

## III

*(Preparatory acts)*

## EUROPEAN CENTRAL BANK

## OPINION OF THE EUROPEAN CENTRAL BANK

of 11 April 2018

**on a proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) and related legal acts****(CON/2018/19)**

(2018/C 255/02)

**Introduction and legal basis**

On 23 November 2017 the European Central Bank (ECB) received a request from the Council of the European Union and the European Parliament for an opinion on a proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority); Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority); Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority); Regulation (EU) No 345/2013 on European venture capital funds; Regulation (EU) No 346/2013 on European social entrepreneurship funds; Regulation (EU) No 600/2014 on markets in financial instruments; Regulation (EU) 2015/760 on European long-term investment funds; Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds; and Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market <sup>(1)</sup> (hereinafter the 'proposed regulation').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union since the proposed regulation contains provisions affecting the contribution of the European System of Central Banks (ESCB) to the smooth conduct of policies relating to the prudential supervision of credit institutions and the stability of the financial system, as referred to in Article 127(5) of the Treaty, and the specific tasks conferred on the ECB in accordance with Article 127(6) of the Treaty. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

The proposed regulation forms part of a comprehensive package of proposals to reform the European System of Financial Supervision (ESFS) introduced in September 2017, consisting of the three European Supervisory Authorities (ESAs) and the European Systemic Risk Board <sup>(2)</sup>. Since the package relates to different tasks carried out by the ESCB and the ECB, the ECB has decided to adopt separate opinions on the package. This opinion must, therefore, be read in conjunction with Opinion CON/2018/12 of 2 March 2018 on a proposal for a regulation amending Regulation (EU) No 1092/2010 on macro-prudential oversight of the financial system and establishing a European Systemic Risk Board <sup>(3)</sup>.

**1. General observations**

- 1.1. The ECB welcomes the proposed regulation's objective of fostering effective and consistent prudential supervision and regulation across the EU. The ECB supports further integration of the supervisory framework at Union

<sup>(1)</sup> COM(2017) 536 final.

<sup>(2)</sup> COM(2017) 542 final.

<sup>(3)</sup> Opinion CON/2018/12 of the European Central Bank of 2 March 2018 on a proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ C 120, 6.4.2018, p. 2). All opinions are available on the ECB's website at [www.ecb.europa.eu](http://www.ecb.europa.eu)

level for the banking sector and strengthening the Union dimension of supervision by re-examining the ESAs' current set-up<sup>(1)</sup>. Moreover, notwithstanding amendments to specific provisions of Regulation (EU) No 1093/2010<sup>(2)</sup> in 2013, the ESAs have not been reviewed since their establishment in 2010.

- 1.2. With regard to aligning the governance framework of the European Banking Authority (EBA) with the outlined objectives and developments, the ECB would like to highlight that the Banking Union and the Capital Markets Union (CMU) projects are at different stages of progress. The review of the ESAs should thus not necessarily produce three identical outcomes for the three agencies, but rather address their respective mandates and functions.
- 1.3. Specifically with regard to the new supervisory functions in the proposed regulation, the ECB is of the view that certain proposed amendments to Regulation (EU) No 1093/2010 do not adequately distinguish between the scope of the ECB's microprudential supervisory tasks and the EBA's competence to set regulatory standards to promote supervisory convergence. The ECB considers it vital that synergies arising from the ECB's and the EBA's mandates are maximised. In order to accomplish this objective, duplication or inappropriate allocation of tasks, which could blur the responsibilities of the respective authority and thereby render the system less effective as a whole, should be avoided.

