



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

ECB's enforcement framework

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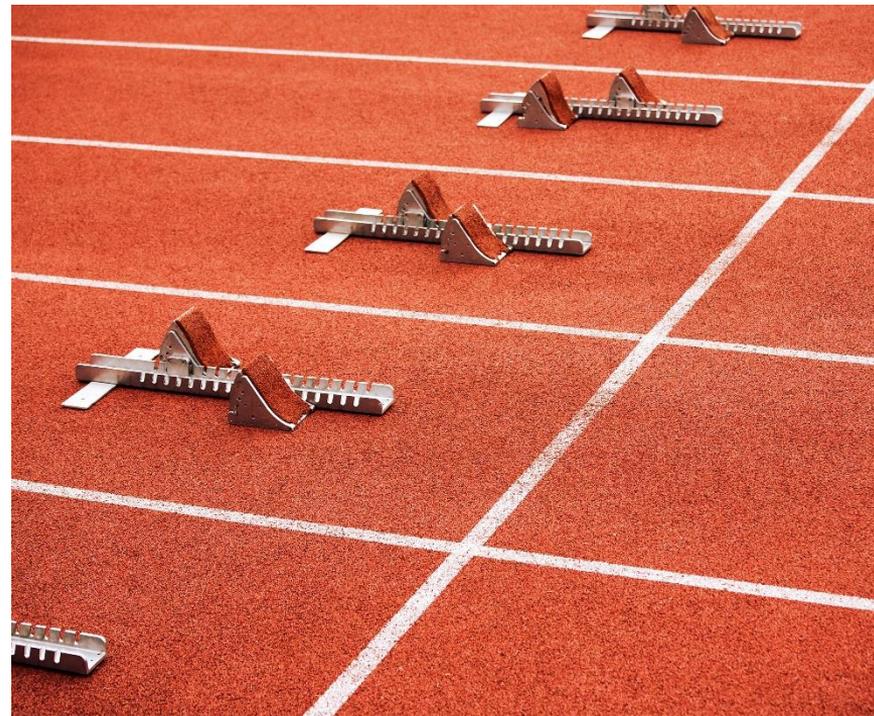
Overview

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- 3 Enforcement tools in Banking Supervision – Periodic Penalty Payments
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1. Introduction

ECB combines monetary and supervisory functions, each with distinct sanctioning powers.

Focus today: ECB's sanctioning framework and use of periodic penalty payments (PPPs) in banking supervision.



2. The ECB's Sanctioning Powers: in monetary policy

Legal framework

- Article 132(3) TFEU
- Article 34.3 of the Statute of the ESCB and of the ECB
- Council Regulation (EC) No 2532/98

Procedural rules

- Initiation of an infringement procedure
- Written notification of initiation of infringement proceedings
- Right to be heard (≥ 30 days)
- The Executive Board adopts a sanction
- Right to request a review by the Governing Council
- The upper limit for sanctions (EUR 500.000)
- Limitation period (1 year; up to 5 years)

Practical application

- Sanctions for minimum reserve related matters (such as breaching the minimum reserve requirement)
- Sanctions for breaches of statistical reporting requirements

2. The ECB's Sanctioning Powers: in banking supervision

Legal framework

- Regulation 1024/2013 (SSM Regulation)
- SSM Framework Regulation
- Council Regulation (EC) No 2532/98

Procedural rules

- Referral and investigation of suspected breach to the independent investigating unit
- Right to make submissions to the investigating unit on the factual results and the objections raised
- Adoption of the complete draft decision
- The upper limit for sanctions 10 % of the total annual turnover
- Limitation period (5 years)

Practical application

- By year-end 2024, a total of 182 administrative penalties had been imposed in the SSM.
- Pecuniary penalties accounted for 77% of these, totalling around €27.9 million.
- More than half of all proceedings handled in SSM in 2024 related to breaches in the area of internal governance (55%), with the next largest shares relating to reporting (12%), large exposures (12%), capital requirements (6%), qualifying holdings (5%) and other (7%).

