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The first six months of SSM from a supervised bank perspective

Eduardo Avila

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May 2015 |



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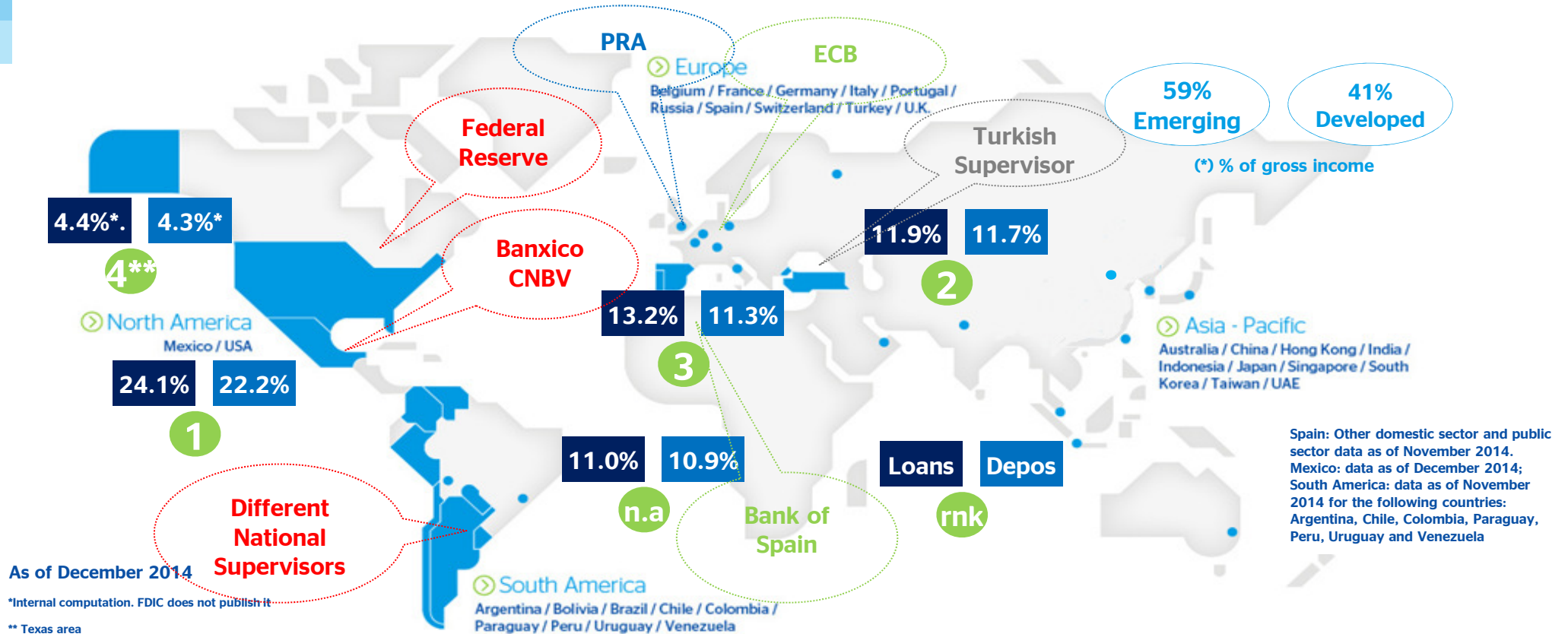
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Main messages

- 1 BBVA has a **global presence** that involves a **constant dialogue** with different supervisors across the globe, being the SSM the supervisor at a consolidated level and as such the Chair of our supervisory college
- 2 The SSM represented a **decisive step in the building up of the banking union** and will ensure **the level playing field** across the euro zone, but there are still some doubts remaining
- 3 A new supervisory culture will have to be built assuming the **best practices from different participating Member States** and not from just one Member State
- 4 **DGIV will play a key role** in the designing of this new supervisory culture
- 5 **New or enhanced supervisory tools** were put into practice since the launch of the SSM and their implementation will be a “learning by doing process”
- 6 **2015 SREP decision (to be implemented in 2016)** will represent the real kick off of the SSM as a supervisor

