision Newsletter<sup>3</sup>. The LSI SREP methodology is also a topic that is frequently discussed by the ECB in its interaction with European banking associations.

Finally, in a similar approach to that taken with respect to the SREP methodology for SIs for which a SSM SREP Methodology Booklet is published on a yearly basis, the ECB will work on a proposal to promote transparency also on the LSI SREP methodology vis-à-vis the industry (focusing on the general/central aspects of the methodology).

The second area you mention in your letter, namely the IFRS 9 methodological guidance, relates to the new accounting standard for financial instruments that became effective on 1 January 2018, replacing the previous standard, IAS 39. The new standard will have an impact on accounting results. Given that these accounting figures form the basis for the calculation of prudential capital requirements, ECB Banking Supervision included this topic in its supervisory priorities for 2016 and 2017. In particular, a thematic review was conducted, analysing the banks' preparations with regard to the new standard.

This thematic review covered both SIs and LSIs and encompassed several initiatives, including the development of internal supervisory guidance containing supervisory expectations on how to conduct the thematic review. In the case of LSIs, this guidance was based on that developed for SIs and adapted to take into account the proportionality principle and LSIs' specificities. It was developed together with the NCAs and is fully consistent with international best practices and the supervisory guidance issued by the Basel

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<sup>2</sup> <https://www.eba.europa.eu/documents/10180/2006890/Draft+Revised+SREP+Guidelines+-+consolidated+text.pdf>

<sup>3</sup> <https://www.bankingsupervision.europa.eu/press/publications/newsletter/2017/html/ssm.nl170816.en.html>

Committee on Banking Supervision (BCBS) and the European Banking Authority (EBA). The guidance aimed to support the Joint Supervisory Teams and NCAs when assessing an institution's preparedness with respect to the implementation of IFRS 9.

On 30 November 2017, the ECB published a report on the IFRS 9 thematic review describing the key challenges faced by the institutions and the main areas where improvements are still needed.<sup>4</sup> This publication also encompasses the expectations followed by the supervisors in line with the guidance previously issued by the EBA and the BCBS on this matter, which is publicly available.

Several further initiatives have been undertaken to enhance transparency vis-à-vis the industry and achieve the harmonisation of supervisory expectations. The ECB organised workshops with three European banking associations, with the objective of ensuring an equal level of knowledge among banks regarding supervisory expectations and creating transparency through the dissemination of selected parts of the guidance. The ECB also encouraged NCAs to organise meetings with local banking associations and/or LSIs and to share the relevant parts of the guidance in the same way. As part of its ongoing monitoring of the progress made in implementing this new accounting standard, the ECB intends to maintain an ongoing dialogue with the European banking associations.

I hope these explanations clarify our approach to the specific cases you referred to in your question, as well as to the publication of methodologies and policies for the supervision of LSIs in general.

Yours sincerely,

[signed]

Danièle Nouy

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<sup>4</sup> [https://www.bankingsupervision.europa.eu/banking/letterstobanks/shared/pdf/2017/ssm.reportlsi\\_2017.en.pdf](https://www.bankingsupervision.europa.eu/banking/letterstobanks/shared/pdf/2017/ssm.reportlsi_2017.en.pdf)