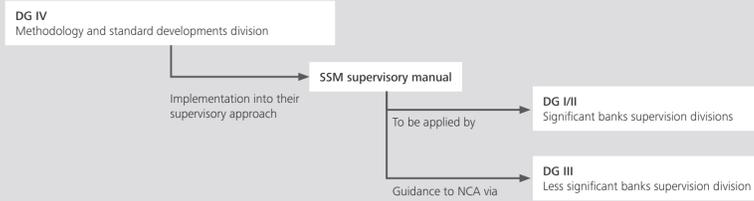


Banking Union

Implementation of EBA SREP guidelines by the ECB

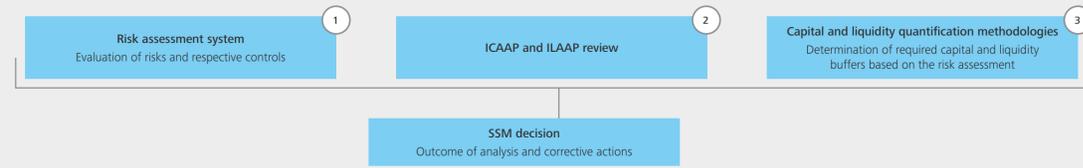


Characteristics of the SSM supervisory approach



Characteristics of the SSM supervisory approach

The SREP is used to calibrate additional capital and liquidity requirements beyond Pillar 1 minimum requirements. The SSM analyses the internal methodologies and conducts its own calculations for Pillar 2 during the SREP using a three-step approach:



Single Resolution Mechanism (SRM)

Single Rule Book

EBA guidelines for common procedures and methodologies for the SREP

Categorisation of institutions



Key indicator monitoring



Core process: SREP elements

1. Business model analysis (BMA)

1. Preliminary assessment	Identify main activities, product lines, geographies, market positions. Identify the institution's peer group on the basis of the rival product/business lines targeting the same source of profits.
2. Identification of the areas of focus for the BMA	Identify the business lines which are most important for future business model sustainability and the ones most likely to increase vulnerabilities. Assess supervisory reviews and findings, internal and external audits, strategic plans and peer comparisons.
3. Assessment of the business environment	Develop an understanding of macroeconomic and market trends as well as strategic peer group intentions (analysis of competitive landscape).
4. Quantitative analysis of the current business model	Analyse and assess the institution's profitability, balance sheet, concentrations and risk appetite taking the recent past and future trends into account.
5. Qualitative analysis of the current business model	Assess external and internal dependencies, reliance on reputation, strength of the relationships and areas of competitive advantage.
6. Analysis of the strategy and financial plans	Quantitative and qualitative analysis of strategic plans and projected financial performance, including the underlying success drivers and assumptions as well as execution capabilities.
7. Assessment of the business model viability	The institution's current business model's ability to generate acceptable returns over the following 12 months. Assess the acceptability of returns against ROE, funding structure, risk appetite.
8. Assessment of the sustainability of the institution's strategy	The sustainability of the institution's strategy on its ability to generate acceptable returns over the next three years. Assess the plausibility of assumptions and the risk level.
9. Identification of key vulnerabilities	Examples: unrealistic strategy, excessive concentrations or volatility, excessive risk taking, funding structure concerns and external issues.

Scoring 1 – 4

2. Assessment of internal governance and controls

Overall internal governance framework	Is the organisation fit for purpose? Does the management know the institution's structure and risks? Are adequate policies in place e.g. to avoid conflicts of interest, outsourcing?
Corporate and risk culture	Has the institution a corporate and risk culture adequate for its business and risk appetite? Are there independent whistle-blowing processes? Is the culture clearly communicated across all levels?
Organisation and functioning of the management body	Is the number of members of the management body adequate and do they demonstrate a sufficient level of commitment and independence? Is the management body effective? Adequacy of internal control procedures?
Risk management framework, including ICAAP & ILAAP	Review an institution's ICAAP and ILAAP and determine their (1) soundness, (2) effectiveness and (3) comprehensiveness. Review of stress testing programs and determine the appropriateness of, e.g. scenarios, assumptions and methodologies.
Internal control framework, including internal audit function	Do independent control functions and clear decision making processes exist? Are adequate risk reporting policies and compliance functions established, approved by the management body?
Information systems and business continuity	Does accurate and reliable risk data exist (up-to-date, complete)? Can on-demand data requests be met?
Remuneration policies and practices	Is the remuneration policy in line with the risk profile, corporate values and risk appetite? Ratio of variable and fixed remuneration is appropriate – are the provisions on the limitation of the variable component complied with?
Recovery plan arrangements	Are adequate recovery plans available?

