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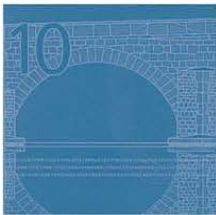
From:	General Secretariat
To:	Delegations
Subject:	SSM Quarterly Report - Progress in the operational implementation of the Single Supervisory Mechanism Regulation

Delegations will find attached the above mentioned report.

Encl.:



EUROPEAN CENTRAL BANK
EUROSYSTEM



SSM QUARTERLY REPORT

Progress in the operational implementation of the Single Supervisory Mechanism Regulation

Embargo

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Address Kaiserstrasse 29, 60311 Frankfurt am Main, Germany
Postal address Postfach 16 03 19, 60066 Frankfurt am Main, Germany
Telephone +49 69 1344 0
Internet <http://www.ecb.europa.eu>

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KEY MESSAGES

This is the fourth Quarterly Report to the European Parliament, the EU Council and the European Commission on progress in implementing the Regulation on the Single Supervisory Mechanism (SSM Regulation). The report, which is required under the SSM Regulation, covers the three months **between 4 August and 3 November 2014**¹.

The key messages of this Quarterly Report are the following:

- **The ECB is ready to fully assume the supervisory tasks conferred on it by the SSM Regulation one year after its entry into force, i.e. on 4 November 2014.** In order to ensure the ECB's preparedness to carry out such tasks, the one-year transitional period since the adoption of the Regulation has been fully exploited, with many challenges being addressed over the past three months, which are covered in this report.
- **The comprehensive assessment has been finalised on schedule.** The results were published on 26 October 2014 in the form of standardised templates for bank-level outcomes, as well as a comprehensive aggregate report describing the outcome across all participating banks, thereby providing further information on the methodology, organisation and execution of the exercise. The final weeks/months preceding the publication of the comprehensive assessment results were dedicated to extensive quality assurance activities on both the asset quality review (AQR) and the stress test; the conduct of the join-up of the AQR and the stress test results; and the direct interaction between supervisors and banks, referred to as the supervisory dialogue, in order to discuss with banks partial and preliminary results before their finalisation.
- **The SSM governance is fully operational.** In the period under review, the Supervisory Board held eight meetings and the Steering Committee three meetings, totalling 19 meetings of the Supervisory Board and 9 meetings of the Steering Committee, since 30 January 2014. The Supervisory Board finalised the process of preparation, adoption and notification in all relevant official languages of 120 decisions determining the significance of supervised institutions, a process involving considerable analytical, legal and logistical

¹ The first Quarterly Report was published on 4 February 2014, three months after the entry into force of the SSM Regulation on 4 November 2013, the second Quarterly Report on 6 May 2014, and the third Quarterly Report on 5 August 2014.

challenges. The Administrative Board of Review began its activities in September, immediately after the appointment of its five members and two alternates. The members of the Mediation Panel were designated in accordance with an annual rotation procedure, as proposed by the Vice-Chair of the Supervisory Board to the President of the EU Council. On 17 September 2014, the Governing Council adopted an ECB Decision on the internal rules to ensure the separation between the ECB's supervisory functions and the monetary policy functions and other tasks. This has fulfilled the requirement of the SSM Regulation to adopt such internal rules, which entered into force before the operational start of the SSM.

- **The staffing of the ECB has been proceeding apace.** Slightly fewer than 900 staff have been recruited and have joined the ECB out of the approximate total of 1,000 positions budgeted for in the five SSM business areas as well as the related shared services; the recruitment has been organised in a top-down fashion. Overall, in all areas involved in SSM-related activities, a critical mass of staff is now on board to ensure a fully operational supervisory function of the ECB at the beginning of November 2014. The large number of applications received (more than 20,000) also confirms that there is considerable interest in SSM positions.
- **The Joint Supervisory Teams (JSTs) are operational and ready to start the day-to-day supervision of significant banks.** The JSTs are the main operational structure for the conduct of supervision by the SSM. Good progress has been made in their staff recruitment. As of 1 November, more than 330 staff, out of the 403 budgeted, have been working at the ECB in DGs MS I and II, including the 61 JST coordinators. The JST staff recruitment is also progressing on the side of the NCAs despite some challenges, as some of the staff nominated for the JSTs are being recruited by the ECB and certain NCAs are also undergoing internal restructuring. The preparatory work to make the JSTs operational by 4 November 2014 included kick-off meetings with the home NCAs and the respective banks, followed up by further regular contact.
- **The “Guide to banking supervision” was published in all official euro area languages on 29 September 2014.** Building on the SSM Regulation and the SSM Framework Regulation, the Guide explains the overall functioning of the SSM in a user-friendly manner. More specifically, the

Guide provides an overview of the main supervisory processes and methodologies applied to significant and less significant credit institutions.

- **The ECB Regulation on supervisory fees was approved by the ECB's Governing Council and published on 30 October 2014**, following a process which included a public consultation and a public hearing. The regulation, which sets out the arrangements under which the ECB will levy an annual supervisory fee for the expenditures incurred in relation to its new role, from November 2014 onwards, will enter into force on 1 November 2014.
- The **preparatory work** has also advanced well in many other areas, such as IT infrastructure, premises, internal and external communication, logistical organisation, as well as legal and statistical services. This also enables the SSM to be fully operational on 4 November 2014.

1 INTRODUCTION

The SSM Regulation² requires the European Central Bank (ECB), as from 3 November 2013, to send quarterly reports to the European Parliament, the EU Council and the European Commission on progress in the operational implementation of the SSM Regulation.

Under the accountability arrangements with the European Parliament³ and the EU Council⁴, these reports should cover, among other things:

- internal preparation, organisation and planning of work;
- concrete arrangements made to comply with the requirement to separate monetary policy and supervisory functions;
- cooperation with other national or EU competent authorities;
- any obstacles encountered by the ECB in the preparation of its supervisory tasks;
- any events of concern or changes to the Code of Conduct.

The first SSM Quarterly Report, which was published on 4 February 2014, covered not only the period from 3 November 2013 to 3 February 2014, but also the preparatory work conducted since the euro area summit of 29 June 2012. The second such Report covered the period from 4 February to 3 May 2014, and the third from 4 May to 3 August 2014. This fourth and final Report covers the period from 4 August to 3 November 2014. It has been prepared by ECB staff and approved by the Supervisory Board, also in consultation with the ECB's Governing Council.

