

BANKING AND FINANCIAL SUPERVISION
Regulation and Macroprudential Analysis

GUIDE TO SUPERVISORY ACTIVITIES

Circular 269 of 7 May 2008

Chapter I

Supervisory Activity Guidance: General outlines

I.1 **Foreword**

This Supervisory Activity Guidance ('Guidance') outlines the Supervisory Review and Evaluation Process (SREP) and provides a common framework for off-site and on-site supervision, in both the Head Office and the Branches of the Bank of Italy.

Given the complexity inherent in the supervision of intermediaries and the variety of supervisory units and personnel involved in it, this Guidance serves as a systematic point of reference to ensure that supervisory practices are consistent.

This Guidance regulates all forms of prudential supervision of intermediaries. It does not cover activities pertaining to customer protection and anti-money laundering and terrorist financing, which are instead the responsibilities of the Directorate General for Consumer Protection and Financial Education and of the Anti-Money Laundering Supervision and Regulation Unit. Furthermore, activities relating to the resolution and crisis management of banks and financial intermediaries are handled by the Resolution and Crisis Management Unit (RCMU).¹

Consistent with the general legal framework, the main goal of evaluation and monitoring is to verify supervised entities' sound and prudent management as well as their compliance with regulations.² This Guidance seeks to ensure that this objective is pursued effectively and efficiently, in compliance with the principle of transparency.

To this end, the procedures outlined in this Guidance follow an approach that is:

- consolidated, in order to capture the intermediaries' overall risks and safeguards, regardless of their actual organizational and corporate structure;
- risk-based, targeted at assessing all material risks and the corresponding organizational safeguards with the application of consistent criteria of analysis for intermediaries operating in the same fields of activity, regardless of the supervisory registers the supervised entities are registered in;
- proportionate, directed at scaling controls in proportion to the intermediary's size, systemic importance and specific problems.

Establishing the procedures for the basic checks to be carried out constitutes the minimum assessments to be performed. More comprehensive

¹ It performs the preliminary and operational tasks of the Single Resolution Mechanism, cooperates with the Single Resolution Board offices and manages the liquidation of banks and financial intermediaries.

² This is without prejudice to the powers of Consob with regard to investment services and activities.

assessments can be done to gain a more complete understanding of the situation of the intermediaries.

(intentionally omitted)

I.2 Structure of this Guidance

In addition to this General Part, the Guidance is divided into three Parts, each consisting of three Sections, whose main contents are described below. Part 1 also contains thematic appendices.³

Part 1 - 'General methodology for assessing intermediaries'

- Section I: general outline of supervisory activities – classification of intermediaries and proportionality; SREP; planning of supervisory activities; interaction among different offices tasked with supervision and between those offices and the RCMU,⁴ Risk Assessment System (RAS); coordination with other supervisory authorities.
- Section II: system for the organization and use of information in supervisory activities; templates for the evaluation documents for off-site and on-site supervisory activities.
- Section III: schemes for the analysis and assessment of risks (for credit, market, operational and reputational, interest rate, liquidity risks) and the evaluation of institution-wide characteristics (business model and profitability, governance and control systems, capital adequacy) of intermediaries.

Part 2 – 'Procedures for off-site activities'

- Section I: supervisory tools available for dialogue with intermediaries (requests for information, invitations to meetings, inspections); intervention measures.
- Section II: criteria and procedures for the assessment of authorizations (on market access, ownership structure, exogenous and endogenous growth plans, regulatory capital operations, approval of investment fund regulations).
- Section III: criteria and procedures for the assessment of authorization to use internal models to measure credit, market, counterparty and operational risks in order to calculate the corresponding capital requirements.

³ These are: Appendix 1: 'Supervision of the body responsible for managing the lists of financial agents and credit brokers (OAM)'; Appendix 2: 'Guidance on monitoring trust companies'; Appendix 3: 'Supervisory quality assurance process and methodology'; Appendix 4: Supervision of the body responsible for managing the list of small-loan guarantee schemes (OCM)'.

⁴ The interaction between the offices tasked with Prudential Supervision and the RCMU is based on the principles set out in the Measure of 5 February 2019 (<https://www.bancaditalia.it/media/notizie/2019/provvedimento-20190205.pdf>); further operational details are contained in the implementation Guidance lines for the Measure on cooperation and coordination between the Directorate General for Financial Supervision and Regulation and Resolution and Crisis Management Unit set out in Annex III/1 to Chapter III of this Part.

- **Part 3** – ‘Procedures for on-site inspections’
 - Section I: principles of on-site inspections; duties and responsibilities of inspection team members.
 - Section II: administrative aspects of inspections; inspection procedure and presentation of results.
 - Section III: procedures to be followed in inspections and analysis to be carried out, differentiated according to risks, business areas, institution-wide characteristics or compliance issues.

I.3 Scope of application

With the launch of the Single Supervisory Mechanism (SSM), the European Central Bank (ECB) took over the direct supervision of Significant Institutions (SIs), which it performs using Joint Supervisory Teams (JSTs), each of which is coordinated by the ECB and is composed of staff from the ECB and from the national authorities. The JSTs follow the principles, criteria and methodologies set out in the ‘Supervisory Manual’ (SM) in carrying out their activities.

