



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

COURTESY TRANSLATION

President of the German Bundestag
Dr Wolfgang Schäuble
Platz der Republik 1
11011 Berlin

Frankfurt am Main, 1 October 2018

Re: Your letter of 17 July 2018

Honourable President, dear Dr Schäuble,

Thank you for your letter of 17 July 2018, in which you submit a number of questions from Mr Schäffler, Member of the German Bundestag.

The questions raised by Mr Schäffler mainly concern the way the ECB conducts its stress test activities and whether and how external service providers have been and are currently used for these activities.

As the competent authority for the prudential supervision of the euro area's largest banks, the ECB is obliged to carry out stress tests on a regular basis in accordance with the Capital Requirements Directive (CRD IV)¹ and the Capital Requirements Regulation (CRR)². The first stress test conducted by the ECB was part of the comprehensive assessment in 2014, which formed part of the process of establishing the ECB as a microprudential supervisor. No stress tests were carried out in 2015. The ECB then participated in the 2016 EBA EU-wide stress test and conducted an ECB stress test in 2017. The ECB is currently participating in the 2018 EBA EU-wide stress test for the banks under its direct supervision.

Together with the EBA EU-wide stress tests of 2016 and 2018, the ECB conducted in parallel the ECB Banking Supervision SREP stress test covering those significant institutions that were not covered by the EBA stress tests, in order to give consistent treatment to all significant institutions. These stress tests last between four and nine months, during which time they require a significant number of risk experts and project management experts. The related workload comes on top of the ECB's regular banking supervision tasks. In the past, the required resources could not be provided by the ECB and the national competent authorities (NCAs) alone, and it was therefore necessary to engage consultants to assist in these activities. The ECB requires such consultants to have highly qualified staff at their disposal who collectively possess in-depth knowledge and experience of the project management and planning of such large-scale projects (question 6).

Consultancy services for the 2014 comprehensive assessment were provided by the consulting firm Oliver Wyman Ltd. The contract was awarded to Oliver Wyman Ltd following a competitive negotiated procurement

¹ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013.

² Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013.

procedure without publication of a contract notice which, for reasons of extreme urgency, was conducted on the basis of Article 6.1(b) and Article 29 of Decision ECB/2007/5³.

During the 2016 EBA EU-wide stress test (and related ECB Banking Supervision SREP stress test), the ECB was supported by the external service providers BlackRock Financial Management Inc. and McKinsey & Company Inc. The provision of services for that stress test by these two service providers was based on order contracts signed under two different framework agreements for services. These framework agreements were concluded in 2016 and 2015 respectively, each for a maximum duration of four years, following two public procurement procedures with publication of contract notices and contract award notices in the Official Journal of the European Union.⁴ The ECB conducted both procurement procedures in compliance with Articles 13 and 18(2) of Decision ECB/2007/5. The award of order contracts for tasks under these framework agreements is subject to a competition among the framework contractors. A competition for the specific tasks to be performed in the 2016 stress test was won by the two aforementioned service providers. The 2017 stress test, which consisted of a sensitivity analysis of interest rate risk in the banking book (IRRBB), was on a significantly smaller scale⁵ than the EBA EU-wide exercises, so no external service providers were needed. The necessary human resources were instead provided by the ECB and the NCAs.

Assistance for the currently ongoing 2018 stress test is being provided by BlackRock Financial Management Inc. The order contract for these services was also awarded following a competition among framework contractors under the framework agreement concluded in 2016 (questions 1 and 2).

With regard to Mr Schäffler's question concerning the ECB's expenses for external service providers for bank stress tests, please note that the ECB's Annual Report on supervisory activities 2016 states that "[t]he [...] efforts [related to the ECB's involvement in the biennial stress test conducted by the EBA] were, as far as possible, covered by re-prioritising tasks and drawing on NCA staff and external consultants. The cost of the external resources amounted to €2.2 million for NCA secondees and €8.2 million for consultants."⁶ Information on the expenditure in 2018 will be included in the ECB's Annual Report on supervisory activities 2018, which will be published in the spring of 2019. The disclosure of further stress test-related expenses is a matter that concerns the ECB's internal budgetary process, which falls under the responsibility of the Governing Council. The related questions have therefore been forwarded to the responsible shared services⁷ within the ECB (question 3).

