



EUROPEAN CENTRAL BANK

EUROSYSTEM

EBA Workshop

*“The application of the principle of proportionality  
in the context of Institutional and Regulatory Reforms”*

Friday 3 July 2015

Breakout Session 3.3:

**Size, systemicness and business models**

**Proportionality in the SSM**

Etienne de Bridiers

Directorate General Micro-prudential Supervision IV (DG-MS IV)

Head of section in Methodology and Standards Development Division

1. Regulatory proportionality framework
2. SSM General Set-up
3. Intensity of Engagement
4. SSM SREP

1. Regulatory proportionality framework
2. SSM General Set-up
3. Intensity of Engagement
4. SSM SREP

# 1. Regulatory framework – *Proportionality Principle*

- The proportionality principle is a concept considered in all the CRD IV regulation, and EBA guidelines

- **CRD IV** (Article 97.4)

*“Competent authorities shall establish the frequency and intensity of the review and evaluation referred to in paragraph 1 having regard to the size, systemic importance, nature, scale and complexity of the activities of the institution concerned and taking into account the principle of proportionality...”*

- **EBA Guidelines on SREP** (Section 2.4. Paragraph 36).

*“Competent authorities should apply the principle of proportionality in the scope, frequency and intensity of supervisory engagement”*

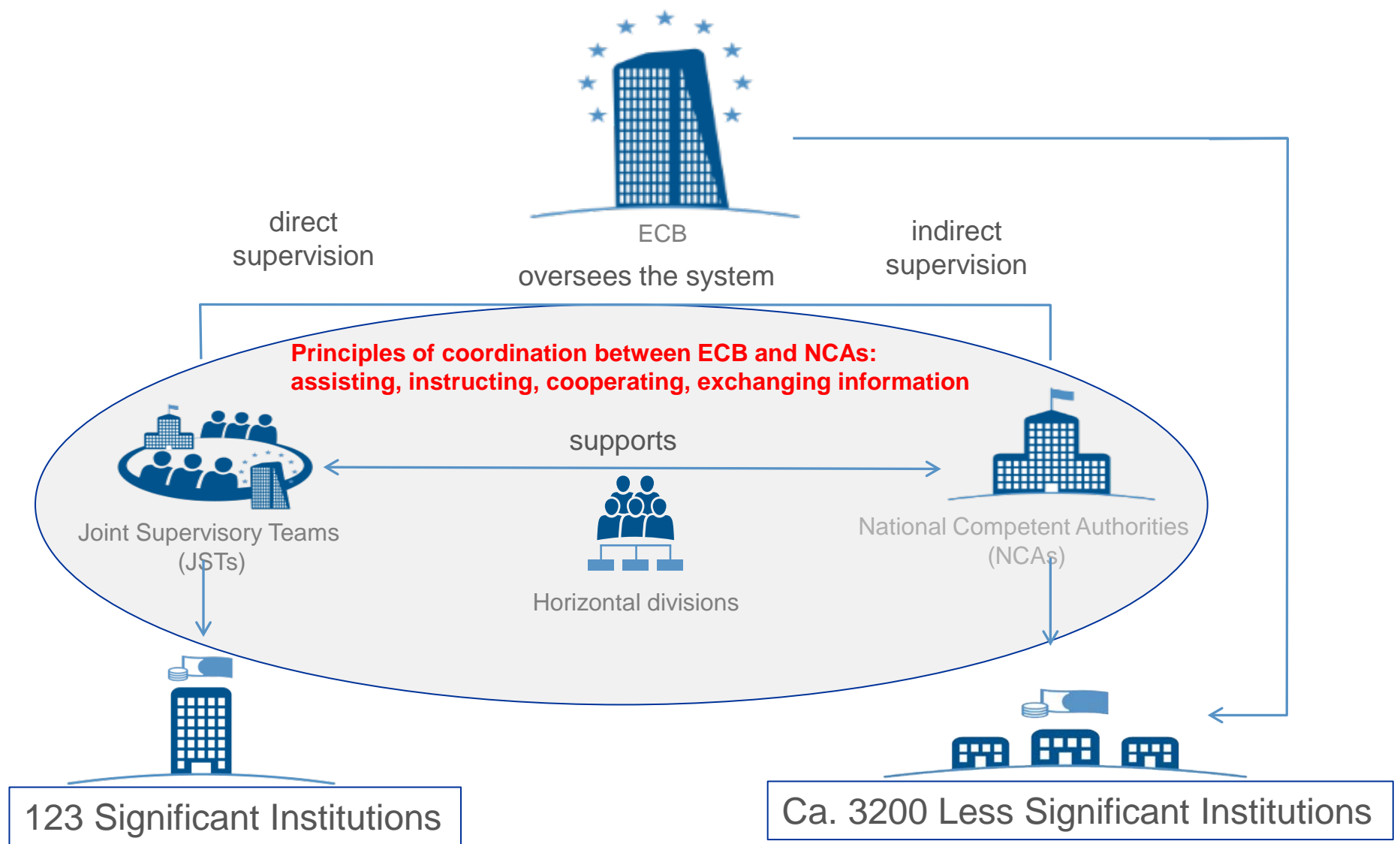
# 1. Regulatory framework – *Limits to proportionality principle*