The Bank of Italy continues to directly supervise the Italian Less Significant Institutions (LSIs). The latter, in turn, are divided into the categories of ‘High Impact’, ‘Small-non-complex’ and ‘other’ intermediaries (including ‘High Risk’), resulting in different reporting requirements to the ECB, based on guidelines defined by the ECB in cooperation with the National Competent Authorities (NCAs).

Branches of non-EU banks continue to be supervised by the Bank of Italy.⁵

The risk analysis and overall assessment of LSIs identified as ‘High Impact’ is carried out using the methodologies and criteria contained in the ‘SSM LSI SREP Methodology’ published on the SSM website. Moreover, for these intermediaries, the schemes for the analysis referred to in this Guidance (see Part 1, Section III) are used to conduct further analysis that could modify the scores assigned on the basis of the LSI SREP methodology.

This Guidance shows how to conduct the SREP for all types of intermediaries⁶ other than SIs, including those subject to forms of prudential regulation other than that based on the ‘three pillars’ (capital requirements, supervisory review, disclosure) for banks, securities investment firms and financial intermediaries (FIs).⁷

In addition to the SREP process, this Guidance provides instruction to analysts on other prudential supervisory activities, particularly intervention and main administrative processes, as well as on-site inspections.

⁵ See Recital no. 28 of the SSM Regulation: ‘Supervisory tasks not conferred on the ECB should remain with the national authorities. Those tasks should include the power ... to supervise credit institutions from third countries establishing a branch or providing cross-border services in the Union...’.

⁶ In this Guidance the term ‘intermediary’ refers to all entities subject to supervision, on an individual as well as consolidated level.

⁷ In particular, prudential regulation based on the ‘three pillars’ does not apply to: a) asset management companies; b) electronic money (EMIs) and payment institutions.

In line with the regulatory requirements, the SREP is carried out following a prudential approach that is:

- **consolidated:**
 - for banking groups;⁸
 - for groups of securities investment firms subject to consolidated supervision.
- **individual** with regard to the following entities, when they do not belong to banking groups or groups of investment firms subject to consolidated supervision:
 - banks;⁹
 - securities investment firms (SIMs);¹⁰
 - asset management companies (SGRs);¹¹
 - financial intermediaries under Article 106 of the TUB (FIs);
 - electronic money institutions (EMIs);
 - payment institutions.

The Guidance specifies the activities to be carried out at individual level with regard to intermediaries that are part of groups subject to assessment on a consolidated basis.

The assessment of intermediaries that are part of groups not subject to consolidated supervision nevertheless takes into account the strategies of the group to which they belong.

For financial conglomerates – as defined by Article 3 of Legislative Decree 142/2005 and identified annually in accordance with the procedures laid down in the coordination agreement signed with ISVAP (now IVASS) and Consob in March 2006¹² – the technical and organizational situation of the conglomerate as a whole is to be taken into account in conducting the SREP of the banking component (whether an individual intermediary or a group).¹³

The supervision of conglomerates is differentiated according to whether the authority responsible for coordinating and exercising the supplementary supervision ('coordinator') pursuant to Article 5 of Legislative Decree 142/2005 is the Bank of Italy or IVASS.

⁸ In the Guidance, the term 'banking groups' refers to both intermediaries registered in the banking group register and intermediaries subject to application of requirements on a consolidated basis in accordance with Part One, Title II of the CRR ('CRR groups').

⁹ Includes branches of non-EU banks, taking into account the requirements of Circular 285 for branches of non-EU banks established in the Member States referred to in Annex A to the Chapter 'Scope'. More specifically, the provisions concerning the SREP, the provisions of the CRR and Part Two of Circular 285 do not apply to such branches on an individual basis.

¹⁰ Including branches of non-EU investment firms.

¹¹ In the Guidance, the term 'SGR' also refers to open-ended investment companies ('SICAVs').

¹² See the coordination agreement on the identification and capital adequacy of financial conglomerates and the updates to the lists of Italian conglomerate: <http://www.bancaditalia.it/vigilanza/accordi-altre-autorità>.

¹³ More specifically, the process of assessing capital adequacy is described in Section III, Chapter VIII, of Part 1.

With regard to cross-border conglomerates, the Joint Committee of the European Supervisory Authorities has published guidelines on the convergence of supervisory practices with regard to the consistency of supervisory coordination arrangements for financial conglomerates (JC/GL/2014/01). They aim to enhance cooperation between the competent supervisory authorities and the functioning of the sectoral colleges in the following areas:

- mapping of the conglomerate structure and written agreements;
- coordination of information exchange in going-concern and emergency situations;
- supervisory assessment of financial conglomerates;
- supervisory planning and coordination of supervisory activities in going-concern and emergency situations;
- decision-making processes among the competent authorities.

In carrying out their activities, the units responsible for the supervision of cross-border financial conglomerates also take into account the content of those guidelines and, where necessary, act to amend the agreements between authorities if they do not comply with the guidelines.