BBVA has a broad scope of supervisors



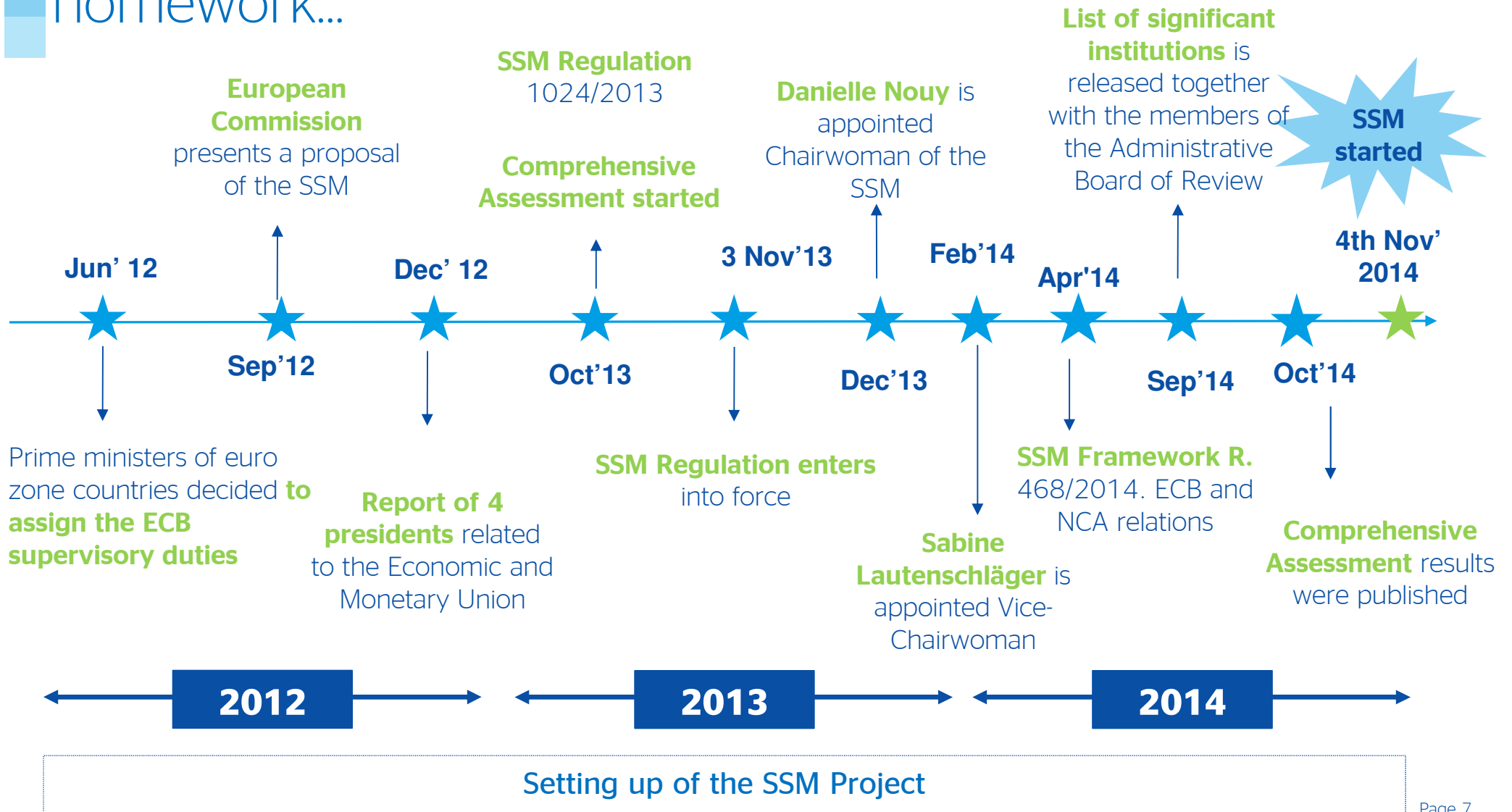
€ 652 billion in total assets	51 million customers	11 + 20 countries	7,371 branches	22,104 ATMs	108,770 employees
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The SSM is the new chair of our supervisory college

SSM is a new fundamental pillar of the Banking Union..