EBA SREP GLs set a **floor to the application of the proportionality principle**:

- **Individual assessment of all the elements of SREP:**  
business model; internal governance and controls; risks to capital; risks to liquidity; (para 26)
- Score of the individual elements of SREP using a **4 grade scale** (para 28)
- Consideration of the **risk levels and also the quality of the risk controls** (para 30)
- Regarding the **frequency of the assessment**:
  - Monitor Key Risk Indicator in a quarterly basis (paras 37, 45)
  - Summary of the overall SREP assessment at least yearly (para 37)
  - Assessment of all the individual SREP elements at least every 3 years (para 37)
  - Individual SREP legal decision (para 4 / Art 110, CRD IV)

1. Regulatory proportionality framework
2. SSM General Set-up
3. Intensity of Engagement
4. SSM SREP

# 2. SSM General Set-up – Organisation



## 2. SSM General Set-up – *Proportionality principle*

### SSM Guide\*: “*Principle 7 – Proportionality*”

*The supervisory practices of the SSM are commensurate with the systemic importance and risk profile of the credit institutions under supervision. The implementation of this principle facilitates an efficient allocation of finite supervisory resources. Accordingly, the intensity of the SSM’s supervision varies across credit institutions, with a stronger focus on the largest and more complex systemic groups and on the more relevant subsidiaries within a significant banking group. This is consistent with the SSM’s risk-based and consolidated supervisory approach.*

\* SSM Guide to Banking Supervision. URL:

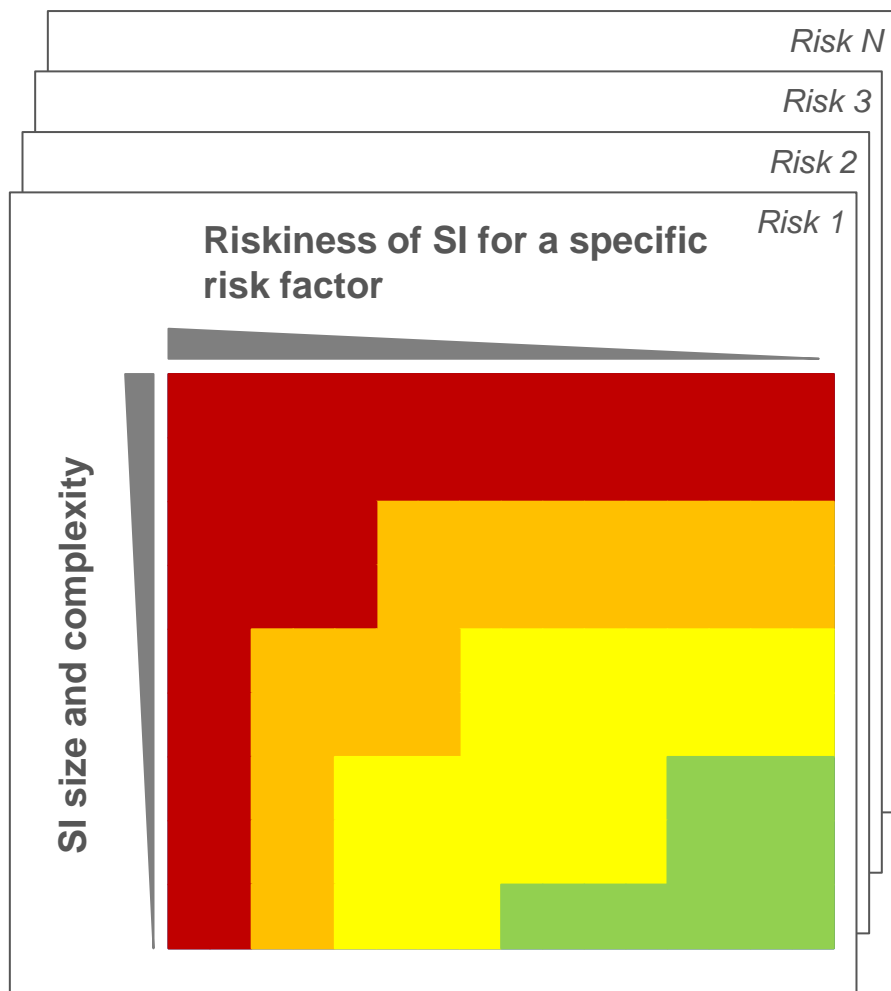
<https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssmguidebankingsupervision201411.en.pdf>



