Andrea ENRIA
Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Piernicola Pedicini
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 5 September 2019

Re: Your letter (QZ043)

Honourable Member of the European Parliament, dear Mr Pedicini,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 5 August 2019.

As established in the Interinstitutional Agreement between the European Parliament and the European Central Bank (ECB), any reporting obligations vis-à-vis the European Parliament are subject to the relevant professional secrecy requirements outlined in the Capital Requirements Directive (CRD IV)[1]. I therefore cannot comment on individual credit institutions and their business decisions.

However, within the boundaries of the applicable confidentiality rules, allow me to set out some considerations that may help you better understand the ECB's supervisory role and policies.

First, with regard to the determination of capital targets, which you mention in your introduction, I would like to refer you to the distinction between banks' internal targets and regulatory requirements provided in my recent answer to a letter from Ms Donato and Messrs Rinaldi and Zanni relating to the same credit institution.[2]

In response to your question on our approach to prudent valuation, I would like to refer you to ECB Banking Supervision's general approach to dealing with the valuation of trading book assets, an approach which was also outlined in more detail in response to a letter from Mr Zanni[3]. Our supervisory objective is to ensure that balance sheet positions are valued, managed and controlled in an appropriate manner. From its inception, ECB Banking Supervision has promoted awareness of valuation risks and the application of prudent valuation and risk management approaches. Starting with the asset quality review in 2014, ECB Banking

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

2 https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter190820_Donato_Rinaldi_Zanni~a96a257248.en.pdf?b6b41f3700eca30b469efc7344efc461

3 https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter180508_zanni.en.pdf

Supervision has put considerable effort into assessing the robustness of banks' valuation practices, using the full range of supervisory instruments at its disposal. For instance, in line with our 2019 supervisory priority to focus on trading risk and asset valuations, ECB Banking Supervision employs on-site inspections at banks that have major trading operations and exposures to instruments measured at fair value.[4] These inspections allow us to evaluate how well they have implemented the valuation framework and the controls of the pricing models that are used to produce fair values.

As with our approach to prudent valuation, we have developed processes and methodologies which ensure a level playing field for banks with a broad range of risk profiles. As you may be aware, ECB Banking Supervision has developed methodologies and processes to adequately identify and assess the different types of risks that banks under our supervision are exposed to. As described in more detail in the Supervisory Manual[5], the key supervisory tool supporting ongoing assessments is the Supervisory Review and Evaluation Process (SREP). Its aim is to capture the best possible overall picture of an institution's risk profile, taking into account risks, risk severity and mitigating factors. ECB Banking Supervision applies the common SSM SREP methodology to all significant institutions, facilitating peer comparisons and large-scale transversal analyses. The methodology thus ensures a level playing field for supervised institutions, while taking their specific features into account.

Lastly, I would mention that ECB Banking Supervision fully respects the unity and integrity of the internal market. By carrying out intrusive and effective banking supervision, without any unjustified discrimination among the banks under its supervision, the ECB contributes to the smooth functioning of the single market for financial services. As also noted by the European Commission in its review of the application of the SSM Regulation[6], the establishment of integrated supervision of credit institutions at European level has brought clear benefits in terms of level playing field, confidence and financial stability, which form the basis of increased public confidence in the European, banking sector.

Yours sincerely,

[signed]

Andrea Enria

4 https://www.bankingsupervision.europa.eu/banking/priorities/html/ssm.supervisory_priorities2019.en.html

5 https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisorymanual201803.en.pdf

6 https://ec.europa.eu/info/sites/info/files/171011-ssm-review-report_en.pdf