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OUTCOME OF PROCEEDINGS

From:	General Secretariat of the Council
To:	Delegations
Subject:	Council conclusions on the European Court of Auditors' Special Report 12/2023 "EU supervision of banks' credit risk – The ECB stepped up its efforts, but more is needed to increase assurance that credit risk is properly managed and covered – Council conclusions (9 November 2023)

Delegations will find in the Annex the Council conclusions on the European Court of Auditors' Special Report 12/2023, as approved by the Council (ECOFIN) at its meeting held on 9 November 2023.

COUNCIL CONCLUSIONS

on the European Court of Auditors' Special Report 12/2023

"EU supervision of banks' credit risk – The ECB stepped up its efforts, but more is needed to increase assurance that credit risk is properly managed and covered"

THE COUNCIL OF THE EUROPEAN UNION:

1. NOTES the Special Report of the European Court of Auditors (ECA) 12/2023 " EU supervision of banks' credit risk – The ECB stepped up its efforts, but more is needed to increase assurance that credit risk is properly managed and covered" and UNDERLINES that EU supervision of credit institutions should continue to be regularly evaluated;
2. STRESSES the importance of the Single Supervisory Mechanism for the supervision of credit institutions, within the euro area and in participating Member States, and thus its key contribution to safeguarding financial stability in the EU;
3. WELCOMES that since the creation of the SSM, the ECB has, in particular, progressively deployed and upgraded its tools for the direct supervision of credit risk management by so-called "significant credit institutions", and is stepping up its efforts to further enhance the effectiveness of such tools; NOTES the European Commission's positive assessment of the SSM's overall performance in its recent related report¹;
4. UNDERLINES in particular the importance of the "Supervisory Review and Evaluation Process" (SREP) in adapting supervisory requirements and instructions to the idiosyncratic profile of a credit institution;

¹ Doc. 8507/23.

5. RECOGNISES that the SREP can be made even more effective in terms of dedicated resources, shorter life cycle and sharper supervisory instructions;
6. STRESSES the importance to keep pursuing strong consistency of SREP outcomes, and ultimately Pillar 2 requirements, across different banks, whilst avoiding automaticity and red tape in the process, thus preserving appropriate leeway for SSM supervisors' judgment in that exercise; accordingly SUPPORTS the ECB's significant efforts in that direction;
7. RECOGNISES that the efficiency of the credit risk assessment process is continuing to improve, and in particular that the components of credit risk should be adequately covered, including as appropriate by Pillar 2 requirements, based on a clear and transparent methodology; and WELCOMES that the ECB's on-going efforts in that direction will also be supported by EBA updated guidelines;
8. WELCOMES the successful reduction in the stocks of so-called "legacy non-performing loans" (NPLs) over the past years, owing in part also to the ECB's supervisory measures, and UNDERLINES that the evolution of NPL flows will need to be further carefully monitored by supervisors, so that the SSM continues contributing to preventing a renewed accumulation of excessive NPL stocks in the banking sector and a consequent threat to sustainable bank credit flows to the economy;
9. INVITES the ECB and the Commission to report regularly via the Financial Services Committee on progress in addressing the aforementioned issues in supervising bank credit risk management.