2 ESTABLISHMENT OF THE SSM GOVERNANCE STRUCTURES

2.1 SUPERVISORY BOARD AND STEERING COMMITTEE

The Supervisory Board held eight meetings during the period under review and the Steering Committee held three meetings.

² Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

³ Interinstitutional Agreement between the European Parliament and the European Central Bank on the practical modalities of the exercise of democratic accountability and oversight over the exercise of the tasks conferred on the ECB within the framework of the Single Supervisory Mechanism (OJ L 320, 30.11.2013, p. 1).

⁴ Memorandum of Understanding between the Council of the European Union and the European Central Bank on the cooperation on procedures related to the Single Supervisory Mechanism, which entered into force on 12 December 2013.

Furthermore, the Supervisory Board tested its emergency teleconferencing facilities successfully in July and subsequently held an ordinary meeting by means of teleconferencing in August. Since September 2014, a representative of Lietuvos bankas has been attending the Supervisory Board meetings, as observer, in view of Lithuania's accession to the euro area on 1 January 2015.

Besides formal meetings, there were many informal exchanges between the members of the Supervisory Board as part of the visits of the Chair and Vice-Chair to the Member States. More specifically, further to the commitment to visit the supervisory authorities of all participating Member States by the end of 2014, made in the context of the selection procedure hearing before the European Parliament in November 2013, the Chair has so far met with the Boards and staff of 22 supervisory authorities (out of 24) across the euro area.

In accordance with the Rules of Procedure of the Supervisory Board, representatives of the European Commission and the European Banking Authority (EBA) were invited to some of the Supervisory Board meetings in order to ensure an optimal interplay with the Single Market on a number of issues.

Following a procedure initiated in March, the Supervisory Board prepared, during the period under review, 120 final decisions determining the significance of supervised institutions, which were adopted by the Governing Council under the non-objection procedure in line with the SSM Regulation and duly notified in all relevant official languages to the relevant institutions. Overall, the preparation and adoption of these decisions, which presented considerable analytical, legal and logistical challenges, were managed smoothly. The lists of both significant and less significant banks were published on the ECB's website by the deadline of 4 September 2014, as laid down in the SSM Framework Regulation.

In October the Supervisory Board approved the results of the comprehensive assessment, which were adopted in successive meetings of the Supervisory Board and the Governing Council.

In accordance with the SSM Framework Regulation, the ECB may decide to take over supervisory procedures initiated by NCAs but not yet completed prior to 4 November 2014. In order to determine in which cases the ECB should take over the procedures, the ECB has followed the general principle that pending procedures should remain with the relevant NCA. When deviating from this principle, the ECB has applied two critical criteria: the expected length and the materiality of the procedure. On 13 October 2014, the Supervisory Board decided which procedures it intends to take over.

2.2 ADMINISTRATIVE BOARD OF REVIEW

Following a call for expressions of interest published by the ECB in May 2014, the members of the Administrative Board of Review were appointed by the ECB's Governing Council on 8 September 2014 for a term of five years, renewable once. The five members of the Administrative Board are: Mr Jean-Paul Redouin (Chair), Ms Concetta Brescia Morra (Vice-Chair), Mr F. Javier Arístegui Yáñez, Mr André Camilleri and Mr Edgar Meister. The two alternates, who are to temporarily replace the members of the Administrative Board in the event of temporary incapacity or any other circumstances as specified in Decision ECB/2014/16⁵, are Mr Kaarlo Jännäri and Mr René Smits. The members of the Administrative Board act independently and in the public interest and are not subject to instructions by the ECB.

The role of the Administrative Board is to carry out an internal administrative review of the ECB's supervisory decisions adopted by the ECB's Governing Council under the non-objection procedure, if such a review is requested by a natural or legal person to whom the decision is addressed or to whom the decision is of direct and individual concern. The Administrative Board must adopt an opinion on the review no later than two months from the date of receipt of the request for review. The opinion of the Administrative Board, which is not binding on the Supervisory Board or the Governing Council, will propose whether the contested decision is to be abrogated, replaced with a decision of identical content or with a new decision.⁶

The Administrative Board began its activities in September immediately after the appointment of its members. It is assisted by the Secretariat of the Supervisory Board and other ECB departments, as appropriate. The Secretary to the Supervisory Board also acts as Secretary to the Administrative Board.

2.3 MEDIATION PANEL

As mentioned in the third Quarterly Report, the SSM Mediation Panel was established by virtue of Regulation ECB/2014/26 of 2 June 2014 (the Mediation Panel Regulation)⁷ with a view to ensuring the separation between monetary policy and supervisory tasks, as required under Article 25(5) of the SSM Regulation. The Mediation Panel must comprise one member per participating Member State, chosen from among the members of the Governing Council and the

⁵ Decision ECB/2014/16 of 14 April 2014 concerning the establishment of an Administrative Board of Review and its Operating Rules (OJ L 175, 14.6.2014, p. 47).

⁶ In accordance with Article 17 of Decision ECB/2014/16, the final outcome of the Administrative Board of Review is — in each and every case — the adoption of a new draft decision by the Governing Council acting on the proposal of the Supervisory Board and taking account of the Administrative Board's opinion. This new draft decision may amend, abrogate or leave unchanged the text of the initial decision. The standard non-objection procedure is applied in this respect by the Supervisory Board and the Governing Council, in which the proposed new draft decision is accompanied by the Administrative Board's opinion.

⁷ Regulation ECB/2014/26 of 2 June 2014 concerning the establishment of a Mediation Panel and its Rules of Procedures (OJ L 179, 19.6.2014, p. 72).

Supervisory Board. The procedure for appointing the members of the Mediation Panel must comply with the requirement laid down in the aforementioned Mediation Panel Regulation, in accordance with which the Chair of the Mediation Panel – who is the Vice-Chair of the Supervisory Board and not a member of the panel – “shall facilitate the achievement of a balance between Governing Council and Supervisory Board members”.

To this end, the ECB proposed to the President of the EU Council an annual rotation procedure for the appointment of members. This proposal was discussed with the other ECOFIN ministers and subsequently agreed upon. It involves forming two groups of Member States of as close to even size as possible (thus currently nine members in each group), based both on the protocol order of the Member States in their national languages and on current membership. The governments of the Member States in the first group have been requested to appoint their Governing Council member, and those in the second group, their Supervisory Board member, in each case for a period of one year. The following year, the appointments would swap around accordingly (i.e. a Supervisory Board member would replace a Governing Council member and vice versa). This would be without prejudice to the case of a non-euro area Member State participating in the SSM in close cooperation, whose government would then be invited to appoint its Supervisory Board member. This would require an adjustment to the rotation procedure.