In reference to Mr Schäffler's question concerning the selection of external service providers, please note that the ECB carefully considers the risks involved, in particular any potential conflict of interest, and ensures that these are prevented to the greatest extent possible by a number of provisions in the relevant contracts, as also explained in my letter of 11 July 2018⁸ to Mr Miguel Viegas MEP (question 8a). External service providers involved in stress test exercises are required to ensure strict separation between the team

³ Decision ECB/2007/5 of the European Central Bank of 3 July 2007 laying down the Rules on Procurement.

⁴ <http://ted.europa.eu/TED/notice/udl?uri=TED:NOTICE:456382-2015:TEXT:EN:HTML>,
<https://ted.europa.eu/udl?uri=TED:NOTICE:173172-2015:TEXT:EN:HTML&src=0>,
<https://ted.europa.eu/udl?uri=TED:NOTICE:155797-2016:TEXT:EN:HTML&src=0> and
<https://ted.europa.eu/udl?uri=TED:NOTICE:319865-2015:TEXT:EN:HTML&src=0>.

⁵ The reduced scale of the 2017 exercise is best illustrated by comparing the size of the data templates submitted by banks that, in turn, require quality assurance by supervisors: for the 2018 EBA EU-wide stress test, these templates contained on average 450,000 – and up to 900,000 – data points, while the template submissions for the IRRBB sensitivity analysis contained only around 700 data points.

⁶ <https://www.bankingsupervision.europa.eu/press/publications/annual-report/pdf/ssm.ar2016.en.pdf>

⁷ Shared services provide support to both the monetary and supervisory functions of the ECB.

⁸ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter180711_Viegas.en.pdf.

supporting the exercise and any other teams advising large financial institutions or investors. Compliance with contractual arrangements concluded with external service providers is monitored and managed by the contract owner within the ECB business area that procured the service, with the support of the Directorate General Legal Services and the Central Procurement Division (question 8b).

Moreover, staff members of external service providers performing services for ECB Banking Supervision are always requested to sign individual confidentiality agreements. Furthermore, whenever external staff are on the ECB's premises, they are subject to the ECB's house rules for external staff, which include comprehensive requirements to safeguard the security and confidentiality of information, data and documents concerning the ECB, its staff, the contract and its performance.⁹ To ensure data security, any information, data or documents available to staff of an external service provider are made available using the ECB's information technology (IT) facilities. In other words, at no point in time are ECB information, data or documents accessible from outside the ECB's dedicated IT infrastructure. Further safeguards exist in the form of cooling-off clauses, ensuring that staff members of external service providers working on stress tests are not transferred to related projects for a proportionate period of time after their assignments have ended.

With regard to Mr Schäffler's question concerning the ECB's knowledge of shareholdings of external service providers in the banks that are undergoing stress tests, please be informed that the ECB monitors shareholdings to assess conflicts of interest in its procurement procedure (question 7). Regarding Mr Schäffler's question concerning whether any contracts have not been awarded owing to possible conflicts of interests, please note that the ECB refrains from assigning order contracts to contractors who have a conflict of interest. For instance, if one contractor is conflicted with respect to a specific bank, that contractor will not be granted the related order and instead the next-highest ranked contractor will be approached (question 8c).

In reference to the question of whether the ECB has in the past detected possible "unfair conduct" by external service providers (question 8d), it is the understanding of the ECB that this question refers to possible breaches of contractual conflict of interest or confidentiality requirements by external contractors involved in stress tests. The ECB closely monitors the compliance of contractors engaged in stress tests with contractual requirements concerning confidentiality and avoidance of conflicts of interests. So far, the ECB has not established breaches of contractual requirements by its contractors in this respect.

Finally, regarding Mr Schäffler's questions concerning how NCAs organise their stress tests, I would kindly ask you to address these questions to the respective NCAs (questions 4 and 5). Moreover, the ECB cannot provide any information on bank resolution cases, as such information is bank-specific and subject to strict confidentiality requirements (question 8e).

Yours sincerely,

[signed]

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⁹ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter180711_Viegas.en.pdf.