



# **Banking Sector Recommendations to Improve the SREP Process**

17th European SSM Round Table, 11 May 2023



## SREP

- a horizontal assessment
- a control mechanism

allow banks' risk profiles  
to be assessed consistently





## SREP Assessment Report

On 17 April, the ECB delegation, “WPG”, as it is called, provided a set of recommendations around 3 pillars:

1. Supervisory culture, process and systems
2. SREP scores and capital requirements
3. Qualitative measures



# SREP Assessment Report

## 1. Supervisory culture, process and systems

1.1: Further develop the target supervisory culture and the risk tolerance framework

1.2: Embed the risk-tolerance framework in day-to-day supervision

1.3: Better integrate the outcomes of other supervisory activities into the SREP assessments and measures

1.4: Shorten and make the SREP timeline more efficient

1.5: Improve IMAS or the systems that the JSTs use to make them more flexible, correct the lack of sufficient integration across processes, and increase their adaptability to methodological enhancements

1.6: Make SREP letters more effective to promote sound and timely management actions by banks

1.7: Further develop data analytics



# SREP Assessment Report

## 2. SREP scores and capital requirements

2.1: Redefine risk scores to strengthen the role of management actions, enhance the dispersion of ratings across banks and reduce their stickiness

2.2: Better communicate the rationale behind scores

2.3: Develop the P2R methodology to make it more operationally efficient and focused on specific risks requiring additional capital coverage, while significantly limiting the use of ICAAPs

2.4: Schedule a thorough annual discussion within the Supervisory Board on the capital needs of the euro area banking sector



# SREP Assessment Report

## 3. Qualitative measures

3.1: Strengthen the link between qualitative measures and scores to promote better risk management and control

3.2: Strengthen prioritisation of qualitative measures and the role of the escalation process

3.3 Consider channeling all communication with banks in relation to supervisory processes through JSTs

3.4: Further strive to design and deploy qualitative measures in a targeted manner, with clear requirements focused on addressing banks' key vulnerabilities

3.5: Perform and deliver as part of the SREP a stocktake of outstanding measures, as well as form a view about the implications to structure necessary remedial actions

3.6: Enhance technology already deployed to facilitate exchange of information with banks about remediation progress on outstanding measures.



## Banks' recommendations to SREP

### 1. Planning is key

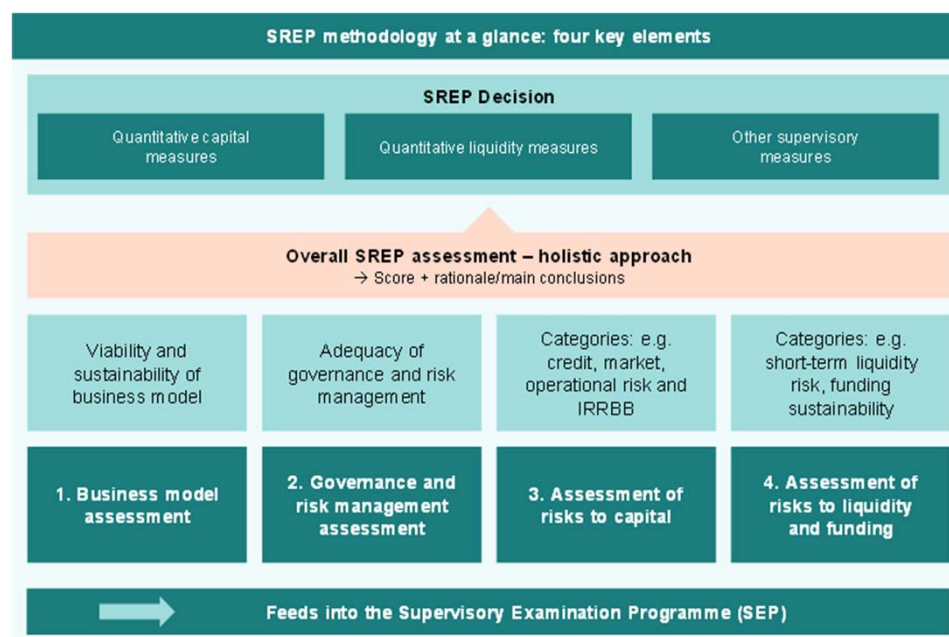
- Avoid duplications
- Still too many unexpected and overlapping requests
- Better calibration to efficiently allocate time and resources



## Banks' recommendations to SREP

### 2. Streamlining indicators

- Reduce irrelevant issues
- Focus on materiality



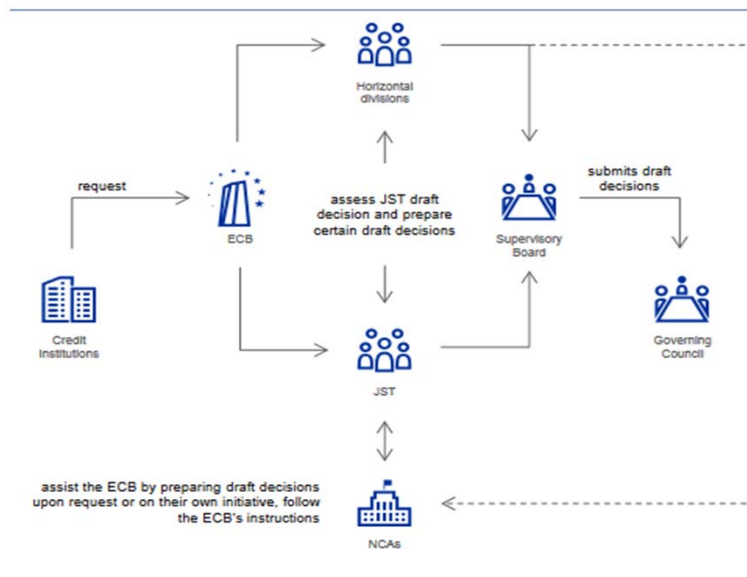
Source: ECB





## Banks' recommendations to SREP

### 3. Addressing specificities



Source: ECB Banking Supervision.

- Abandon a one-size-fits-all assessment approach
- Shifting from JST-based supervision towards horizontal-driven supervision often leads to delays and questions pending



## Banks' recommendations to SREP

### 4. Better understanding of Pillar 2 decisions

- Increased use of P2R level e.g. for climate-related purposes
- Lack of transparency as regards SREP, makes it necessary to increase granularity and incentivise banks



## Banks' recommendations to SREP

### 5. Enhanced cooperation between competent authorities

- More transparent guidance as to the cooperation and information sharing with NCAs
- Avoid conflicting opinions



Source: European Banking Authority



# Thank you!

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