## 2. Specific observations

### 2.1. *The revised EBA governance framework*

- 2.1.1. The proposed regulation seeks to establish an Executive Board as a new body within the EBA's governance structure<sup>(3)</sup>. The members of the Executive Board are to be appointed on the basis of merit, skills, knowledge of clearing, post-trading and financial matters, as well as experience relevant to financial supervision, through an open selection procedure with the involvement of the European Parliament and the Council<sup>(4)</sup>. While the main function of the Executive Board, as proposed by the European Commission, is to make proposals on all matters to be decided by the Board of Supervisors, the Executive Board is also proposed to be granted exclusive decision-making powers in a number of areas with a view to ensuring effective, impartial and Union-oriented decisions. For example, the Executive Board would be solely responsible for settling disputes between competent authorities (CAs) and setting out strategic supervisory objectives for those CAs. The Executive Board is also proposed to make decisions on the initiation, coordination, and communication of Union-wide stress tests.
- 2.1.2. The ECB supports the review of the governance structure of the ESAs, including a review of the voting rights and membership structure of their respective Boards. However, the Board of Supervisors should remain the decision-making body in relation to tasks aimed at fostering supervisory convergence in the Union, rather than granting broad supervisory powers to a newly set-up body<sup>(5)</sup>. At the same time, with a view to enhancing the effectiveness and efficiency of the Board of Supervisors' decision-making procedures, the ECB supports the establishment of an Executive Board focused on administrative tasks and composed of permanent, non-CA members, which would ensure a stronger Union perspective. While, therefore, the ECB welcomes the proposal to task the Executive Board with the preparation of the EBA's annual work programme, it does not support conferring a general right of initiative for regulatory acts on the Executive Board<sup>(6)</sup>. Such right of initiative should not be extended to the regulatory competences of the Board of Supervisors as regards the adoption of opinions, recommendations, and decisions.
- 2.1.3. Moreover, the ECB endorses the proposal to strengthen the Executive Board's statutory independence, as well as the proposal that makes the appointment procedure of Executive Board members more transparent than the one used to appoint the existing Management Board.

<sup>(1)</sup> See page 3 of the ECB's contribution to the European Commission's consultation on the operations of the European Supervisory Authorities, 7 June 2017 (hereinafter the 'ECB contribution on the ESAs'), available on the ECB's website at [www.ecb.europa.eu](http://www.ecb.europa.eu)

<sup>(2)</sup> Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

<sup>(3)</sup> See proposed new Article 45 of Regulation (EU) No 1093/2010.

<sup>(4)</sup> See Recital 23 of the proposed regulation.

<sup>(5)</sup> See Recital 52 of Regulation (EU) No 1093/2010.

<sup>(6)</sup> See Article 1(27)(a) of the proposed regulation.

2.1.4. The ECB supports the proposed regulation's objective of recognising and reflecting the establishment of the Single Supervisory Mechanism (SSM) in the ESFS. However, the proposed regulation does not take proper account of the existing Union dimension with regard to the prudential supervision of credit institutions. More specifically, it is not anticipated that the ECB will be a member of the proposed Executive Board, in spite of its tasks relating to the prudential supervision of credit institutions in the euro area. Consequently, the Council and the Parliament should consider granting the ECB observer status on the proposed Executive Board. Given the close cooperation between the EBA and the ECB with regard to their joint workload, the ECB's presence as an observer on the proposed Executive Board would be advantageous <sup>(1)</sup>.

## 2.2. Strategic supervisory plans

2.2.1. The ECB generally supports the proposed regulation's objective of deepening financial integration and strengthening the stability of the internal market through more supervisory convergence at Union level <sup>(2)</sup>. However, conferring strategic planning powers on the EBA is inappropriate in this context. Identifying micro-prudential trends, potential risks and vulnerabilities for financial institutions, and defining respective strategic supervisory priorities, are core supervisory tasks that should be carried out by the competent micro-prudential supervisory authority, and not the EBA in its function as a standard-setting regulator <sup>(3)</sup>.

2.2.2. More specifically, separating planning and implementation when setting supervisory priorities would lead to inefficiencies that unduly complicate the supervisory planning process as well as, more generally, inefficiencies in supervision. Ensuring sound, effective and reliable supervisory processes, and retaining flexibility in responding to adverse developments at both a micro- and a macroprudential level, is essential for the responsible supervisory authority. Hence, the same authority should be responsible for the planning and the implementation of supervision to ensure swift supervisory responses to risks and to efficiently allocate resources.

2.2.3. Ensuring the alignment of the planning and the implementation of supervisory strategies and tasks is also reflected in secondary legislation. Notably, pursuant to Article 26 of Council Regulation (EU) No 1024/2013 <sup>(4)</sup>, the planning and execution of tasks conferred on the ECB as a CA for prudential supervision in the euro area is fully undertaken by the ECB Supervisory Board. Consequently, under the proposed regulation, there is a risk that the EBA might duplicate tasks already performed by the ECB, which may lead to unnecessary redundancies and less efficiency and effectiveness in the overall supervision of credit institutions in the euro area. In addition, there should be full alignment between the ECB's and the EBA's competences and their respective accountability regimes. The EBA must not decide on any strategic supervisory planning for which the ECB might ultimately be held accountable.