3 ESTABLISHMENT OF THE SUPERVISORY FUNCTION AT THE ECB

3.1 STAFFING

Recruitment for the SSM has been proceeding at a satisfactory pace. Candidates from both the private and the public sector across all EU countries expressed their interest in the advertised SSM positions. Overall, the ECB received more than 20,000 applications for the positions in the core supervisory function.

The recruitment campaign has been organised in a top-down fashion in order to allow managers to recruit their own teams. As a result of the recruitment efforts, overall, slightly fewer than 900 staff out of the approximate total of 1,000 budgeted positions have been recruited and were already on board by the beginning of November 2014 in the five SSM business areas as well as in the related shared services areas⁸. Furthermore, a number of other positions have already

⁸ More specifically 1,073.5 FTEs were budgeted for SSM purposes for 2014, out of which 984.5 are permanent positions and 89 are limited positions.

been filled with staff joining at a later stage (contracts with a starting date after 1 November 2014). Most of the ongoing recruitment campaigns for the remaining positions were finalised by the end of October. In view of the general commitment not to compromise on quality during the recruitment campaign, some positions were not filled by the end of the initial campaigns. Those positions have now been re-advertised and the vacancy notices have been further fine-tuned, enhancing the chances of finding suitable candidates in the second recruitment round. Overall, in all areas involved in SSM-related activities, a critical mass of staff is now on board to ensure a fully operational supervisory function of the ECB at the beginning of November 2014. In addition, during the SSM preparatory work, the ECB has benefited from the support of around 200 NCA colleagues that joined the ECB on a short-term basis. Many of them were then successful in the subsequent recruitment campaigns and will therefore remain at the ECB on a fixed-term basis, thereby ensuring continuity.

3.2 JOINT SUPERVISORY TEAMS

The operational supervision of significant banks will be the responsibility of Joint Supervisory Teams (JSTs). Each JST will be managed by a coordinator working for the ECB and will comprise a number of supervisors from both the ECB and the NCAs of participating Member States.

The ECB is making good progress in staffing the JSTs and carrying out the necessary preparatory work to make the JSTs operational by 4 November 2014. By 1 November, more than 330 staff, out of the 403 budgeted for, were working at the ECB in DGs MS I and II, including the 61 JST coordinators (some of whom cover more than one JST). However, some of the recruited staff were still involved in the finalisation of the comprehensive assessment and were therefore not available for the JST work until 1 November. Furthermore, some remaining positions for supervisors and analysts were re-advertised and the relevant recruitment campaigns were then finalised at the beginning of October.

From the NCAs' point of view, staffing for the JSTs is progressing as well. Precise information on the designation of NCA staff to the JSTs was requested by the ECB and provided by end-August 2014. However, JST staffing in the NCAs currently faces some challenges, as some of the staff nominated for the JSTs are being recruited by the ECB and certain NCAs are also undergoing internal restructuring. As a result, final numbers will not be available until later this year.

All in all, JSTs are operational and ready to start the day-to-day supervision of significant banks on 4 November 2014, notwithstanding a number of remaining challenges, as mentioned above.

During the period under review, JST kick-off meetings with home NCAs of significant institutions have taken place, as well as several follow-up meetings. The JST coordinators and their ECB staff members have made contact with the NCAs and increased their involvement in supervisory activities. Furthermore, they have improved their knowledge of the supervisory history and risk profile of the respective banks and have met with these banks for personal introductions on both sides. The JSTs have also begun their regular calls, involving staff from the ECB and the NCAs to discuss operational matters.

Since June, the JSTs have been participating as observers in the meetings of supervisory colleges and crisis management groups in order to prepare for their role in assuming the chairmanship of these groups as of 4 November 2014, once the ECB becomes the consolidating supervisor of the respective banks.

JST coordinators have further supported the work of the comprehensive assessment, in particular the preparations for, and presentation of, the partial and preliminary findings to the respective banks as part of the supervisory dialogue process. The most important follow-up is the assessment of the capital adequacy plans that banks need to provide in the event of a shortfall.

In addition to these activities, the JSTs are preparing the Supervisory Examination Programme (SEP) for 2015 for each significant bank in close collaboration with DG MS IV (in charge of horizontal functions and specialised services) and are also conducting a field test of the risk assessment system (RAS) and of the methodology and procedure for the SSM Supervisory Review and Evaluation Process (SREP). JST members from the ECB and the NCAs are collaborating closely on these projects.

Finally, JSTs have begun testing the Information Management System (IMAS), the infrastructure tool used to manage the workflow and business processes of the JSTs, as well as the vehicle for JST members at the ECB and NCAs to communicate with each other in a secure fashion.

3.3 SEPARATION OF THE FUNCTIONAL AREAS

The SSM Regulation requires the ECB to adopt and publish any necessary internal rules to ensure the separation between the supervisory function, on the one hand, and monetary policy functional areas and other tasks of the ECB, on the other, including rules regarding professional secrecy and information exchanges.

In addition to the measures already taken in the areas of organisational and procedural separation to implement the requirements under the SSM Regulation, an ECB Decision

(Decision ECB/2014/39)⁹ on the implementation of separation between the monetary policy and supervision functions of the ECB was adopted by the Governing Council on 17 September 2014. This Decision contains, in particular, provisions relating to professional secrecy and the exchange of information between the two policy areas. The Decision entered into force on 18 October 2014. The content of this Decision focuses on general principles, allowing for further specific arrangements to be made on the modalities of the ECB's internal structure. It includes organisational aspects, i.e. the autonomy of decision-making procedures, a provision on professional secrecy as well as rules governing the exchange of information between the ECB's supervisory and monetary policy areas.

The rules for information-sharing between the two areas allow the ECB to fulfil its multiple tasks in an effective and efficient manner, while at the same time avoiding undue interference from one another and sufficiently protecting confidential information. In particular, the ECB's confidentiality regime will constitute the main basis for classifying and sharing information within the ECB.

The sharing of confidential information must always be conducted on a need-to-know basis and must ensure that the policy objectives of the two policy areas are therewith not compromised. In the event of a conflict of interest, the Executive Board should decide on access rights to confidential information.