..in fact, now, there is much more Union between Banks than ever before

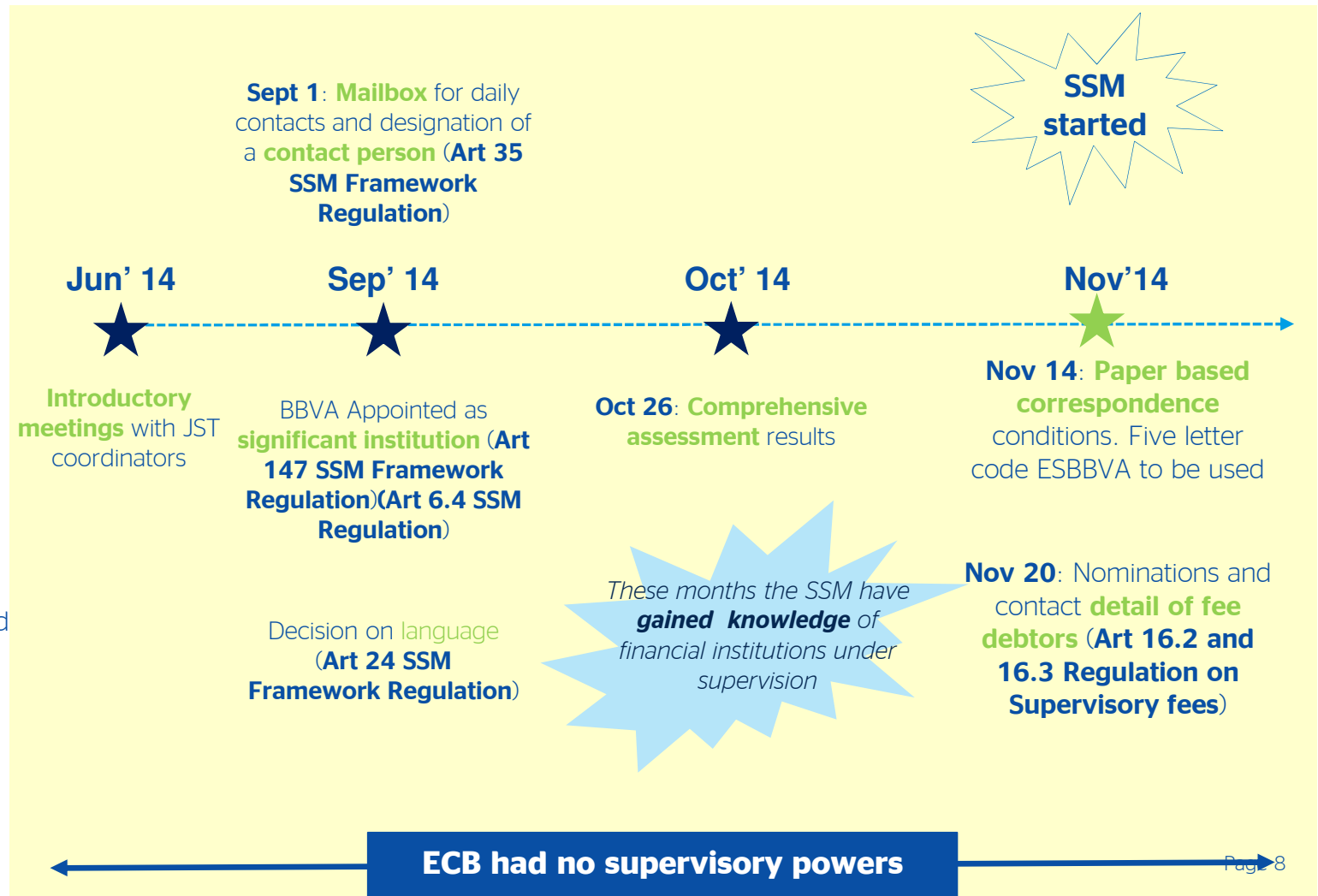
Up to the launch of the SSM the ECB has done its homework...



