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MANAGEMENT CONTROL OF EUROPEAN BANKS: A REVIEW**R. Malar KUMARAN***New Generation University College, Nekemte, Ethiopia
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alexandrun@seap.usv.ro***Abstract**

Banks are purveyors and manufacturers of money. Banks carry out several functions and there shall be a proper control and supervision. It has primary functions and secondary functions. The primary functions are important functions of banks and the secondary functions are services by banks to public. The banks provide finance functions and it is one of the financial institutions of the finance sector. All the functions are economic functions and it is the blood and nerves of the financial system. Any failure of banks directly affects the economy and national growth and development. The effective management control of banks protects the economy of the nation. The collapse of the banks means that the entire financial system is collapsed.

Keywords: *European Union Bank, Single Supervision Mechanism, Single Regulation mechanism, Stress-Tests, Financial Stability*

JEL Classification: *G20, G 21, G28*

I. INTRODUCTION

There are two major events that have influenced the functions of the European Banking Sector in one respect or other areas. Incidentally both the events took place in June 2012 and 2016. One of the events was the decision on 28 June 2012 in Brussels taking over the banking supervision to the European level. This is the decision for integration of European banks. Britain has decided to leave the European Union on 23 June 2016 (Sabine Lautenschlager (2017)).

The first decision aimed to stabilize the euro area. One of the decisions was to recapitalize banks under certain conditions. The important measures are to rescue funds, the European Financial Stability Facility and European Stability Mechanism. The second decision was to establish 'Single Supervisory Mechanism'. The 'Single Supervisory Mechanism' came into existence in 2014. The banking supervision was shifted from national to European level in November 2014.

II. SINGLE SUPERVISORY MECHANISM

Invoking the Single Supervisory Mechanism an Interinstitutional Agreement was signed between the European Parliament and the European Central Bank to confer on the European Central Bank for practical modalities to exercise the democratic accountability and oversight over the exercise of tasks (International Agreement (2013)). It also confers the power of prudential supervision of credit institutions and stability of the financial system within the European Union and member states participating in the Single Supervisory Mechanism. The ECB is the competent authority for supervision of European Banks.

The European Central Bank as Supervising Authority has the responsibility of achieving and maintaining Financial Stability in the Union. The ECB is accountable to the European Parliament and the European Council. The ECB will hold confidential discussions behind closed doors with the Chair and the Vice-Chairs of Parliament's competent committee in view of the Supervisory Powers granted to the European Central Bank. The power granted to the ECB is the constitutional and legal power of the European Union. The ECB is bound by its confidentiality. As a result the ECB may refuse to disclose to citizens of the European Union such documents which are considered strictly confidential. The legal regime of confidentiality is protected as per the Statute of the European System of Central Banks and the Statute of the ECB.

The members of the Supervisory Board, the steering committee, staff members, staff of the ECB and staff seconded by participating Member States are governed by the Professional Secrecy and the law of the European Union. The European Parliament will suitably frame regulations for breach of professional secrecy. There is organizational separation pertaining to supervision work and staff on monetary policy. There is another

exception in respect of the exchange of information of monetary policy and other tasks. This legal framework is without prejudice to the accountability of the national authorities and national law.

However the information on the confidential discussion may be shared with Parliament's committee comprehensively and meaningfully including important decisions. In case of dissenting views of Governing Council on the draft decision of the Supervisory Board, the president of the ECB will inform the reasons for the same to the Chair of Parliament's competent committee.

On winding up of a credit institution such confidential information may be disclosed provided the confidentiality requirements have ceased to exist. Parliament shall make appropriate safety measures on the sensitivity of information. Parliament, with the consent of ECB, may disclose such information to other persons or institutions. The ECB will maintain record of disclosure of such information and documents. On any written questions in the Parliament the ECB shall reply in writing to the Chair of the Supervisory Board through the Chair of Parliament's competent committee.

The ECB will submit every report to European Parliament and this annual report shall contain the details of the execution of supervisory tasks, sharing the supervisory tasks with the national authorities, separation of monetary policy and supervisory tasks, cooperation with other national or Union relevant authorities, the supervisory structure and staff members, implementation of the Code of Conduct, and budget for supervisory tasks.

The ECB will cooperate with all kinds of investigation of a Committee of Inquiry instituted by the Parliament. The disclosure of information is subject to confidentiality clause.

The ECB exercises direct supervision over all Euro zone credit institutions on the basis of certain factors. Among them the four important factors include the total value of the assets, the importance of the institution to the economy of euro zone, the role of credit institution in cross-border activities and the receipt of assistance towards the European Financial Stability Facility (EFSF). All the currencies of 18 Member states participate in the Supervision and there are 4900 banks in Euro zone as on 2014.

