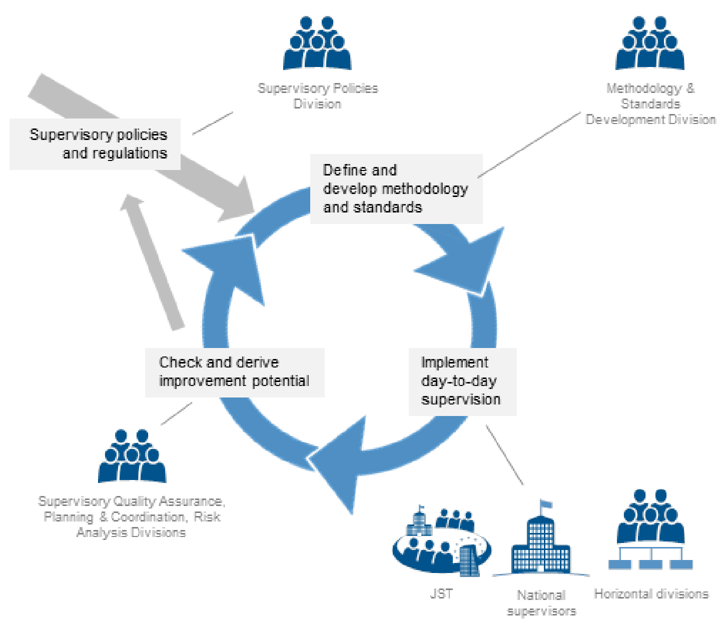
EUROPEAN CENTRAL BANK
BANKING SUPERVISION

How does banking supervision work?

The process for banking supervision can be envisaged as a cycle:

- regulation and supervisory policies provide the foundation for the development of
- supervisory methodologies and standards, which underpin
- day-to-day supervisory activities

Lessons learned in the course of supervision and through regular quality checks are used to improve this process.



Developing regulations and supervisory policies

The ECB assists in developing prudential requirements for significant and less significant banks, covering issues such as:

- risk management practices
- capital and liquidity levels
- remuneration policies and practices

Regulations and supervisory policies for all banks are developed through close cooperation and coordination between the ECB and other bodies such as the:

- European Supervisory Authorities, especially the European Banking Authority
- European Systemic Risk Board
- Basel Committee on Banking Supervision

- Financial Stability Board

- **Regulatory environment**

Defining methodology and standards

The methodologies and standards underpin the day-to-day supervision of all banks and are aimed at achieving consistent and efficient supervisory outcomes.

The ECB can issue its own regulations, guidelines and instructions on topics such as the Supervisory Review and Evaluation Process (SREP) and the notification and application procedures for supervised banks.

- **Supervisory Review and Evaluation Process (SREP)**
- **Legal framework**

The ECB regularly reviews and strengthens its methodologies and standards. It uses the experience gained from their practical implementation when planning supervisory activities for the forthcoming cycle based on

- participation in international standard-setting bodies and European authorities
- lessons learnt in the course of day-to-day supervision
- the performance of quality assurance checks

Implementing day-to-day supervision

How are supervisory activities planned?

The ECB plans its supervisory activities through a two-step process: strategic and operational planning.

Strategic planning

The strategic plan defines priorities for the supervisory work over the following 12 to 18 months in the light of:

- risks and vulnerabilities in the financial sector
- guidance and recommendations issued by other European authorities
- findings of Joint Supervisory Teams through the SREP
- priorities highlighted by relevant national supervisors

Strategic planning frames the nature, depth and frequency of activities set out in the individual Supervisory Examination Programmes (SEPs).

Operational planning

Day-to-day supervision is defined in SEPs for each bank, setting out the main supervisory tasks and activities for the following 12 months, including:

- the type and frequency of on-site/off-site activities
- approval procedures of internal models
- on-going model supervision

How are supervisory activities implemented?

Ongoing supervisory activities

Day-to-day supervision encompasses overall interaction with banks and the constant oversight of their activities. One of the main elements underpinning this is the Supervisory Review and Evaluation Process (SREP), based on a common set of methodologies and standards, for the ongoing assessment of the significant banks':

- risks

- governance arrangements
- capital and liquidity positions

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

Ad-hoc supervisory activities

In addition to ongoing activities, the ECB takes ad-hoc supervisory actions, such as granting authorisations and the acquisition of qualified holdings.

Depending on the bank's risk profile assessment, the ECB may also impose a wide range of supervisory measures.

- **Supervisory measures**

Other ad-hoc supervisory activities include crisis management, withdrawal of authorisations and sanctions.

Proportionality

The ECB matches the frequency and level of its supervisory engagement to a bank's potential impact on the financial system, its intrinsic riskiness and whether it is a parent entity, subsidiary or solo institution.