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**Supervisory review and evaluation  
process (SREP)**

# Supervisory Review and Evaluation Process (SREP)

## Introduction: What are SREP's key elements?

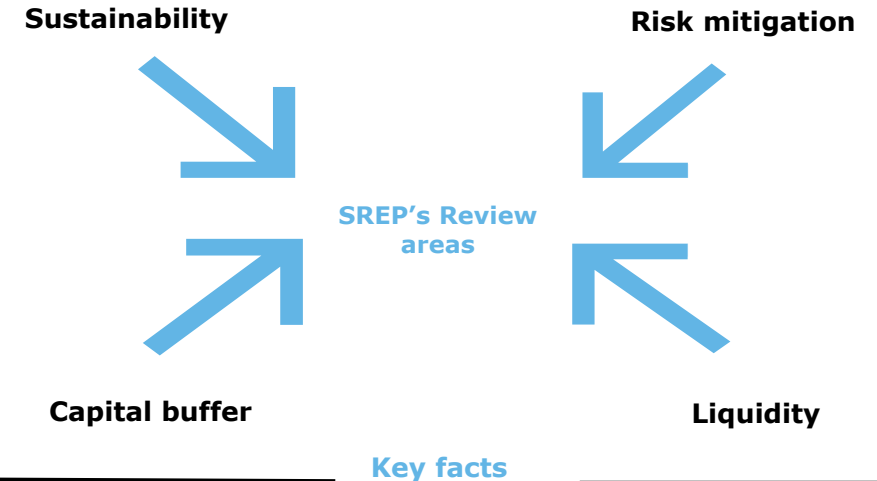
Demands put on banks in the Eurozone in terms of supervisory reviews, monitoring and evaluation have increased significantly since the 2008 economic crisis. As a part of this shift towards enhanced regulatory supervision, the European Central Bank (ECB) introduced so called **Supervisory Review and Evaluation Process (SREP)**, a rigorous cyclical process executed by the ECB's Single supervisory itself or by dedicated national authorities. First implemented in 2016, SREP reflects outcomes of the Basel Committee on Banking Supervision (BCBS). Most importantly, the process represents an important shift towards more in-depth evaluation and review process of the ECB's recent agenda. With its holistic approach, strict sanctions and a comprehensive gap analysis linked to recommended post-implementation activities, SREP illustrates the ECB's new emphasis on banking supervision.

### Components to be reviewed under SREP

- **Business model:** sustainability assessment
- **Governance and risk:** risk assessment based on review of the organizational structure
- **Capital:** assessment of a safety net
- **Liquidity:** ability to cover unexpected cash needs

### Outcomes of the review

The review and evaluation process usually concludes with the ECB's supervisors or supervisors from dedicated national banking authorities issuing a risk assessment report with recommendations. The recommendations vary from a requirement to hold additional capital or enhance the bank's safety net up to adaptation of business strategies or exchange of leadership in rarer cases.



- ✓ **SREP** introduces a common methodology and a common decision-making process over the banking supervision; this allows comparisons of partners across the Eurozone; the mechanism simultaneously leaves a scope for flexible redress of supervisory priorities of national banking authorities
- ✓ **SREP** stipulates high standards of supervision; follows the ECB's guidelines; draws on international best practices; designs tailored measures to redress banks' weaknesses; strives for continuous improvement of its supervision
- ✓ **SREP** emphasizes risk prevention; capitalizes on holistic assessment tools to evaluate banks' viability; engages with quantitative and qualitative methodologies to indicate weaknesses with respect to risk management

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## Background: How does it work?

**Compliance with Regulations and Guidelines:** Regulation (EU) No 575/2013 on prudential requirements for credit institutions, Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and number of specific guidelines and methodologies for the Supervisory Review and Evaluations process (SREP).

### Scope



#### Who

- **Significant banks:** identified in an ECB-issued list; supervised directly by ECB
- **Less significant banks:** supervised by dedicated national banking authorities
- Differences are reflected in the scope, intensity and frequency of the individual review process



#### When

- Joint Supervisory Teams are required to review, at **least annually**, the arrangements, strategies, processes and mechanisms implemented by the institutions they supervise.
- The SREP assessment is **continuously** carried out and recommendations are issued at least **annually**.