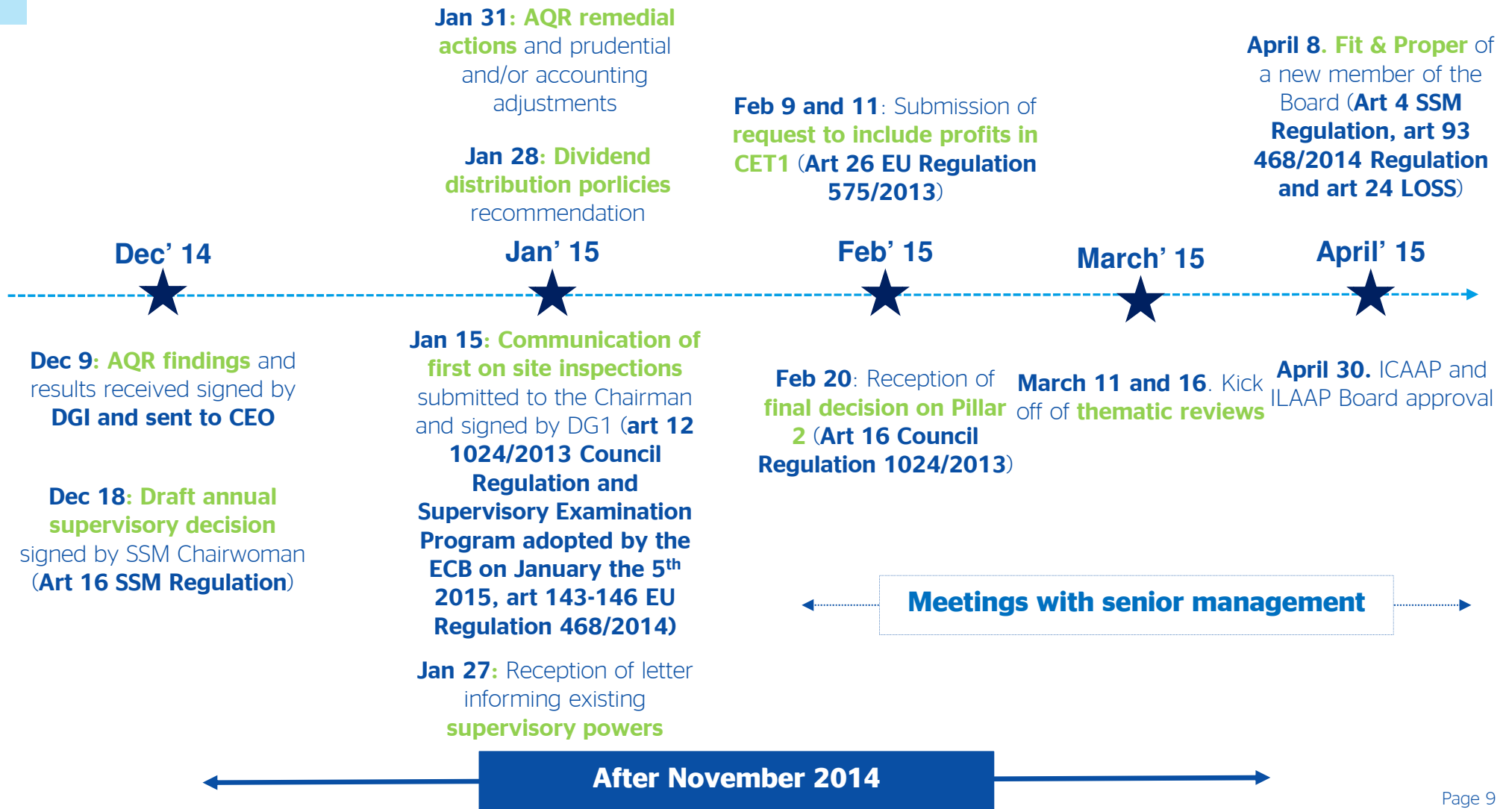
...but so has BBVA, not only before the launch..