In respect of the exchange of confidential information between the monetary policy and supervisory functions, the Decision stipulates that the sharing of information of anonymised FINREP and COREP data¹⁰, as well as confidential aggregated analyses (containing neither individual bank information nor policy-sensitive information), may be shared in accordance with the confidentiality regime. In respect of raw data, such as the sharing of individual supervisory banking data and assessments (particularly with regard to individual institutions or policy-sensitive information), access will be more restricted and subject to approval by the Executive Board.

The Decision only applies to the ECB. It does not address the sharing of information within the SSM (i.e. between the ECB and the NCAs), which will be dealt with separately.

⁹ Decision ECB/2014/39 (OJ L 300, 18.10.2014, p. 57).

¹⁰ FINREP (FINancial REPorting) and COREP (COMmon REPorting) form part of the Implementing Technical Standards (ITS) of the EBA. FINREP deals with the collection of financial information from banking institutions, it represents a standardised format of their annual accounts (balance sheet, profit and loss and detailed annexes). COREP deals with the collection, also on a standardised format, of information relative to the Pillar 1 calculation i.e. details on own funds, deductions and capital requirements (credit, market and operational risk) as well as large exposures.

3.4 CODE OF CONDUCT FOR ECB STAFF AND MANAGEMENT INVOLVED IN BANKING SUPERVISION

Under the SSM Regulation, the ECB's Governing Council is to establish and publish a Code of Conduct for the ECB staff and management involved in banking supervision. The ECB has prepared draft rules of ethical conduct as part of a general review of the Ethics Framework that applies to all ECB staff. These new rules will take account of the requirements laid down in the SSM Regulation and the Interinstitutional Agreement between the European Parliament and the ECB. Having consulted the Supervisory Board and staff representatives, the ECB's Executive Board has now submitted the proposal to the ECB's Governing Council for consideration and adoption. In line with the Interinstitutional Agreement, the ECB has informed Parliament about the main elements of the envisaged Code of Conduct before it is adopted.

3.5 CODE OF CONDUCT FOR MEMBERS OF THE SUPERVISORY BOARD

Under the Rules of Procedure of the ECB, the Supervisory Board is to adopt and update a Code of Conduct for the guidance of its members which is to be published on the ECB's website. The ECB is currently preparing such rules of ethical conduct for the members of the Supervisory Board. These rules will take account of the requirement under the SSM Regulation that comprehensive and formal procedures and proportionate periods are to be established and maintained in order to assess in advance, and prevent, possible conflicts of interest of members of the Supervisory Board resulting from subsequent employment.

3.6 SSM HR POLICY ISSUES

The establishment of the SSM has substantial HR implications, well beyond the initial staffing requirements described above. The required unprecedented intensive cooperation between the ECB and the NCAs, in particular through the JSTs and the on-site inspection teams, as well as the success of the selected "matrix-based management model" depends not least on sufficient alignment among the contributors at all levels. This calls, in turn, for the alignment of some key HR policies, while, in general, the conditions of employment will continue to differ among the various institutions comprising the SSM. Important steps have already been made in the following areas.

- **Performance feedback:** A feedback framework has been developed (jointly by the ECB and the NCAs) to recognise and assess the contributions of employees working for joint teams in order to achieve high-level performance; the framework may be used by NCAs as input for local appraisal procedures. With regard to data protection, the ECB is in the

process of launching a consultation with the European Data Protection Supervisor.

- **Training programme:** In order to successfully pass on knowledge and develop skills and to support the change to and promotion of a common SSM culture, a training programme has been developed covering the following topics: governance, methodology, managerial and soft skills, IT and training for newcomers.
- **Intra-SSM mobility:** The SSM Regulation requires the ECB to “establish, together with all NCAs, arrangements to ensure an appropriate exchange and secondment of staff with and among NCAs”. The exchange and secondment of staff is indeed seen as an important driver for the establishment of a common supervisory culture. During the establishment phase of the SSM, a strong focus has been placed on intra-JST mobility (i.e. for JST coordinators, national sub-coordinators and professional staff).

3.7 LANGUAGE POLICY

The legal framework for the language policy of the SSM is primarily determined by Council Regulation No 1 of 1958 on the languages to be used by the institutions of the EU. The SSM Framework Regulation lays down the language regime to be adopted for communication between the ECB and the NCAs, and between the SSM and the supervised entities.

As far as communications within the SSM are concerned, English will be used as part of the arrangements between the ECB and the NCAs laid down in Article 23 of the SSM Framework Regulation.

With regard to communication with the supervised entities, as provided for under Article 24 of the SSM Framework Regulation, any document sent to the ECB by a supervised entity may be drafted in any one of the official languages of the EU, and the supervised entity will have the right to receive a response in that same language. The ECB and the supervised entities may agree to exclusively use one official language of the EU in their written communication, including with regard to ECB supervisory decisions. Supervised entities may decide at any given time to revoke this agreement and the change will only affect the parts of the ECB supervisory procedure that have not yet been carried out. In addition, where participants in an oral hearing request to be heard in an official language of the EU other than the language of the ECB supervisory procedure, sufficient advance notice must be given to the ECB so that the necessary arrangements can be made.

Most significant banks (85) have accepted English as their language of communication with the ECB, while a smaller group of 34 significant banks, including most banks from Germany and several individual banks from Austria, Belgium, Cyprus, Finland, France, Italy and Slovenia have expressed a preference for using their respective national language for communication.

4 LEGAL FRAMEWORK

4.1 FINALISATION OF THE ECB REGULATION ON SUPERVISORY FEES

The ECB published the ECB Regulation on supervisory fees on 30 October and it will enter into force on 1 November 2014. The Regulation was adopted by the Governing Council following a public consultation, including a public hearing. It sets out the arrangements under which the ECB will levy an annual supervisory fee for the expenditures incurred in relation to its new supervisory role, from November 2014 onwards.

The Regulation establishes the methodology for: (i) determining the total amount of the annual supervisory fee; (ii) calculating the amount to be paid by each supervised bank or banking group; and (iii) collecting the annual supervisory fee.

By the closing date of the public consultation in July, the ECB was provided with 31 sets of comments, stemming from market and banking associations, credit and financial institutions, central banks, supervisory as well as other authorities and individuals. The key elements of the proposed fee framework were well supported. The comments received led to an amendment of the supervisory fee framework in respect of the exclusion of damages paid by the ECB to third parties from the amount to be recovered via supervisory fees, the submission date for the supervised entities to report on the factors underlying the fee calculation, and the exclusion of subsidiaries established in non-participating Member States from the fee calculation, as envisaged in Recital 77 of the SSM Regulation. Detailed information on how the comments received in the context of the public consultation were addressed is given in the feedback statement, which is published on the ECB's website.

