EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY
Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Mario Borghezio
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 20 August 2015

Re: Your letter (QZ120)

Honourable Member of the European Parliament, dear Mr Borghezio,

In your letter, which Mr Roberto Gualtieri, Chair of the European Parliament's Committee on Economic and Monetary Affairs, passed on to Mr Mario Draghi, President of the ECB, with a cover letter dated 20 July 2015, you asked questions relating to the ECB's supervisory function. The President therefore forwarded this question to me. I would kindly ask that you address such questions to me in the future, in line with the SSM Regulation and the Interinstitutional Agreement between the European Parliament and the ECB.

As regards your question, I would remind you that the ECB does not comment publicly on the supervisory implications of the business decisions of individual banks.

More generally, as regards derivatives held by institutions that are directly supervised by the ECB, I would like to point out that, according to the ECB's supervisory mandate as laid down in the SSM Regulation,[1] the ECB's role as a supervisor is to contribute to the safety and soundness of credit institutions and the stability of the financial system. Risks generated by the derivative exposures of credit institutions that are under the supervision of the ECB are fully integrated into the SSM's supervisory approach.

When pursuing its mandate in respect of derivative exposures, the SSM benefits from the improvements brought about by the Capital Requirements Regulation (CRR)[2] in terms of more effectively capturing the various types of risk generated by derivatives in Pillar 1 requirements. For banks under the SSM's supervision, these EU-wide Pillar 1 requirements are complemented by the SSM's Pillar 2 approach, which takes due account of the multidimensional risks generated by on and off-balance-sheet derivative exposures. In particular, these risks are addressed through analysis of counterparty credit risk, market risk, operational risk and sovereign risk.

[1] 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.

[2] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

In addition, recent regulatory initiatives such as the European Market Infrastructure Regulation (EMIR)[3] and the Markets in Financial Instruments Directive (MiFID II)[4] have significantly improved the transparency of over-the-counter and listed derivative markets.

Thus, the tools used to monitor risks stemming from derivative exposures (including those to sovereigns), as well as changes to business models in respect of these products, have been improved and are used extensively by the ECB. In line with the SSM Regulation, the ECB will continue to pursue its supervisory mandate, while having due regard for the diversity of business models of credit institutions.

In your second question, you asked what information the ECB has regarding exposures to derivatives on the balance sheets of the banks that it supervises.

As a banking supervisor, the ECB has information on the notional and fair values of the derivative exposures of its supervised institutions. These data stem from financial information reported by institutions on the basis of Commission Implementing Regulation (EU) No 680/2014.

Yours sincerely,

[signed]

Danièle Nouy

[3] Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

[4] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.