

Prudential supervision of credit institutions: conferring specific tasks on the European Central Bank (ECB)

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This Commission report assesses the setting up and functioning of the **Single Supervisory Mechanism (SSM)** to determine its effectiveness as the first pillar of the Banking Union. It is also the first review by the Commission of the application of the SSM Regulation in accordance with Regulation (EU) No 1024/2013.

The report concludes that the **establishment of the Single Supervisory Mechanism was successful overall**. The organisational difficulties observed at the initial stage have been well managed by the European Central Bank (ECB) and the national central authorities (ACN).

The ECB, with the support of the NCAs, has set up the **necessary procedures and tools that enabled the smooth transfer of supervisory competences** over significant institutions and the exercise by the ECB of its coordinating and oversight functions. On the basis of such framework the ECB has taken up fully its supervisory role and has managed to establish in two years a good reputation as an effective and rigorous supervisory authority.

No major issues have been detected in relation to the **independence of the ECB**. As regards the separation principle, the ECB should ensure that all safeguards are in place and applied, especially as regards services underpinning both the supervisory function of the ECB and all other functions performed by the ECB. The ECB is also invited to ensure the appropriate involvement of the Supervisory Board in macro-prudential decision-making.

The use of **mechanisms for holding the ECB accountable has not demonstrated shortcomings in the way the ECB pursues its supervisory tasks**. Certain disagreements arose concerning the scope of the mandate of the ECA to review the ECB – an issue that is expected to be solved through the declared commitment to better cooperation in the context of the second review that will be conducted by the ECA.

The **relationship between the ECB and the EBA** constitutes another important aspect of the functioning of the SSM in the context of the internal market. This review observed a positive dynamic of interaction which is mutually beneficial, and encourages the ECB to continue cooperating and coordinating with the EBA, especially as regards the implementation of the single rulebook.

The effectiveness of supervision of euro area banks has improved already in the first years of SSM functioning:

- **for significant institutions**, the regulatory framework is more harmonised, and supervision is based on common methodologies applied in a consistent way. The quality of supervision is perceived as having increased in relation to several core supervisory areas, especially the SREP, internal models, fit and proper assessments and the functioning of colleges;
- the ECB also took important steps in harmonising supervisory practices for **less significant institutions**, but more time is required to increase the level of harmonisation and promote the use of common best practices in the supervision of LSIs.

Overall, the application of the SSM Regulation appears to work well in practice, with **no major changes needed to the legal framework at this stage**.

The shortcomings noted in this report may be corrected mainly through actions to be taken by the ECB or through amendments to relevant Union law that are currently discussed by the European Parliament and the Council in the context of the Proposals made by the Commission in November 2016.