For the period ahead, the ECB will continue to implement the supervisory fee framework, with particular emphasis on establishing contacts with the supervised entities. In this respect, in order to facilitate the initial set-up of the supervisory fee framework, banks are requested to provide debtor information to the ECB by the end of December 2014. The first fee notice is expected to be issued in late 2015 and will cover 14 months, i.e. November and December 2014 and the full year 2015.

4.2 FOLLOW-UP TO ECB DECISION ON CLOSE COOPERATION

Under the SSM Regulation, Member States whose currency is not the euro may participate in the SSM under a regime of close cooperation. Whereas Article 7 of the SSM Regulation sets out the main conditions for the establishment of close cooperation between the ECB and the competent authorities of a requesting Member State, the procedural aspects – for example, the timing and content of a request to enter into close cooperation, its assessment by the ECB and the eventual adoption of an ECB decision – have been laid down in Decision ECB/2014/5, which entered into force on 27 February 2014¹¹.

Thus far, no requests to enter into close cooperation have been notified in accordance with the aforementioned procedure. Nonetheless, the ECB has received informal expressions of interest from some Member States and has organised bilateral meetings with them with a view to their possible entry into close cooperation arrangements.

5 SUPERVISORY MODEL

5.1 FINALISATION OF THE SUPERVISORY MANUAL

The Supervisory Manual is an internal document for SSM staff which describes the processes and methodology for the supervision of credit institutions, and the procedures for cooperation within the SSM and with authorities outside the SSM. A revised version of the Supervisory Manual, focusing on the Supervisory Review and Evaluation Process (SREP), was endorsed by the Supervisory Board in September 2014. It now supports the planning of the 2015 activities.

The Supervisory Manual covers the following areas:

- composition and staffing of the JSTs;
- supervisory processes and procedures;
- roles and responsibilities within the SSM;
- methodology for on-site inspections;
- methodology and process for the SSM SREP, which is in line with the EBA's SREP Guidelines.

SSM staff have started to field-test the SREP methodology to assess the robustness of the risk assessment system and to suggest further refinements.

¹¹ Decision ECB/2014/5 of 31 January 2014 on the close cooperation with the national competent authorities of participating Member States whose currency is not the euro (OJL 198, 5.7.2014, p. 7).

The Supervisory Manual is expected to be a living document that is updated to reflect new market developments and supervisory practices.

5.2 PUBLICATION OF THE GUIDE TO BANKING SUPERVISION

The SSM is subject to publication requirements to ensure that both the public and supervised entities are adequately informed about its supervisory model. In particular, the Interinstitutional Agreement requires the ECB to publish on its website a guide to supervisory practices.

On 29 September 2014, the ECB published a document entitled “Guide to banking supervision”. The Guide explains the overall functioning of the SSM in a user-friendly way and gives an overview of the main supervisory processes and methodologies applied to significant and less significant credit institutions. For example, it describes the work of the JSTs and sets out how SSM business areas are to interact in developing the supervisory cycle. The aim of the Guide is to help the supervised entities better understand the key supervisory processes of the SSM and, where relevant, adjust their own internal procedures.

The Guide builds on the SSM Regulation and the SSM Framework Regulation and has been made available in all official euro area languages and in Lithuanian. It has not been developed to establish any legal requirements and, therefore, does not create any legal obligations, neither for the credit institutions, nor for the SSM.

6 PREPARATION OF OTHER RELEVANT STRANDS OF WORK

6.1 SUPERVISORY DATA REPORTING FRAMEWORK

During the previous review period, the focus of work on the SSM data and reporting framework was on finalising the preparations for a draft ECB Regulation on reporting of supervisory financial information. On 23 October 2014, this draft ECB Regulation was submitted for a public consultation. In accordance with the Interinstitutional Agreement, the draft ECB Regulation was sent to the European Parliament’s Committee on Economic and Monetary Affairs before the launch of the public consultation.

At present, reporting of supervisory financial information is only mandatory for institutions applying International Financial Reporting Standards (IFRS) at the consolidated level. The draft ECB Regulation on reporting of supervisory financial information aims to extend regular reporting to the consolidated reports of banks under national accounting frameworks, as well as to reports at the solo level (i.e. including a single legal entity). Accordingly, the principle of

proportionality has been taken into account. The draft ECB Regulation does not affect the accounting standards applied by supervised groups and entities in their consolidated accounts or annual accounts, nor does it change the accounting standards applied to supervisory reporting. Furthermore, in accordance with the CRR, the EBA has been notified that the ECB – as the competent authority – will exercise its discretion to collect supervisory financial reporting, as provided for in the ITS on supervisory reporting, from significant supervised groups.

Within the area of statistics, the ECB has established the necessary organisational set-up to manage supervisory reporting data and the provision of services to banking supervision activities related to these data. The regular data collections will be channelled through the NCAs to the ECB. This “decentralised” approach, which has already been implemented successfully in the collection of other statistical datasets, requires the involvement of the NCAs in the first layer of quality checks. The second layer of quality control will be done at the ECB. These controls will ensure that the same data quality standards are applied homogeneously across all of the institutions supervised under the SSM.

6.2 INFORMATION TECHNOLOGY

Considerable progress has been made in IT development and support activities for the establishment of the SSM.

- **Information Management System (IMAS):** IMAS will be ready to go live on 4 November 2014. IMAS will be the main IT tool for the JSTs and will provide the technical basis for ensuring harmonised processes and consistency in the supervision of credit institutions. Especially in the initial phase of the SSM, it will be a crucial element in ensuring that the common methodology and standards are applied by all JSTs. Internal testing of IMAS was successfully completed in August; external testing with participants from all NCAs and NCBs was successfully completed by the end of September. A major activity for the go-live of IMAS in November is the training for all supervisors working under the SSM framework, which amounts to more than 3,000 users. The training material was prepared in parallel to test activities and the training delivery reached a first peak in October, with more than 200 users per day being trained across Europe.
- **Data collection, data quality management and analytics:** The key objective of the Supervisory Banking data system (SUBA) project is to enable the ECB to receive specific supervisory data from all SSM countries based on XBRL format, in line with the EBA’s Implementing Technical

Standards framework. The first supervisory data relating to COREP and the liquidity coverage ratio (LCR)¹² have been received and processed successfully.