There are some other member states who opt for "close cooperation". Some of the Member states have expressed their intention to become 'participating member states'. Three Member states of UK, Sweden and Czech Republic have opted to remain outside.

As on 30 December 2015 the ECB has increased its supervised banks to 129 and eight institutions even though two institutions are dropped.

III. THE EUROPEAN CENTRAL BANK: SUPERVISORY PRIORITIES

European Commercial Bank considers the key risks faced by the supervised banks, latest developments in the economic, regulatory and supervisory environment, and all other information associated with supervised banks while deciding the supervisory priorities. The risks are associated with the ultra-low/negative interest rate environment, high levels of non-performing loans, and low economic growth in euro areas.

The factors related risks are Europe Union fiscal imbalances, the trends in emerging market economies, cybercrime and bank misconducts, developments in real estate lending markets, European Union geopolitical uncertainties, and the reactions of banks and markets to new regulation. These risks affect business model and profitability risk, and credit risk.

In order to address these risks the European Commercial Bank has formulated three priority areas in 2017 and they are as follows:

1. 'business models and profitability drivers
2. Credit risk, with a focus on Non-Performance Loans and concentrations
3. Risk management'

The Supervisory priorities of 2016 were as follows:

1. Business model and profitability risk
2. Credit risk
3. Capital adequacy
4. Risk governance and data quality
5. Liquidity

The Supervisory priorities of 2016 and 2017 prove to be in continuity. The tasks of banking do not change every year but there may be incremental changes. Thus the supervisory priorities of 2016 and 2017 are indicating proper selection. This is the beginning of success.

IV. EUROPEAN UNION SUPERVISORY AUTHORITIES

The newly established European System of Financial Supervision (ESFS) consists of the European Systemic Risk Board (ESRB), three European Supervisory Authorities, and the national Regulators.

1. The European Systemic Risk Board (ESRB) relates to macro-prudential oversight of the European Union System and it is not directly involved in the supervision of banks. The ESRB deals with all the financial system of EU and ECB exercises the power of supervision only to banks. The EU financial system includes financial institutions, non-bank sectors and cross-sectoral concerns. It is empowered to issue warnings and recommendations to the European Union as a whole, one or more Member states or to the European Supervisory Authorities (ESAs or national regulators. It also issues warnings and recommendations to ECB too.
2. European Banking Authorities (EBA) is another supervisory authority. It has the main task of developing prudential supervisory rules. It issues European Supervisory Handbook to promote common supervisory culture. ECB has also prepared handbook for supervision. The handbook of both ECB and EBA must ensure consistency of them. The EBA conducts stress-test in EU and ECB also carries out stress-tests. Both of them must coordinate each on timing of conducting stress-tests. The ECB has no interactions with the European Securities and markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA).
3. National banking Regulators of Member state continues to carry out the supervision of banks outside the areas of ECB. The areas of national regulators are identified and these are as follows:
 - a. Consumer protection
 - b. Money laundering prevention
 - c. Payment services
 - d. Conduct of business regulations
 - e. Bond banks, and
 - f. Building services

A Joint Supervisory Team (JST) will be established. The members of JST include a staff member of ECB, normally who will be a different nationality to supervised institution and staff members of national regulators. The JST will be headed by the staff member of ECB.

V. CONCLUSION

The European Union banking union came into existence in 2008 when there was a global financial crisis in 2008. The aim of EU banking union is to strengthen supervision of European Union banks. There are two pillars of EU banking union such as Single Resolution Mechanism (SRM) and Single Supervision Mechanism (SSM). The Single Resolution Mechanism is designed to deal with failing banks and Single Supervision Mechanism bring unanimity of European Union Banks.

According to the results of comprehensive assessment of 26 October 2014, European Commercial Bank, there was a shortfall of Euro 9.5 million in 13 European banks. It is found that the banks have failed to submit capital plans and to take actions against their respective shortfalls. Moreover there is no proper information on the actions banks after the comprehensive assessment. In 2016 the stress tests were conducted and according to the comprehensive assessment 27 banks did not have capital shortfall despite adverse scenario; 4 banks had capital shortfall; and 10 banks had capital shortfalls.

Non Performing Loans (NPL) in Europe's banking system was one of the concerns. This is a problem which reduces the efficiency of banking functions. This problem remains a challenge to ECB and Single Supervision mechanism. Another problem is ineffective handling Greek economic crisis in 2015. Separation of monetary policy from banking function is another problem. This problem has its own merits and demerits. Overlapping functions of supervision demands more space. It has to be addressed sooner than later.

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