2.2.4. From a practical perspective, the proposed regulation poses the risk of significantly impeding the SSM's strategic and operational planning processes as well as its required risk identification process. More specifically, the proposed regulation would require the SSM to submit draft supervisory work programmes several months in advance for the following year to the EBA. Reporting the supervisory work programme for the following year at such an early stage to the EBA would disrupt the established SSM strategic and operational planning processes, as well as the preceding risk identification process — all processes which are conducted in close cooperation with the 19 CAs — and would therefore undermine the goal of ensuring effective and efficient supervisory processes. In addition, the proposed regulation would grant the EBA the right to issue a recommendation to require an adjustment of the CAs' work programme <sup>(5)</sup>.

2.2.5. Such a practice could lead to situations where supervisory priorities may have to be adjusted at a very late stage of the SSM supervisory planning process, raising serious questions about planning reliability for joint supervisory teams, CAs and horizontal functions, thus compromising the effectiveness of prudential supervision in the euro area. Since CAs are closely involved in the SSM supervisory planning process, the proposed amendments would severely affect the existing arrangements between the ECB and the CAs as regards planning and implementing supervisory objectives. In the light of the outlined potential adverse effects on the effectiveness and efficiency of prudential supervision in the euro area, the ECB strongly recommends removing the provision on strategic supervisory planning powers from the proposed regulation.

<sup>(1)</sup> See pages 2 and 3 of the ECB's contribution on the ESAs.

<sup>(2)</sup> See proposed new Article 47(3) in conjunction with proposed new Article 29a of Regulation (EU) No 1093/2010.

<sup>(3)</sup> See recital 17 of the proposed regulation.

<sup>(4)</sup> 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).

<sup>(5)</sup> Proposed new Article 29a(3) of Regulation (EU) No 1093/2010.

### 2.3. *Stress testing*

2.3.1. The proposed regulation transfers the decision-making powers of the Board of Supervisors with respect to the initiation and coordination of Union-wide stress tests to the Executive Board <sup>(1)</sup>. Since the Board of Supervisors would no longer be involved in key aspects of Union-wide stress tests, such as the development of methodologies, sample selection or communication of their outcomes, the current procedures governing Union-wide stress tests would be subject to significant changes. The ECB considers stress tests to be a key supervisory tool, which needs to be employed by those authorities that have supervisory responsibilities, in order to ensure that stress tests fulfil their purpose of supporting individual risk assessments of supervised credit institutions. Therefore, the ECB would remark specifically on why the envisaged changes could undermine the effectiveness of supervision, and thus run counter to the Commission's objective of strengthening the stability of the internal market.

2.3.2. First, it is noted that the proposed new process unduly complicates the stress-testing process at Union level, since the prudential supervisory authority would have to make every effort to comply with decisions of the EBA's Executive Board on several aspects of stress tests, notably on the scope and level of detail of information to be published. Since CAs carry out significant parts of the stress test exercise, such as the quality assurance of submissions from supervised credit institutions, it is important that they are involved in the decision-making process in line with their exclusive responsibility for those elements of the framework that ultimately define their work programme and resource needs.

2.3.3. Second, if the Executive Board were to solely decide on several aspects of Union-wide stress tests, including disclosure, it might decide, possibly unintentionally, to disclose information that CAs would prefer to keep confidential. Therefore, the Board of Supervisors should retain its competence to decide which information is disclosed in the outcome of Union-wide stress tests. In order to avoid discrepancies across jurisdictions and mitigate possible negative effects on financial stability, it is vital that the degree of disclosure is decided on together with the CAs, having in mind the continuous aim to achieve the highest possible level of harmonisation across CAs.

2.3.4. Finally, the ECB is concerned that the proposed regulation, in its current form, does not adequately ensure the quality and comprehensiveness of stress tests for supervisory purposes, e.g. coverage of banking activities, associated risks and appropriateness of stress test methodologies. If stress testing competencies were conferred on the Executive Board, it is likely that stress tests would neither be sufficiently tailored to supervisory purposes, nor duly reflect specificities and risks of the banking sector supervised by the ECB and the respective CAs. Against this backdrop, the ECB recommends removing the provisions in the proposed regulation related to stress testing in favour of retaining the current arrangements, which have served their purpose well.

### 2.4. *Independent reviews of CAs*

2.4.1. The proposed regulation provides for the EBA to review the activities of CAs with the aim of further strengthening consistency in supervisory outcomes. For this purpose, the EBA is to develop methods to allow objective assessment and comparison between CAs and to produce a report setting out the results of the review <sup>(2)</sup>.