- **Enterprise resource planning:** IT requirements for the fee collection process have been defined, also taking into account the outcome of the public consultation on the draft ECB Regulation on supervisory fees. For the fee calculation process, preliminary work on the corresponding technical solution is advancing well. Work has also started on a self-service portal for banks to maintain their own feeing (accounting) data. As a result of the progress achieved, the first release of the SSM budget, organisational structure and reporting structure should be completed in time for the 2015 budget planning exercise.
- **Collaboration, workflow and information management:** The IT project for managing contact data of supervised institutions and handling their possible queries is currently being implemented; significant progress has already been made, with the first set of functionalities going live in August 2014. In anticipation of the expected load increase on account of the SSM, assessments of the IT shared services and the capacity of the document management system are also under way.
- **Shared IT services:**
 - Some non-central bank NCAs (AT, MT, LU and LV) are outside the ESCB/Eurosystem IT infrastructure (CoreNet) and have finished the establishment of connectivity to the corresponding NCBs. Two NCAs (DE and AT) have expressed a preference for a direct connectivity link. However, this will only be possible after the roll-out of the new version of the CoreNet infrastructure, which is planned for the first quarter of 2015. In the meantime, these two NCAs have established temporary connectivity, respectively to the Deutsche Bundesbank and the Oesterreichische Nationalbank.
 - A requirement has been registered for exchanging confidential e-mails and documents between significant institutions and the ECB. Given the time constraints, the approach chosen is to use e-mail over the “Transport Layer

¹² The LCR refers to the liquidity coverage ratio reporting templates. These reporting templates collect, on a monthly basis, information on the short-term liquidity ratio, as part of the Implementing Technical Standards.

Security” (TLS¹³) protocol. The proposal for implementing this protocol has been drawn up and coordination with the significant institutions to implement the solution has already begun.

7 COMPREHENSIVE ASSESSMENT

The final weeks/months preceding the publication of the comprehensive assessment results were dedicated to extensive quality assurance activities on both the asset quality review (AQR) and the stress test as well as the conduct of the join-up of AQR and stress test results. The direct interaction between supervisors and banks, referred to as the “supervisory dialogue”, in order to discuss with banks partial and preliminary results, before their finalisation, began at the end of September in view of publishing the final results, which then took place on 26 October 2014¹⁴.

7.1 STRESS TEST QUALITY ASSURANCE

The quality assurance (QA) framework used in the AQR was described in the second Quarterly Report, published in May 2014. Accordingly, this section focuses on the stress test QA.

The ECB and the NCAs worked together to conduct a robust QA exercise for the stress test phase of the comprehensive assessment, building on the EBA’s guidance.¹⁵ The QA involved discussions in which the banks were invited to explain their results. In addition, many of the most important items in the stress test were subject to a threshold-based evaluation, in which bank results were adjusted if they did not meet criteria, placing the burden of proof on the bank rather than on the NCAs and the ECB.

The purpose of the ECB quality assurance exercise was to ensure that banks consistently apply the prescribed methodology and translate the impact of the baseline and adverse scenarios on their balance sheet in an appropriate manner. One element of the quality assurance was a comparison of the stress test results with the ECB’s top-down benchmark model.

The QA process was designed to:

¹³ The Transport Security Layer (TLS) is a security mechanism designed to protect e-mail messages when transferred over a public network such as the internet.

¹⁴ Among banks which participated in the comprehensive assessment, a total of eleven have been classified as less significant and will therefore not be directly supervised by the ECB; furthermore, there are eight banks which did not participate in the comprehensive assessment but will be directly supervised by the ECB as significant institutions. Among those banks, those which are not subsidiaries of other significant banks will be subject to a comprehensive assessment.

¹⁵ The ECB was responsible for quality assurance of euro area countries as described here: <https://www.eba.europa.eu/documents/10180/563711/2014+EU-wide+Stress+Test+-+FAQs.pdf>

- ensure a level playing field: without a robust QA process, more conservative banks would be penalised relative to those that have taken less prudent approaches, which would be manifestly unfair;
- focus on material issues: the QA process was designed to quickly focus on areas where the bank's stress test results may materially underestimate the capital impact of the stress test.

Similar to the AQR, the stress test phase of the comprehensive assessment also involved a “three lines of defence” model for quality assurance:

- The first line involved the banks themselves conducting the bottom-up stress tests in line with the methodology outlined in the Comprehensive Assessment Stress Test Manual. Banks were responsible for populating adequately the various EBA and SSM stress test result templates.
- The second line involved independent QA checks performed at the NCA level. These checks were designed by the individual NCAs and included, but were not restricted to, checks on data quality and template integrity. In addition, NCAs were heavily involved in coordinating QA feedback from the third line (i.e. the ECB) to the various banks under their jurisdiction.
- The third line was the ECB itself, reviewing and challenging outcomes using an SSM-wide perspective to support a consistent application of the methodology. ECB-led QA was thorough and involved checks across multiple dimensions (e.g. data quality, defined tests, qualitative assessment) and engaged NCAs and, where necessary, the relevant banks. At the height of the exercise, the ECB quality assurance staff devoted to the stress test numbered around 70 experts.

7.2 JOIN-UP OF AQR AND STRESS TEST

A key strength of the comprehensive assessment was that the results of the AQR were used to adjust the starting point balance sheet applied in the stress test. To the extent that year-end 2013 balance sheet figures were adjusted by the AQR, these changes resulted in the re-assessment of projected results produced in the stress test. The process of joining the AQR and stress test outcomes was to some extent centrally-led, as the full AQR results could not be disclosed to the banks sufficiently in advance of the publication date to allow for a bank-led approach. For certain elements of the AQR outcomes, banks were required to carry out the join-up themselves, subject to appropriate quality assurance at the central level.

The main objective of the said join-up was to ensure that the stress test results are properly informed by the AQR findings, thereby ensuring confidence in the robustness of the final results of the comprehensive assessment. For each bank, the projections of credit losses from its accrual accounted portfolios were thus affected by the findings of the AQR where these are material. The findings of the AQR provided a number of mainly prudential adjustments to year-end 2013 balance sheet results. Any changes identified in the AQR could be applied directly to the starting point balance sheet. In addition, the AQR provided new information on the way a bank classifies and measures credit risk, along with some of the underlying assumptions that drive the results. The aim of the said join-up was to ensure that this information was included in a bank's stress test results. The critical assumption underlying the approach was that findings from the 2013 AQR analysis should, if considered material, lead to adjustments in forward-looking projections over the stress test horizon. In cases where the AQR found that credit losses have not been correctly measured in historical terms, the projections should be checked to establish whether they have been drawn up appropriately.

