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Material matters: parent institutions and home supervisors attention needed

Local materiality (for example, the largest bank in Croatia presents only 2% of its parent's balance sheet) requires parents to enforce (i) adequate compliance check of the group governance and risk management policies through adequately scoped internal audit visits and home supervisors to support (ii) sufficiently granular recovery plans and (iii) frequent on-site inspections. Home supervisors need reassurance that highly centralized banking activities at the consolidated group level will ensure stress less provision of service for local economy.

Authorization of supervised activities rather than authorization of supervised legal entities could endorse branchification, lowering the regulatory burden for banks and contributing to more efficient financial servicing of European citizens. High-level standards for (i) intragroup transactions and (ii) key functions insourcing activities strengthen and secure the level of group integrations. Home supervisors should run regularly recovery plans' dry runs at the solo level of locally important banks, OSIIs, to confirm credibility of recovery options, while their on-site inspections should be tailor-made to tackle also local material issues. This will increase oversight visibility of parent institution and home supervisors at the level of OSIIs.

With the confidence in high-quality organization of banking activities established at the consolidated level and appropriate level of host supervisory attention, there would be less need for ring fencing against potential liquidity and solvency problems of the European banking groups. In the banking union space, even if there will be consensus around EDIS in the near future, the other two pillars have to improve further with the help of regulatory initiatives. SSM's supervisory practice remains challenged by the absence of accounting powers and implementation of national options and discretions (NOD).

Accounting powers would provide SSM with ability to shorten the time lag in certain jurisdictions for recognition of adequate provisioning of NPLs and collateral evaluations, important for aligned resolution interventions, while NOD need to be exercised at the level of the ECB as single rule maker (the most relevant example is limiting intragroup exposures at national level). SRM on the other hand, aiming to create effective resolution plans, could increase the level of parent institutions' ability to display their preparedness and contractual readiness to support their activity regardless of different European jurisdictions and distress conditions through the high-quality and highly operational recovery plans.

This better alignment of those attention levels directed and delivered from the both parent' and home supervisors' level would definitively improve the integration of banking in the EU. ●