In addition, the following aspects are assessed on the consolidated level:

- Is the legal structure transparent?
- Does an institution-wide strategy and information system exist?
- Implementation of group policies on subsidiary level?

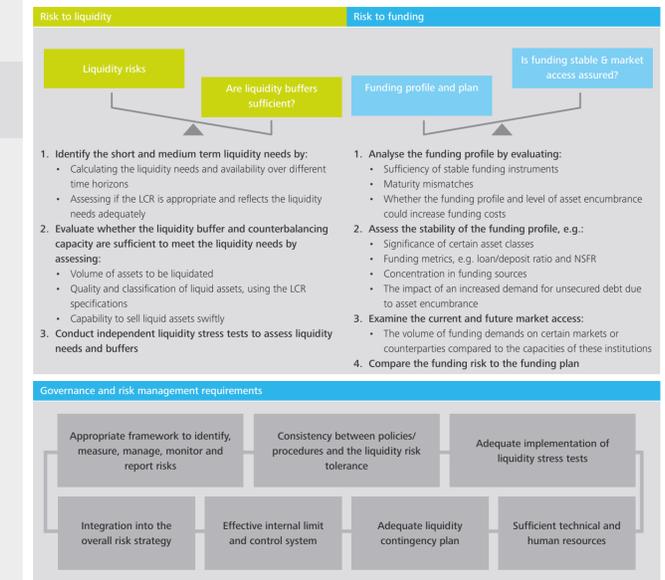
Scoring 1 – 4

3. Assessment of risks to capital

Measuring risk to capital	Credit and counterparty risk	Market risk	Operational risk	Interest Rate Risk in the Banking Book (IRRBB)						
1. Assessment of materiality of risk										
2. Evaluation of the nature, composition and sub-categories of risk categories										
3. Evaluation of the accuracy and prudence of methodologies										
4. For credit and counterparty risk, e.g. assessment of the quality of the credit portfolio, the applied credit risk mitigation techniques, the level of loan loss provisions and CVA										
5. For market risk, e.g. evaluation of profitability and market concentration risk										
6. For operational risk, e.g. assessment of the significance of operational risk exposures and reputational risk										
7. For interest rate risk in the banking book, e.g. evaluation of scenario analysis and stress testing results										
Assessment of risk management and controls	<table border="1"> <tr> <td>Policies and procedures</td> <td>Risk identification and measurement</td> <td>Risk management, monitoring, reporting</td> </tr> <tr> <td>Organisational framework</td> <td>Internal control framework</td> <td>Respective risk strategy and appetite</td> </tr> </table>				Policies and procedures	Risk identification and measurement	Risk management, monitoring, reporting	Organisational framework	Internal control framework	Respective risk strategy and appetite
Policies and procedures	Risk identification and measurement	Risk management, monitoring, reporting								
Organisational framework	Internal control framework	Respective risk strategy and appetite								
Assessing whether own funds suffice to cover risks to capital	Capital requirements	Determining total SREP and overall capital requirements	Additional considerations							
Overall capital requirements	CRD IV counter-cyclical buffer (0–2.5%) CRD IV conservation buffer (2.5%) Macro-prudential requirements (0–5%) Total SREP capital requirements (TSCR) CRD own funds requirements (8%) SREP additional own funds requirements	SREP own funds depend on the identified risks to capital while taking expected and unexpected losses over a one year horizon as well as model and governance deficiencies into account. SREP CRD IV and macro-prudential buffers have to be reconciled to avoid double counting.	Excessive leveraging is assessed by: Comparing the leverage ratio to peers Evaluating its distance to the regulatory minimum Considering stressed events Analysis whether OCR and TSCR can be held stable over the economic cycle and stress scenarios							

Scoring 1 – 4

3. Assessment of risks to liquidity and funding



Scoring 1 – 4