Apart from the join-up for accrual accounted assets, a number of the elements of the level 3 fair value exposures review in the AQR could impact the forward-looking stress test. Those elements could be broadly separated into three components: adjustments to cash positions, adjustments to derivatives positions, and adjustments to credit value adjustments. Adjustments to the level 3 fair value exposures stress test could be either positive or negative; however, these adjustments were necessary to ensure the most accurate outcome possible and avoid double counting.

Quality assurance of the join-up involved independent calculation of the results by both NCAs and the ECB. These calculations were performed using a join-up tool developed by the ECB and distributed to NCAs and banks; it should be noted that development of the tool involved two rounds of field-testing during which NCAs reviewed the join-up tool and provided feedback. The two versions of the join-up results were then compared by the ECB, with both quantitative and qualitative checks applied and the final model agreed.

7.3 SUPERVISORY DIALOGUE

The supervisory dialogue constituted the final element of quality assurance for the comprehensive assessment. The main purpose of these final discussions held between the JSTs, NCA representatives, and the banks was to present partial and preliminary results to the banks before the publication of final results in order to give them the opportunity to ask questions and provide comments on the findings of the comprehensive assessment. This ensured a due process in finalising the results of the exercise. Each bank subject to the comprehensive assessment was

invited to the ECB's premises at Frankfurt am Main for a meeting during the two-week period from 29 September to 10 October 2014. Bank participants in the meetings typically included the CEO/CFO/CRO and risk managers.

Banks were presented the partial and preliminary results based on a standardised format, which ensured that no individual bank would obtain an advantage by receiving more detailed information than its peers. Banks were given 48 hours following their respective meetings to submit questions and comments to the ECB, some of which could lead to an adjustment to the final result for that bank at the discretion of the ECB. The ECB provided responses, addressing the most material issues first. Some banks were informed during the supervisory dialogue that they were required to re-submit their stress test templates in order to reflect adjustments deemed necessary by the ECB to maintain a level playing field and ensure the quality of the results (i.e. in instances where banks had applied specific risk parameters that were not in line with the methodology and significantly less conservative than those applied by their peers). Those banks concerned were granted 96 hours after their respective meetings to provide their final submissions.

7.4 FINAL DISCLOSURE PROCESS

After approval by the Supervisory Board and the Governing Council, all banks subject to the comprehensive assessment received their final results on 23 October 2014 in the form of the filled-in disclosure templates. The submission was accompanied by a consent form, which banks were requested to use to communicate their formal agreement to the publication of their results within 48 hours after receiving them. All banks expressed their consent to publication.

On 26 October 2014, the ECB published the results of the comprehensive assessment, disclosing bank-level outcomes in the form of standardised templates, accompanied by an aggregate report describing the outcome across the full sample of participating banks and providing further information about the organisation, methodology and execution of the exercise. The corresponding documents are available on the ECB's website.

The AQR resulted in aggregate adjustments of €47.5 billion to participating banks' asset carrying values as of 31 December 2013. Under the adverse scenario, the banks' aggregate available capital is projected to be depleted by €215.5 billion (22% of capital held by participating banks). Accounting for the additional effect of increased risk-weighted assets brings the total capital impact to €262.7 billion in the adverse scenario. This capital impact leads to a decrease of the CET1 ratio for the median participating bank by 4.0 percentage points from 12.4% to 8.3% in 2016. Overall, the comprehensive assessment identified a capital shortfall of

€24.6 billion across 25 participating banks after comparing these projected solvency ratios against the thresholds defined for the exercise.

The results shown above take as their starting point the balance sheets of the participating banks as of 31 December 2013. However, since the start of the comprehensive assessment, banks have continued to strengthen their solvency, for instance by raising capital. Across all 130 banks, around €57.1 billion of equity capital has been raised since 1 January 2014. When taking account of capital raised since that date, the overall shortfall is reduced to €9.5 billion across 13 banks.

7.5 PREPARATION, ASSESSMENT AND IMPLEMENTATION OF REMEDIATION ACTIONS

In cases where a bank's capital ratio, as determined by the comprehensive assessment, falls short of the relevant thresholds, banks have been requested to submit capital plans within two weeks of the public disclosure of the results, which are then evaluated by the SSM. Capital shortfalls must be filled within six months for those identified in the AQR or the baseline stress test scenario, and within nine months for those identified in the adverse stress test scenario. The periods of six or nine months start from the date of release of the comprehensive assessment results on 26 October 2014. The JSTs will closely monitor the implementation of the capital plans.

The submission of capital plans by banks will be based on a specific template developed by the ECB. The banks' capital plans should show that they will first draw on private sources of funding in order to strengthen their capital positions so as to meet the required targets.

As a general expectation, shortfalls revealed by the AQR and the baseline stress test scenario should mainly be covered by new issuances of CET1 capital instruments. The use of additional Tier 1 capital instruments to cover shortfalls arising from the adverse stress test scenario will be limited depending on the trigger point of conversion or write-down, as outlined in the ECB press release of 29 April 2014. There will be no limits put on the eligibility of existing convertible instruments that are subject to unconditional pre-defined conversion into CET1 within the stress test horizon, as well as existing state aid instruments used by Member States in the context of financial assistance programmes.

Asset sales and their impact on profit and loss, risk-weighted assets and deductions from CET1 will be eligible only as extraordinary measures if they can be clearly identified as being distinct from normal business operations. Typically, large asset sales programmes of clearly separated portfolios (e.g. disposal of securitisation portfolios) and sales of subsidiaries will fall into this

category. The impact of formal deleveraging or restructuring plans (as agreed with the European Commission) will be taken into account.

Reductions in risk-weighted assets as a result of Pillar 1 risk model changes and switches in Pillar 1 approaches will not be deemed eligible for addressing a capital shortfall, unless these changes had already been planned and approved by the competent authority before the disclosure of the comprehensive assessment results.

In their capital plans, banks will be able to propose that shortfalls arising solely from the AQR may be offset by retained earnings from 2014. With respect to capital shortfalls arising either under the baseline or under the adverse scenario of the stress test, only the difference between the realised pre-provision profits from 2014 and the pre-provision profits predicted for the same year in the stress test scenarios is eligible as a mitigating measure. This is due to the fact that accounting for the full amount would imply double counting since earnings are already taken into account in the bank's projections for the stress test. The JSTs will assess all planned capital measures in terms of their adequacy and credibility. If a capital plan is found not to be adequate or credible, the ECB will decide on possible supervisory measures in accordance with Article 16 of the SSM Regulation. Public support, if any, will be provided in full compliance with the state aid rules of the European Commission, as well as, as of 1 January 2015, the provisions of the Bank Recovery and Resolution Directive. The Terms of Reference on shortfalls and burden-sharing following the comprehensive assessment, published by the ECOFIN Council and the Eurogroup on 9 July 2014, would also apply.