# Agenda

1. Regulatory proportionality framework
2. SSM General Set-up
3. Intensity of Engagement
4. SSM SREP

# 3 . Intensity of Engagement – *Significant Institutions*



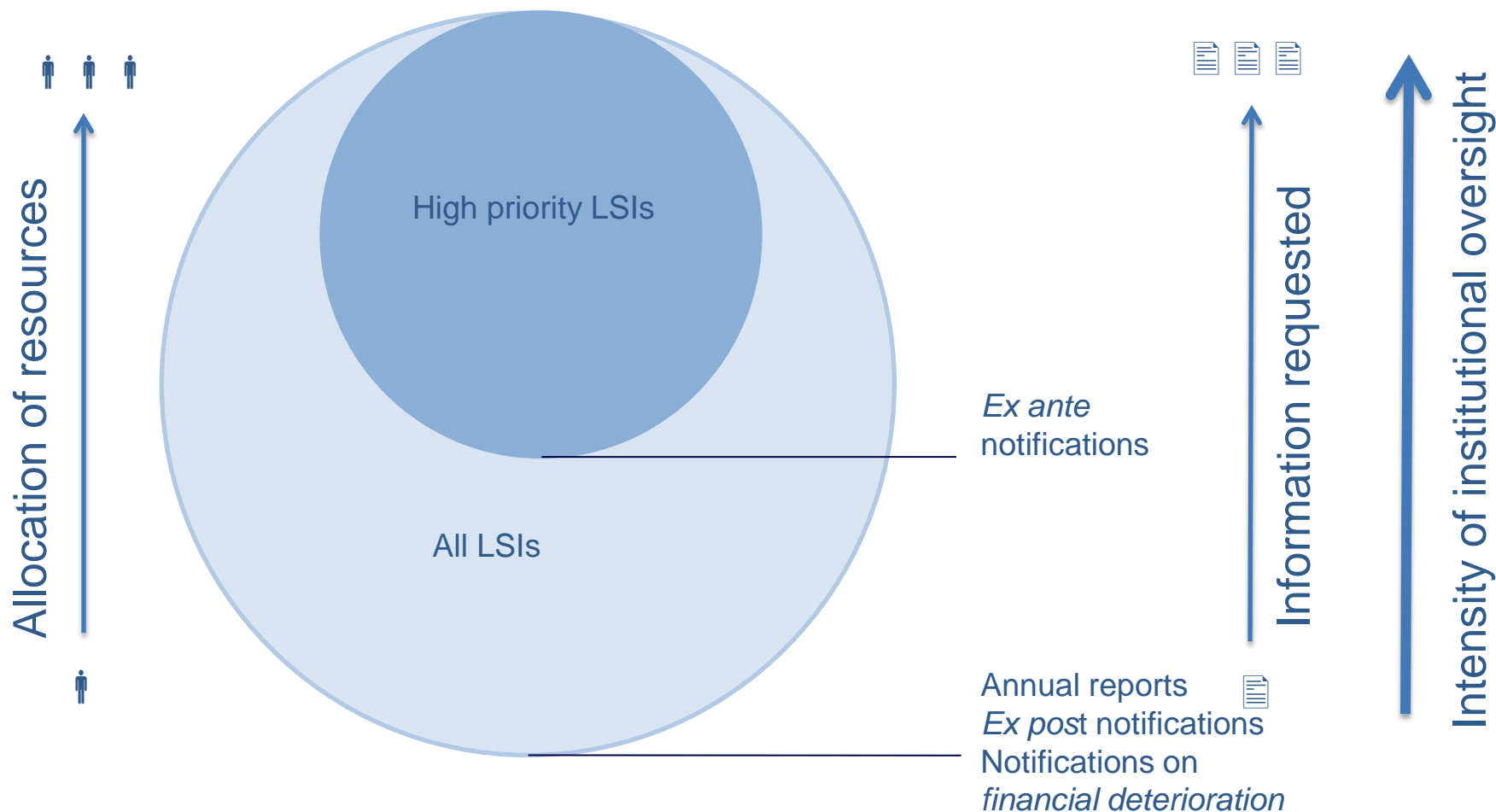
- **Supervisory Examination Programme (SEP)** per SI (on consolidated level), based on Minimum Engagement Levels
  - On-going supervision / SREP
  - On-site inspections
- There is a **direct link** between an institution's overall risk profile assessment and the level of supervisory engagement

SREP takes into account 1) an institution's potential impact on the financial system and 2) its intrinsic riskiness.

