Banking Supervision

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Banking supervisory functions

The objective of the banking supervision is to ensure:

- the safety of funds held in bank accounts,
- compliance of the banks with the provisions of the Banking Law, their statutes, and the decision of granting authorisation to establish those banks.

Supervision of Credit Institutions

Supervision of credit institutions in the light of the EU law is based on the following rules:

- Supervision by the home Member State, with exceptional supervision by the host State
- National deposit guarantees
- The exchange of information between supervising authorities of host and home Member State

The home-host relationship in the exercise of banking supervision

- The home-host relationship, is the core concept of supervision of the EU financial market .
- The home-host relationship is about how we should divide tasks, powers and responsibility in the exercise of banking supervision between different EU Member States when it comes to supervising, monitoring and, in the worst case, winding – up of credit institutions.

The home-host relationship in the exercise of banking supervision (cont.)

- Legally, the home-host relationship only refers to the division of responsibility between supervisors from different countries, which currently is based on the principle of home Member State supervision (home country control).

Passporting and supervision of branches

- In accordance with the principle of single authorisation, the decision to issue an authorisation valid for the entire EU shall be the sole responsibility of the competent authorities of the home Member State.
- A credit institution may then provide the services or perform the activities, for which it has been authorised, throughout the Single Market, either through the establishment of a branch or the free

Rule of home Supervision

- According to the rule of national supervision, a credit institution having its registred office in one EU Member State, conducting its activity crossborder at the territory of other Member State or having its branches abroad –
- is subject to supervision of home Member States authorities

Rule of home Supervision (cont.)

- Responsibility for supervising the financial soundness of a credit institution, and in particular its solvency, is laid on the competent authorities in its home country.

Rule of host Supervision

- The rule of host Member State supervision is applicable to (foreign) subsidiaries of credit institution and to credit institutions with their registered office outside the territory of the EU.

Rule of host Supervision (cont.)

- The host Member State's competent authorities are responsible for the supervision of of the liquidity of the branches of foreign credit institutions located in its territory and domestic monetary policy.

Cooperation in banking supervision

- The competent home and host authorities are obligated to exchange any information concering management and assets of credit institutions, that may facilitate monitoring of such elements and exercising supervision over them, in particular as regards liquidity and solvency of credit institutions and deposit guarantees.

Colleges of supervisors

- Enhanced cooperation between supervisory authorities both at EU and global level is key to strengthening the supervision of cross-border banking groups.
- Colleges of supervisors are the vehicles for the coordination of supervisory activities.
- Under EU law, colleges of supervisors have to be established for EU banks with subsidiaries or significant branches in other EU countries (They may include supervisors in non-EEA countries, where relevant).
- The colleges allow supervisory authorities to join forces, share knowledge and use skills and resources more effectively and efficiently, regardless of their individual jurisdiction.

Directive 2013/36/EU

- (25) Responsibility for supervising the financial soundness of a credit institution and in particular its solvency on a consolidated basis should lie with its home Member State. The supervision of Union banking groups should be the subject of close cooperation between the competent authorities of the home and host Member States.

Financial soundness

- (finance) financial stability
- Sound: financially strong, secure, or reliable, financially safe or stable
- The risk of financial failure arising from lack of *liquidity* or capital
- Liquidity risk is defined as the risk that the bank will be unable to meet its *financial* obligations as they fall due. These obligations include the repayment of deposits on demand

Solvency

- Solvent condition; ability to pay all just debts.
- Solvency: ability to pay all debts
- The ability of a bank to meet its long-term *financial* obligations. *Solvency* is essential to staying in business, but a company also needs liquidity to operate.
- If a company is unable to meet its obligation, it is said to be *insolvent* and must undergo *bankruptcy* in order to either *liquidate* or *restructure*.

Directive 2013/36/EU

- (26) The competent authorities of host Member States should have the power to carry out, on a case-by-case basis, on-the-spot checks and inspections of the activities of branches of institutions on their territory and require information from a branch about its activities and for statistical, informational, or supervisory purposes, where the host Member States consider it relevant for reasons of stability of the financial system.

Directive 2013/36/EU

- (27) The competent authorities of the host Member States should obtain information about activities carried out in their territories. Supervisory measures should be taken by the competent authorities of the home Member State unless the competent authorities of the host Member States have to take precautionary emergency measures.

New architecture of the banking supervision in EU

- Recent changes and developments in institutional structure of financial markets in a number of EU Member States highlighted some common features of the reforms concerning national supervisory structures:
- a trend towards consolidation of supervisory authorities;
- a close involvement of central banks in prudential supervision even where they are not entrusted with direct supervisory responsibilities;

an increased tendency to formalise cooperation among supervisory authorities and between them and other authorities, in this way contributing to financial stability