The required supervisory measures will be implemented as one of the decisions taken under the annual Supervisory Review and Evaluation Process (SREP) for 2014, which will be largely based on the results of the comprehensive assessment and the assessment of the capital plans as well as the outcome of the annual review and evaluation conducted by the NCAs.

Following the submission of the SREP decision to the banks, the JSTs will start to monitor the implementation of the capital plans based on a continuous dialogue with the respective bank, involving existing colleges of supervisors, wherever appropriate. As part of this monitoring process, the JSTs will closely track the incorporation, in line with the applicable accounting frameworks, of the AQR findings that need to be reflected in banks' forthcoming accounts. Not all adjustments will be reflected in the accounts. However, those that are prudential in nature (as well as non-quantitative remedial actions) will also be monitored by the JSTs in the form of ongoing supervision.

The overall range of supervisory measures to address weaknesses identified in the comprehensive assessment includes quantitative measures, such as capital add-ons to the

minimum Pillar 1 requirements, restrictions to the distribution of dividends or specific liquidity requirements, for example limiting maturity mismatches between assets and liabilities. In addition, Pillar 2 includes a number of qualitative measures, addressing for instance management and reporting issues, internal controls and risk management practices. The SSM will make use of the full Pillar 2 tool box as appropriate, using the whole range of instruments to address the specific situation and risk profile of each institution.

8 ACCOUNTABILITY

This section briefly presents the main elements of the discharging of accountability towards the EU Council and European Parliament during the period under review.¹⁶ The SSM Regulation also provides for a number of channels for interactions with national parliaments. The first such interaction took place on 8 September 2014 with an exchange of views at the German Bundestag.

With regard to the EU Council, the Chair of the Supervisory Board reported on progress in establishing the SSM and in conducting the comprehensive assessment at the informal ECOFIN Council meeting on 13 September 2014. Once the ECB has assumed fully its supervisory tasks, SSM accountability will be discharged towards the Eurogroup in the presence, if relevant, of representatives from non-euro area Member States participating in the SSM.

With regard to the European Parliament, and in line with the Interinstitutional Agreement, the ECB transmitted to Parliament's Committee on Economic and Monetary Affairs the confidential records of proceedings of the Supervisory Board meetings held between July and September 2014. In addition, in line with the SSM Regulation, on 22 September, the ECB transmitted to Parliament its Decision of 17 September 2014 on the implementation of separation between the monetary policy and supervision functions of the ECB (ECB/2014/39). Furthermore, on 17 October 2014, the Committee received the draft ECB Regulation on reporting of supervisory financial information, in advance of the public consultation launched on 23 October 2014, as well as further legal acts already adopted by the ECB in the context of the SSM, including the ECB Regulation on supervisory fees. The Chair of the Supervisory Board received and replied to further questions from Members of the European Parliament (the replies to these and previous questions are published on the ECB's website). On 31 October 2014, the ECB informed Parliament about the main elements of the Ethics framework for ECB staff and the draft Code of Conduct for the members of the Supervisory Board, prior to adoption. Moreover, in line with the provisions of the Interinstitutional Agreement, the ECB has

¹⁶ An overview of the accountability framework was presented in Section 8 of the first Quarterly Report.

extended its information hotline to deal with SSM-related questions and has added a section on the website with Frequently Asked Questions.

As an additional initiative to explaining the ECB's policies to MEPs at the start of Parliament's new legislative term, a seminar between the European Parliament and the ECB took place on 14 October 2014, with the participation of the Chair of the Supervisory Board. The second of two ordinary public hearings in 2014 of the Chair of the Supervisory Board in Parliament's Economic and Monetary Affairs Committee, one of the key channels of accountability towards the European Parliament, is to take place on 3 November 2014, preceded by an ad hoc exchange of views on the same day. It will thus provide a very timely opportunity for the Supervisory Board Chair and MEPs to discuss the results of the comprehensive assessment, which were made available on 26 October 2014, as well as, based on this report, the final state of play with SSM preparations on the eve of the ECB assuming fully its supervisory tasks under the SSM Regulation.

Finally, the first interaction with national parliaments took place during the period under review. While accountability for SSM activities will be discharged at the European level, Article 21 of the SSM Regulation provides for reporting channels towards national parliaments. In this context, on 8 September 2014, the Chair of the Supervisory Board was invited – together with Dr Elke König, President of the German Federal Financial Supervisory Authority (BaFin) and Member of the Supervisory Board – to a closed-doors exchange of views at the Finance Committee of the German Bundestag.

9 NEXT STEPS AND CHALLENGES

On 4 November 2014, the ECB will fully assume the supervisory tasks conferred on it by the SSM Regulation. The challenges facing the SSM in the period ahead include, in particular:

- The **follow-up to the comprehensive assessment**, primarily the assessment of the capital plans that banks have to provide in case of a shortfall, and the monitoring of their implementation. Whether a capital plan is required or not, the conclusions of the comprehensive assessment will be reviewed for all banks and their statutory auditors in order to assess whether the AQR results have been incorporated into the accounts and, if necessary, to consider the use of available prudential measures to complement the accounting treatment.
- The **launch of the SSM supervisory cycle**. This includes, in particular, the finalisation of the Supervisory Examination Programme (SEP) for 2015 for each significant bank, and the conduct of a field test of the risk assessment system (RAS)

and methodology and process for the SSM Supervisory Review and Evaluation Process (SREP). The outcome will lay the foundations for the “SSM model of supervision” which applies to all the components of the single system, including the less significant banks.

- The JSTs, **responsible for the day-to-day supervision of significant institutions, will commence operations.** Among the challenges are the integration of a large number of new staff, the fruitful interaction between the ECB and the NCAs, as well as the testing of both the new infrastructures and the support provided by the ECB’s horizontal functions.

Developments in the coming months in relation to these issues, as well as the preparatory work and main milestones achieved during the transitional phase, will be reflected in the first SSM Annual Report, as provided for under the SSM Regulation. This report, which will cover the period from November 2013 to December 2014, is scheduled for publication in the second quarter of 2015.