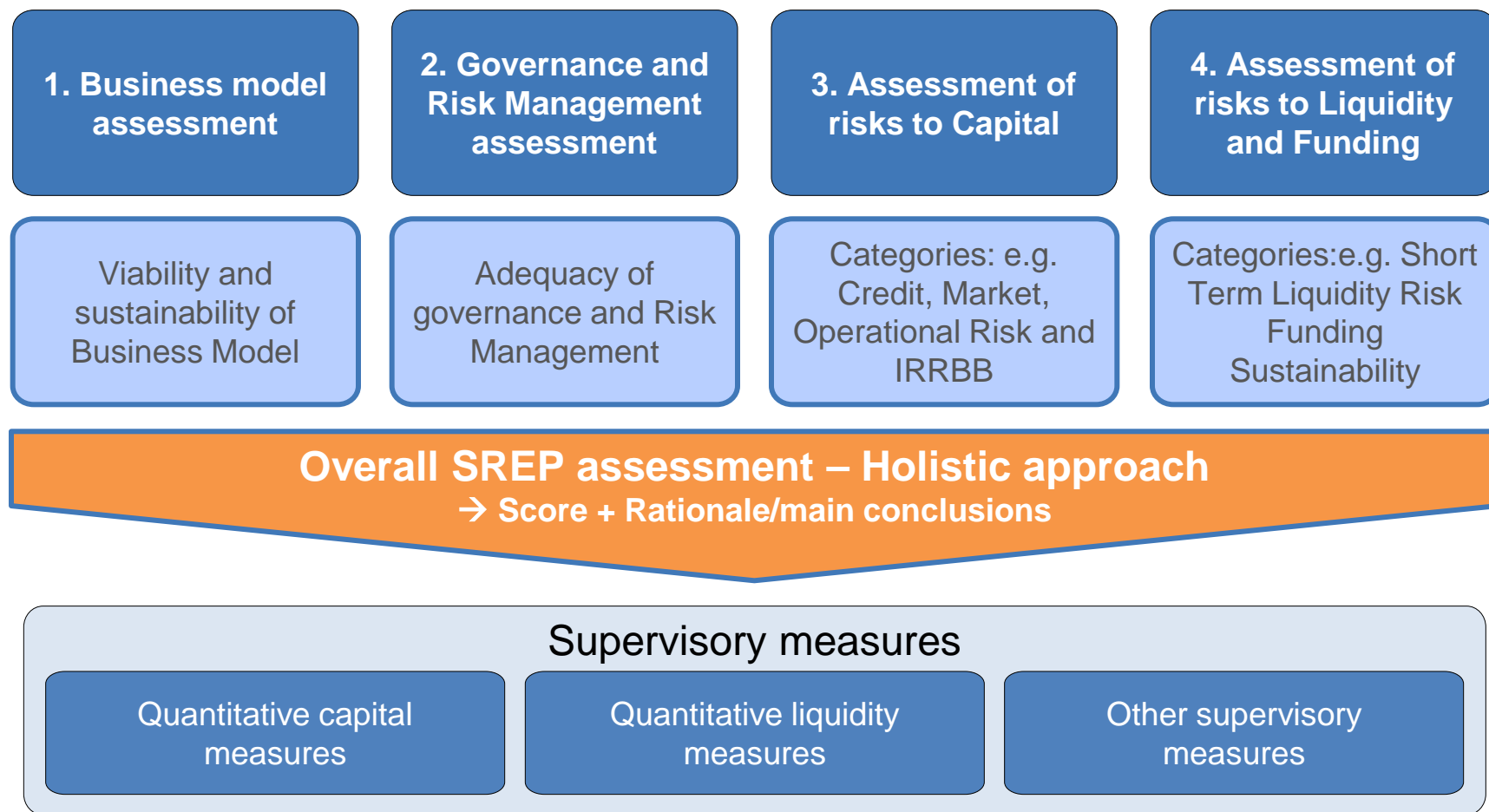
This results in a differentiated frequency and intensity for the institution's risk profile assessment within the year.

### 3 . Intensity of Engagement – *Less Significant Institutions*

LSIs are monitored in a proportionate manner, based on their priority rank



1. Regulatory proportionality framework
2. SSM General Set-up
3. Intensity of Engagement
4. SSM SREP



The SSM SREP is to applied proportionately to both significant and less significant institutions, ensuring that the highest and most consistent supervisory standards are upheld.