2.4.2. While the ECB supports the stated objective of ensuring effective, impartial and Union-oriented decisions, it considers the existing peer review process to be a valuable and successful mechanism in furthering supervisory convergence in the Union and sharing best practices between CAs. Thus, the ECB sees no need to abandon the peer review mechanism. At the same time, as further set out in the technical working document, the ECB supports certain elements of the proposal to transform peer reviews into independent reviews.

### 2.5. *Coordination on delegation and outsourcing of activities as well as risk transfers to third countries*

2.5.1. The proposed regulation tasks the Executive Board with scrutinising delegation and outsourcing activities, as well as risk transfer arrangements to third countries. The proposed regulation requires the CA to notify the EBA of any authorisation or registration where the business plan of the financial institution involves delegation or outsourcing activities, or risk transfers <sup>(3)</sup>. From a supervisory perspective, the requirement to notify the EBA in respect of such arrangements may not adequately cater for the proposed regulation's objective of deterring regulatory arbitrage across Member States <sup>(4)</sup>.

<sup>(1)</sup> See proposed new Article 47(3) of Regulation (EU) No 1093/2010 in conjunction with proposed new Article 32 of Regulation (EU) No 1093/2010.

<sup>(2)</sup> See Article 1(13) of the proposed regulation.

<sup>(3)</sup> Proposed new Articles 31a(2) and 31a(3) of Regulation (EU) No 1093/2010.

<sup>(4)</sup> Recital 18 of the proposed regulation.

2.5.2. It may instead overlap with micro-prudential supervisory tasks carried out by the ECB in the context of the SSM, and could add an unwarranted layer of administrative burden in the supervisory process. According to Regulation (EU) No 1024/2013, the authorisation procedure is already a two-layer process requiring the CAs and the ECB to assess the applications for authorisation. Coordinating the assessment with the EBA would add a third layer and thus further increase the complexity and duration of authorisation procedures. Therefore, the ECB is of the view that the proposed tasks should neither be conferred on any EBA administrative body nor on the Board of Supervisors.

## 2.6. *International cooperation*

2.6.1. The proposed regulation introduces a key role for the EBA in the assessment of the regulatory and supervisory equivalence of third country legal regimes otherwise performed by the Commission <sup>(1)</sup>. More specifically, the EBA is tasked with monitoring the regulatory and supervisory developments, enforcement practices, and relevant market developments in third countries for which equivalence decisions have been adopted. In addition to this, the EBA would cooperate with CAs of equivalent jurisdictions by entering into bilateral administrative agreements.

2.6.2. The ECB welcomes the EBA's role to assist the Commission in preparing <sup>(2)</sup> and monitoring equivalence decisions <sup>(3)</sup>. However, the ECB would like to make a few remarks regarding the envisaged procedure for negotiating and concluding administrative agreements between CAs and the respective third-country supervisory authority <sup>(4)</sup>.

2.6.3. The ECB considers that clarification of point (b) of Article 33(2a) is warranted. The ECB understands that the EBA's powers for negotiating and including provisions in cooperation arrangements, according to this paragraph, are only intended to allow follow up of equivalence decisions. It could be clarified that the CA is still responsible for coordinating supervisory activities and on-site inspections.

2.6.4. Additionally, the ECB welcomes proposed Article 33(2c) of Regulation (EU) No 1093/2010, which tasks the EBA with developing model administrative arrangements. These should be developed jointly with the CAs. Nevertheless, the ECB considers that if the EBA takes an active role in the negotiation process, this would add unnecessary complexity to the negotiation process, and might delay the conclusion of Memoranda of Understanding (MoUs) for supervisory cooperation. Moreover, since each third country operates under its own legal framework, and since supervisory authorities need maximum flexibility in adapting MoUs in the course of negotiations, considerable practical difficulties may arise with regard to the obligation to use a standardised MoU template developed by the EBA. Therefore, relying on such model administrative arrangements should be done on a best effort basis.

## 2.7. *Changes to fining powers and requests for information*

2.7.1. The proposed regulation establishes a mechanism to strengthen the effective enforcement of the EBA's right to collect information with a view to further ensuring that the EBA effectively carries out its tasks and functions <sup>(5)</sup>. To this end, the proposed regulation entrusts the EBA with the power to impose fines and periodic penalty payments when relevant financial institutions, holding companies or branches of a relevant financial institution and non-regulated operational entities within a financial group or conglomerate that are significant to the financial activities of the relevant financial institutions fail to comply accurately, completely or in a timely manner with a request or decision from the EBA <sup>(6)</sup>. The EBA must give that financial institution the right to be heard prior to any such fines or penalty payments being imposed <sup>(7)</sup> and any decision imposing these fines and penalty payments is subject to review by the Court of Justice of the European Union <sup>(8)</sup>.