### 2019 ECB's high-level priority areas for banking supervisory

Credit risk	Risk management	Activities comprising multiple risk dimensions
<ul style="list-style-type: none"> <li>✓ <b>Non-performing loans</b></li> <li>✓ <b>Quality of banks' underwriting criteria with a focus on new lending</b></li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Targeted review of internal models</b></li> <li>✓ <b>Internal capital and liquidity adequacy</b></li> <li>✓ <b>IT and cyber risk</b></li> <li>✓ <b>Liquidity stress tests</b></li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Political risk preparedness</b></li> <li>✓ <b>Trading risk and asset valuations</b></li> </ul>

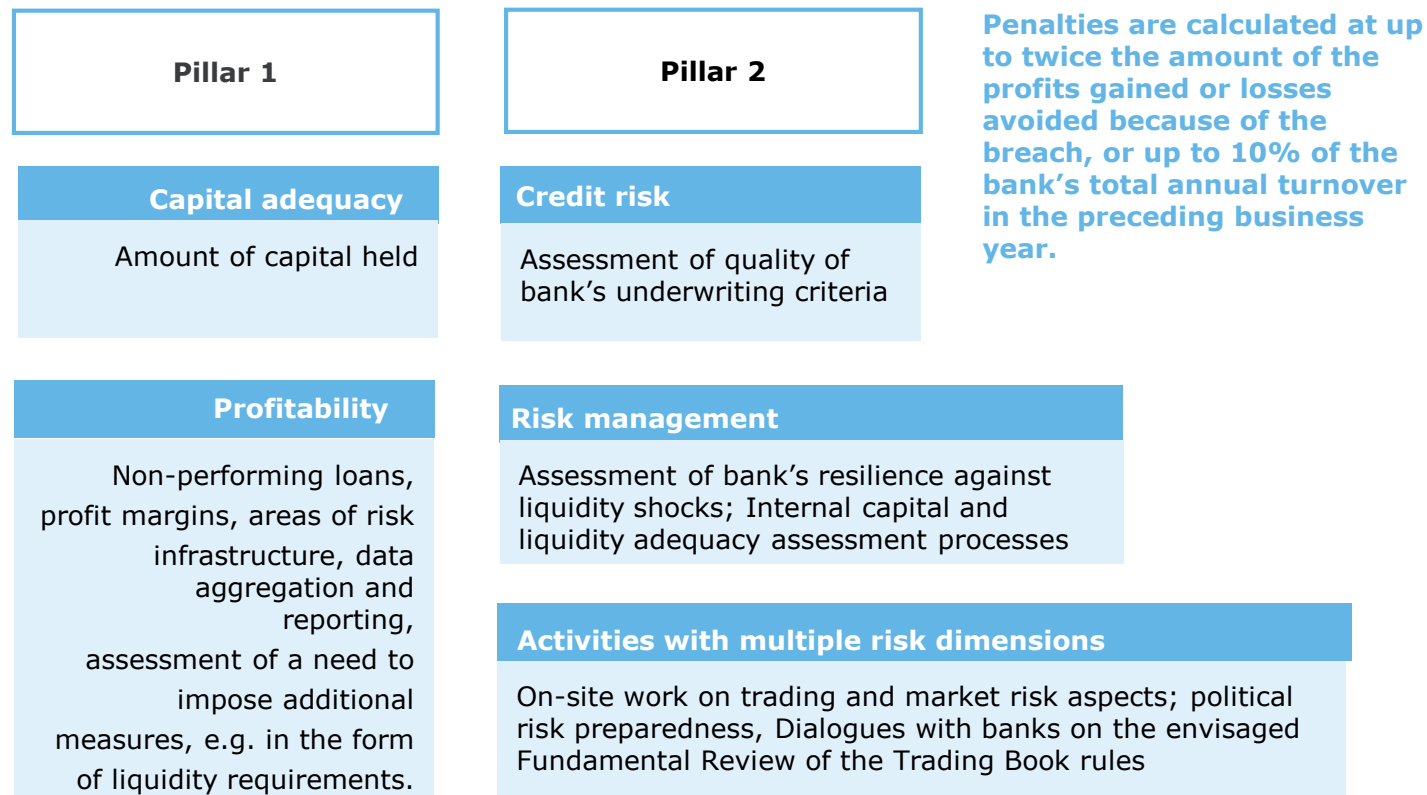
### Challenges for banks

- **Identification of Weaknesses:** To dispose of adequately robust data required to identify risks in processes and prevent potentially harmful impacts. To have a thorough understanding of gaps in the banking system.
- **Compliance with risk prevention strategies:** To address all risk realms identified by supervisory authorities and to act in line with relevant legally stipulated guidelines and procedures. To achieve targets in all indicators identified by supervisory authorities.
- **Post-review implementation plan:** To follow up on the requirements identified by supervisory authorities. To implement amendments of processes, business strategies and governance models.