Transitional period takeaways

- 1 During this period the **ECB had not supervisory powers** and had to build its internal structure, hire staff, etc
- 2 **Constant dialogue** among big financial institutions to learn from experience of other banks (i.e.: EBF, AFME, etc)
- 3 EBA publication of **SREP Guidelines**
- 4 Analysis of **SSM Regulation** and ECB legal acts
- 5 **Public hearings**



...but also after the launch of the SSM and currently...



**Now facing the bulk of the
SREP...**

...running the RAS

SREP: main supervisory tool

Ongoing supervision (Supervisory Examination Program)

Business Model
Analysis

Governance

Capital
assessment

Liquidity
Assessment

Viability and
sustainability of
the business
model
(12 months and
3 year analysis)

Governance and
risk management

Block 1
RAS

Block 2
ICAAP-
benchmark
ing

Block
Stressed
ICAAP-
benchmark
ing

Block 1
RAS
Tailored
stress

Block 2
ICAAP-
benchmark
ing

**New in some
jurisdictions**

Pillar 2 capital requirements

Pillar 2 liquidity requirements

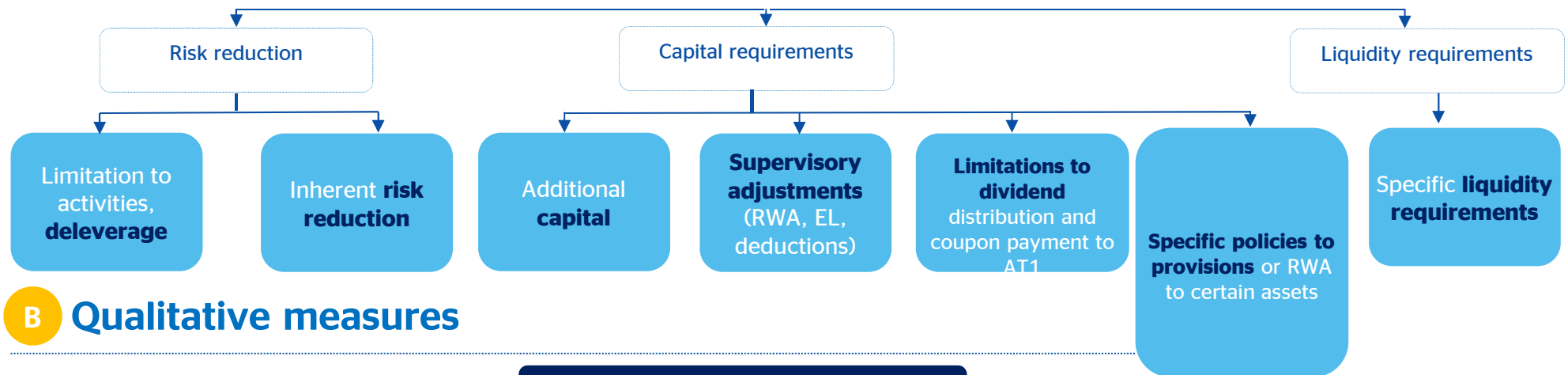
**Need to
understand
the
methodology**

SREP assessment:
holistic approach

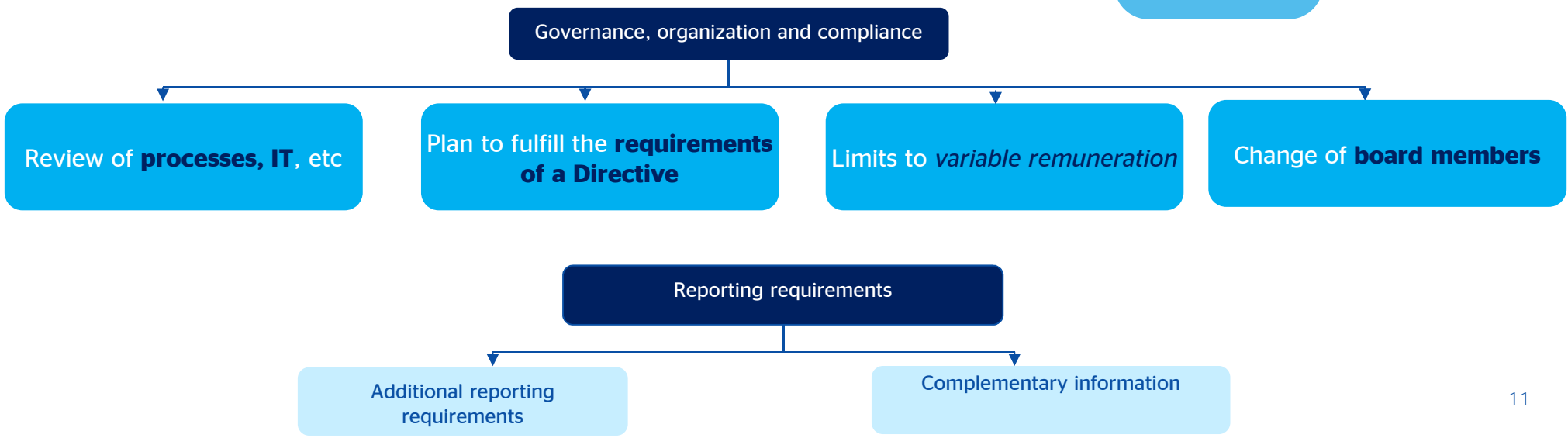
Supervisory measures

Supervisory measures: quantitative and qualitative

A Quantitative measures



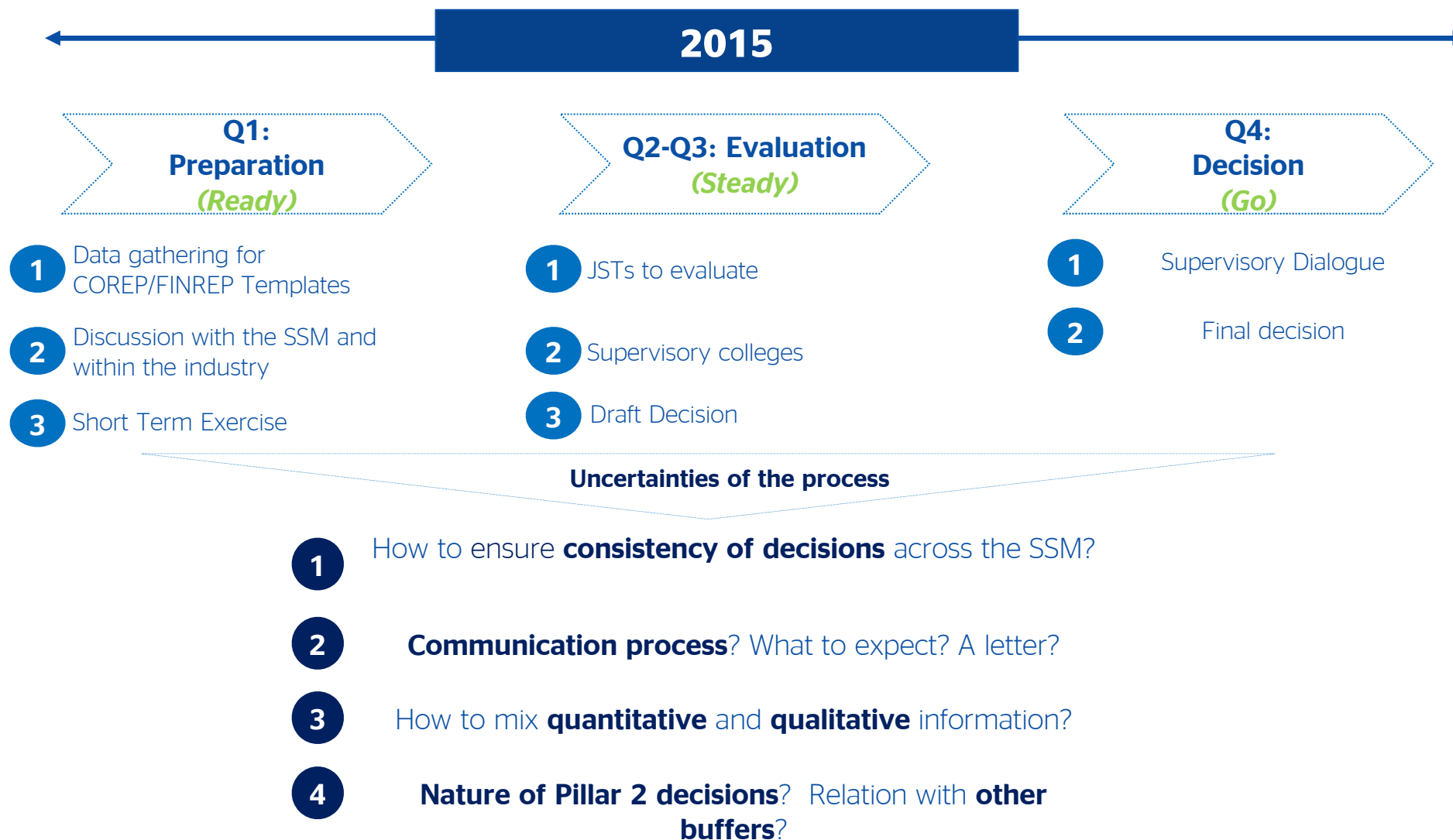
B Qualitative measures



There are different uncertainties that need to be unveiled...

Supervisory tools		Uncertainties
1	ICAAP	<p>Disclosure of SREP decisions: market pressure and some countries outliers</p> <p>Application of methodology across countries</p>
2	ILAAP	
3	Business Model Analysis	<p>New methodology in process</p> <p>Peer comparison and benchmarking</p>
4	Fit and proper assessment	Relation of the SSM with the Board to be defined
5	Recovery and Resolution plans	Coordination with the Single Resolution Board
6	Supervisory practices	i) Potential heterogeneity in the functioning of JSTs; ii) Application of undisclosed methodology and iii) national discretions harmonization
7	Review of internal models	An extraordinary ambitious target
8	Governance	Different models across the SSM countries
9	Stress Testing	2016? Diversification benefits?
10	Others	<p>Liquidity: Different national approaches</p> <p>Processes: i) approval and computability of AT1 and T2; purchases in third countries; ii) inclusion of benefits in CET1</p>

