



# The ECB Supervisory Manual

On October 1st, the European Central Bank (ECB) published its "Guide to Banking Supervision" [link], which is effectively a sanitised version of its supervisory manual. As supervisory manuals form an "element of common understanding" for all supervisory authorities, the ECB supervisory manual holds prominent importance: the supervisory teams of the ECB bring together at one place supervisors from many different European countries, who carry different supervisory cultures and histories. The manual ensures that all supervisors will adhere to a common approach to supervision.

The refinement of the ECB's supervisory approach reflects an ongoing process. Its methods and standards are defined and applied by the Joint Supervisory Teams (JST) and inspection teams in the course of day-to-day supervision. At the same time, its robust quality assurance process by the ECB's internal horizontal function detects any need for amendments. These may be necessitated by changes in national laws and/or international standards. Once amended in the described way, the manual is applied by the JSTs again.

If dissected into its main components, the supervisory approach consists of the following three elements:

1. A supervisory planning process, which basically involves the requirements of strategic planning over the next 1 ½ years and an operational planning (Supervisory Examination Programme (SEP)) defining premises of a concrete supervisory examination schedule;
2. A Pillar 2 supervision (SREP), which consists of an assessment of risk levels and control, a comprehensive assessment of ICAAP and ILAAP of a bank and a supervisory quantification of capital and liquidity provisions to challenge the capital and liquidity profile of a bank by supervisory benchmarks;
3. A risk analysis performed by the ECB's internal horizontal function complementing the bank orientated bottom-up analysis (as conducted under SREP) with a horizontal view and assessing the existence of other risks, such as systemic, regional or sector-related risks.

In essence, the ECB's supervisory approach is a mixture of diverse national approaches and is enhanced by factors deriving from the unique position of the ECB, bearing indicatively upon its comprehensive data analysis capabilities and broad supervisory purview.

Therefore, comparing the ECB's approach to supervision to approaches

already established by national supervisors would be a critical exercise in preparing for the new supervisory regime in Europe. Most likely deviations from national supervisory approaches could foster the following aspects:

- An increasing demand for data due to ECB's unique position to perform horizontal analysis;
- An increasing number of inspections as a consequence of greater risk insights;
- A wide variety and broad scope of inspection categories, techniques and methodologies may prove uncharted territory for many European banks in day-to-day supervision;
- The pursuit of findings is a high priority for the Joint Supervisory Teams (JST) and is very likely to be conducive to an increase in both the frequency and intensity of follow-up work to be carried out by the ECB.

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