2.7.2. The ECB generally supports the stated objective of ensuring that the EBA has the right to collect information that is necessary to enable it to carry out its duties and tasks. However, the ECB considers that the proposed strengthening of the EBA's right to collect information, by empowering it to impose fines and periodic penalty payments, should be without prejudice to the possibility that CAs exercise powers available to them in response to a failure by respective financial institutions to comply with CAs' requests for information in an accurate, complete, or timely manner.

<sup>(1)</sup> Article 1(17) of the proposed regulation.

<sup>(2)</sup> Proposed new Article 33(2) of Regulation (EU) No 1093/2010.

<sup>(3)</sup> Proposed new Article 33(2a) of Regulation (EU) No 1093/2010.

<sup>(4)</sup> See proposed new Article 33(2c) of Regulation (EU) No 1093/2010.

<sup>(5)</sup> See proposed new Articles 35 to 35h of Regulation (EU) No 1093/2010.

<sup>(6)</sup> See Recital 20 of the proposed regulation.

<sup>(7)</sup> See proposed new Article 35f of Regulation (EU) No 1093/2010.

<sup>(8)</sup> See proposed new Article 35h of Regulation (EU) No 1093/2010.

## 2.8. Supervisory reporting and Pillar 3 disclosure requirements

- 2.8.1. Looking ahead, the co-legislators may consider formalising and expanding the EBA's role with respect to the transparency of financial institutions, while avoiding the duplication of their reporting obligations. In particular, the EBA could be tasked with integrating supervisory reporting and quantitative Pillar 3 disclosure requirements for financial institutions, as set out under Union law, into a single reporting framework, in which the data disclosed under Pillar 3 would form a sub-set of the data subject to supervisory reporting. The integration of these two data streams would allow the EBA to develop and maintain a hub of data comprising information disclosed in accordance with the quantitative Pillar 3 disclosure requirements and extracted from supervisory data. Credit institutions would benefit from such a framework, since they would only report the respective information once, and prudential supervisors as well as other data users would benefit from having easier access to pertinent data.
- 2.8.2. Moreover, establishing a framework for a central data repository at the EBA could significantly improve the quality of supervisory data, as discovered during the EBA transparency exercise. It would also more broadly foster the integration of the Union banking sector by facilitating market participants' access to information disclosed under Pillar 3 of the Basel framework <sup>(1)</sup>. Such a data hub would disclose Pillar 3 data in accordance with requirements for financial institutions (on a quarterly, semi-annual or annual basis) in order to ultimately put the Union at the same level as the United States in terms of data availability <sup>(2)</sup>. The EBA has already expressed its readiness to set up the technical infrastructure for such a data hub, but it requires a legal mandate to make available data public as part of a central repository without the explicit consent of the financial institutions <sup>(3)</sup> to which this data belongs. This mandate should, however, be without prejudice to the power of CAs to request additional ad hoc information from supervised entities. Therefore, the ECB sees merit in further exploring the legal and practical feasibility of establishing a central data repository at the EBA.

Where the ECB recommends that the proposed regulation is amended, specific drafting proposals are set out in a separate technical working document accompanied by an explanatory text to this effect. The technical working document is available in English on the ECB's website.

Done at Frankfurt am Main, 11 April 2018.

*The President of the ECB*

Mario DRAGHI

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<sup>(1)</sup> See the Basel Committee on Banking Supervision's 'Pillar 3 disclosure requirements — consolidated and enhanced framework', March 2017, available on the Bank for International Settlement's website at [www.bis.org](http://www.bis.org)

<sup>(2)</sup> In the US, the Federal Financial Institutions Examination Council (FFIEC) provides a bank-by-bank supervisory data repository for the public, available on the FFIEC's website at [cdr.ffiec.gov/public](http://cdr.ffiec.gov/public)

<sup>(3)</sup> See Enria, A., *Ensuring transparency in the European financial system*, Official Monetary and Financial Institutions Forum (OMFIF) City Lecture, May 2016, p. 9, available on the OMFIF's website at [www.omfif.org](http://www.omfif.org)