...to fully understand the 2015 SREP decision



**BBVA new organization to
face this challenge...**

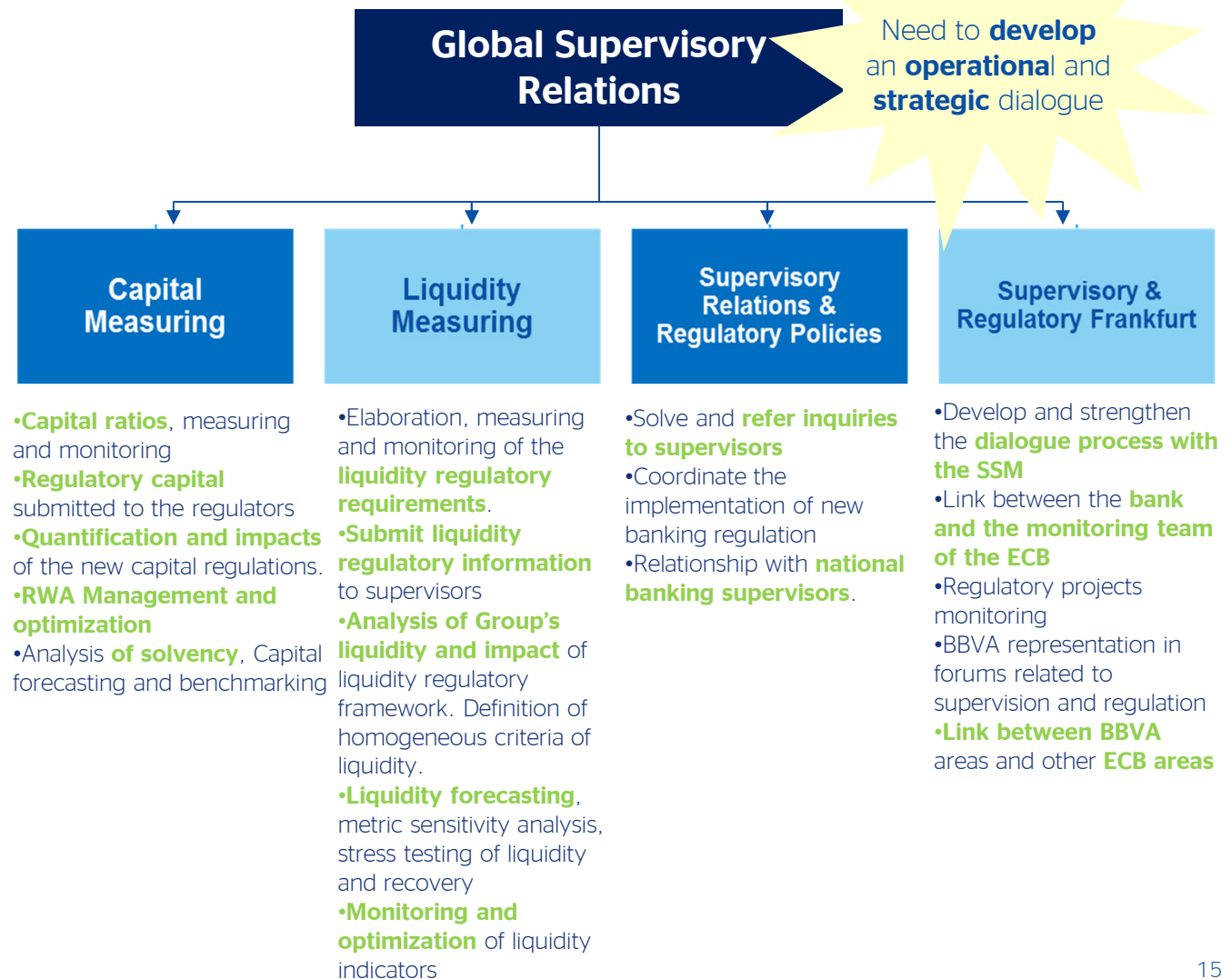
Defining BBVA single point of entry vis-à-vis the supervisor

Organizational change

- 1 Creation of Global Supervisory Relation unit in 2013
- 2 Technical Supervisory Group
- 3 Opening of the Frankfurt Office

Information requirements

- A COREP
- B FINREP
- C STE
- D QIS



Main conclusions

Conclusions

- 1 ECB and NCA have done a **remarkable effort to turn the SSM into a reality**. The creation of the SSM and running the comprehensive assessment at the same time was a tremendous challenge
- 2 **This year represents a transitional year** when the SSM and financial institutions are **learning by doing**. As such still some uncertainties remain
- 3 For financial institutions such as BBVA a **constant dialogue is required to fully understand the needs of the supervisor**. In this regard, a proper communication and full transparency are of utmost importance
- 4 Banks must understand the **supervisory methodology developed by the SSM embedded in the supervisory manual and supervisory regulation**. Even if 2015 is and has been a transitional year **some clarity** is more than welcome for the coming future above all in the **SREP process and decision**
- 5 Going forward the SSM will have to ensure a **proper harmonization** in supervisory practices within the SSM and the **highest supervisory standards** vis-à-vis other supervisors



BBVA

Freshfields. May 2015

Thank you!

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