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Financial Services Industry News

Eurozone banks wake up to a new supervisor – Prologue for banks in EU states which intend to adhere to euro

Overview

The Single Supervisory Mechanism ("SSM") formally entered into effect on 4 November 2014. For more than a year now, supervisors and banks have been preparing for the transfer of supervisory responsibilities to the European Central Bank ("ECB").

Yet the 4 November milestone is just the start of a much longer, possibly testing journey for all involved. In brief it is envisaged that SSM will introduce higher supervisory standards than some banks have been used to in the past; greater standardisation of approach, and a change in perspective (so that different issues might come to the fore of the supervisory relationship).

How banks should get ready for the new regime?

Banks in the Eurozone need: to seize the initiative, recognise the raised expectations and take the opportunity to make a fresh start in the supervisory sphere. The first 12 months of the SSM will be essential for establishing the priorities and approach of the SSM.

Four characteristics stand out as drivers for change in day-to-day supervision. Each of these could affect the supervisory expectations placed on banks substantially, although the effect will be felt more and more rapidly by directly supervised 'significant' banks:

- The SSM will harmonise how **risk-based, forward looking supervision** is conducted in the Eurozone.
- The SSM will integrate **qualitative and quantitative analysis**, but may have a stronger quantitative approach to supervision than most national competent authorities currently have, at least initially.
- Seeking **supervisory consistency** will be a key driver for how banks are supervised.
- **Peer group analysis** will be a key new supervisory tool, in part to deliver consistency between countries.

Being a success under the new regime SSM for the Eurozone and EU banks

The impact of supervision on banks (for the moment only in the Eurozone) – both in terms of the financial cost and the call on senior management time – can be affected by how actively banks manage the regulatory relationship. Thus, it is important for banks establish trust and understanding of their business with supervisors. In the past this has been an interactive process over many years; in contrast the new relationship with the SSM needs to be established immediately. In our experience, the impact of supervision on banks – both the financial cost and the call on senior management time – depends on how actively banks manage the regulatory relationship.

To be successful under the new regime, banks should be proactive – in addressing the outcomes of the comprehensive assessment, and beyond, in assessing which aspects of their business could cause supervisory concern, and in managing the supervisory dialogue around such issues. Any resultant changes should not be implemented in a vacuum – instead, banks should take a strategic view of how the adaptation to the new supervisory regime links to on-going and forthcoming regulatory change projects, and what synergies can be drawn.

Might be wise for banks outside the Eurozone to consider and address such aspects in their short and medium term strategies and policies having in mind that the adherence to SSM is just a matter of time.

For more details regarding MUS and the actions to be undertaken by the banks under the new regime please click the following link.

Should you have any questions please do not hesitate to contact us:

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