## The Single Supervisory Mechanism (SSM)

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The Single Supervisory Mechanism manual of the European Central Bank

Annual Report on Sanctioning Activities in the SSM in 2022

In September 2012, the European Commission proposed setting up a single supervisory mechanism for banking in the euro area, giving the European Central Bank the right to supervise how the banks operating in the euro area fulfil the prudential requirements, and giving it final responsibility for all supervisory work over banks in the euro area in relation to financial stability. Members of the European Parliament approved the new banking supervision system of the European Union in September 2013, and 120 of the largest banks in the European Union were brought under the supervision of the European Central Bank from 4 November 2014.

All the countries of the euro area are involved in the Single Supervisory Mechanism and non-euro area countries can also join it by agreement.

It gives the European Central Bank responsibility for making sure that the banks in the euro area meet the capital and liquidity requirements and for issuing and revoking licences and approving acquisitions of major holdings in banks.

The SSM is intended to ensure single and strong capital supervision carried out jointly by the European Central Bank and the national supervisory authorities. The banks operating in Estonia that are under the direct supervision of the European Central Bank are LHV Pank, Swedbank, SEB Pank and Luminor Bank. Finantsinspektsioon takes decisions concerning the other banks, following the guidelines of the European Central Bank where appropriate.

The functions of the Single Supervisory Mechanism are:

- monitoring compliance with all capital supervision legislation;
- carrying out on-site and remote supervision over all the banks covered by the SSM;
- applying sanctions and taking other measures.

The SSM can also set additional requirements for banks that are subject to direct supervision, including requirements for larger capital buffers than are required by national supervisory authorities. In exceptional circumstances where it is necessary for financial stability in the euro area, the SSM can also be extended to less important banks.

Another foundation of the banking union that is being established in the European Union, alongside the SSM, is the Single Resolution Mechanism (SRM) to recover insolvent banks and resolve banking crises. One of the aims in setting up the banking union is to avoid and reduce the use of funds from taxpayers for recovering banks that are insolvent.