# Supervisory Review and Evaluation Process (SREP)

## Agenda for Action: 2019 priorities

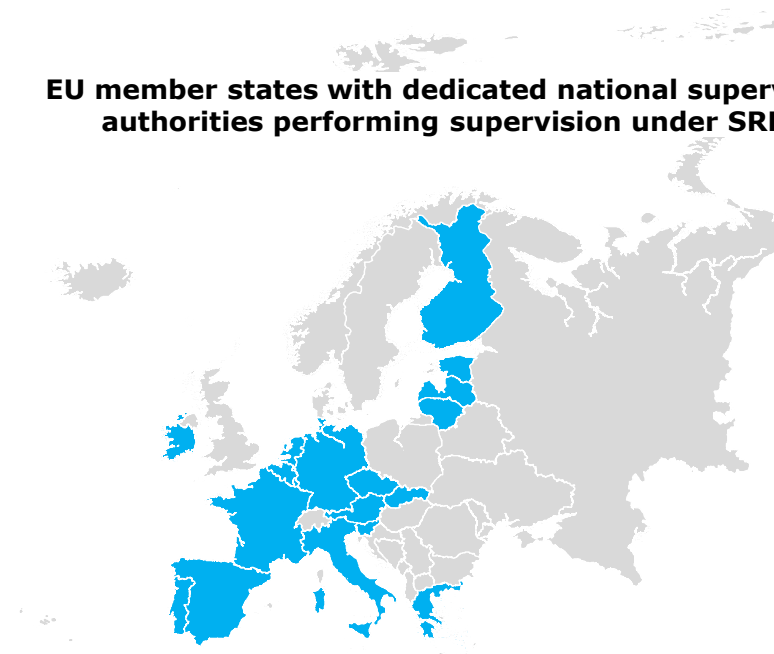
While following a standard methodology, SREP's focus is determined by specific banks' potential impact on the financial system, their riskiness and their financial and organizational status. Identifying synergies between SREP's priorities and individual characteristics of each bank and acting upon critical action points, we address challenges prior to them arising.



### Other priorities

Follow up on ECB's non-performing loan guidance;  
on-site work on real estate exposures;  
on-site work on IT risks;  
cyber incident reporting;  
follow up on the ECB guide for internal models etc.

**EU member states with dedicated national supervisory authorities performing supervision under SREP**



# Competitive strategic solution framework

## Helping you succeed at SREP

In the past years, the ECB's Single Supervisory Mechanism has significantly strengthened the quality and consistency of its supervision across the euro area in reaction to systemic risks, such as high amount of non-performing loans, cybersecurity threats, geopolitical volatility and related risks of repricing in financial markets. The newly launched Supervisory Review and Evaluation Process, or SREP, presents a harmonized and holistic methodology for conducting for evaluation of both significant and less significant banks. The penalties for non-compliance with guidance, goals and indicators identified by ECB range from high penalties up to change of management, business models and other corrective measures.

**Building upon comprehensive experience in SREP simulation and expertise in regulatory assessment, the Deloitte's team has a strong record of consistent success in SREP preparation for both significant and less significant banks. The chart below outlines our services.**

	Capital	Liquidity	Business model	Governance
Collect quantitative and qualitative data and perform tests	Examine reports	Examine reports	Review strategic documents	Review strategic documents
	Perform mock stress tests	Perform mock stress tests	Conduct targeted interview	Conduct interviews with external actors
Draft gap analysis	Assess ability to absorb losses	Assess ability to cover short-term needs	Assess sustainability of business strategies	Analyze risk preparedness
Develop solutions	Outline a gap resolution strategy for capital buffers	Outline an optimization strategy for liquidity	Based on a consultative process with key stakeholders launch an enhanced sustainability and risk preparedness action plan	
Lead application of corrective measures	Manage implementation of corrective measures and related communications Lead change management for SREP preparedness			

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