2. The ECB's Sanctioning Powers: in banking supervision

Art. 18(1) SSMR: ECB may impose administrative pecuniary penalties on significant supervised entities for breaches of directly applicable EU law.

Art. 18(5) SSMR: ECB may instruct NCAs to initiate sanctioning proceedings for breaches of national law (24 sanctioning proceedings were opened by NCAs at the ECB's request in 2024).

Art. 18(7) SSMR: Allows the imposition of fines or periodic penalty payments for failure to comply with ECB regulations or decisions.



3. Enforcement tools in Banking Supervision – PPPs

What are periodic penalty payments?

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- **Definition:** amounts of money which, in the case of an on-going infringement of an ECB decision or regulation, an undertaking is obliged to pay until it achieves full compliance.
- **Why PPPs:** flexible and targeted tool for addressing ongoing non-compliance.

3. Enforcement tools in Banking Supervision – Legal Basis and Nature

Legal framework

- Article 18(7) SSM Regulation
- Article 129 SSM Framework Regulation
- Article 4a Regulation (EC) No 2532/98

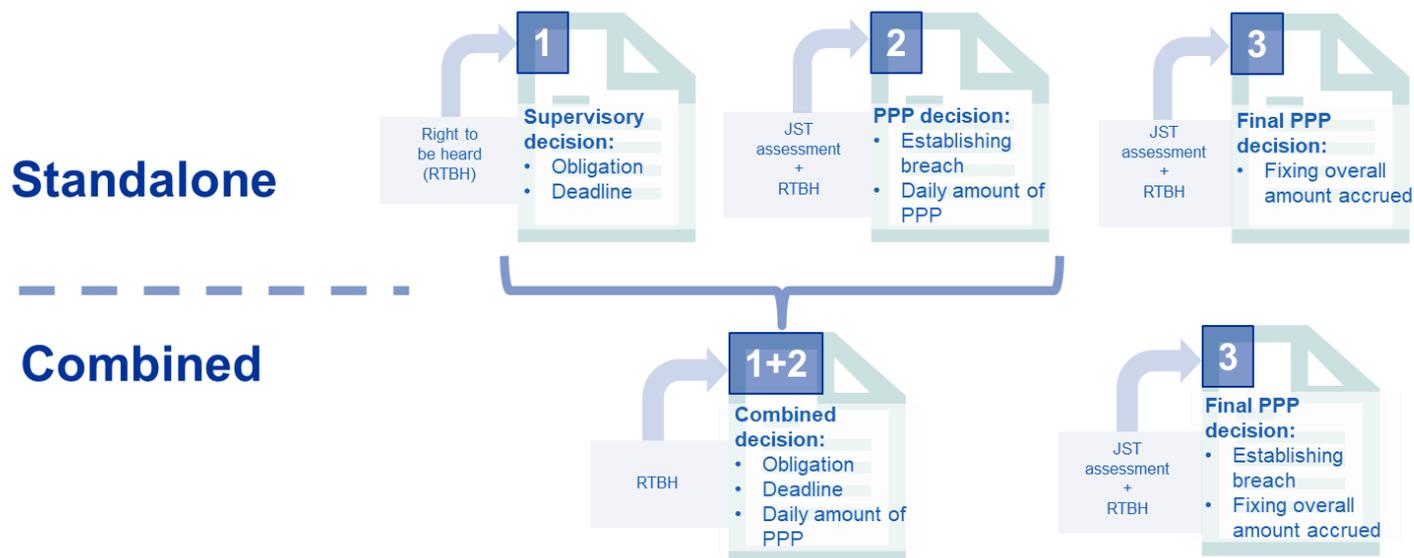
Procedural rules

- General due process applicable to supervisory decisions (e.g. right to be heard, access to files). No involvement of the independent investigating unit
- The upper limit is 5 % of the average daily turnover per day of infringement
- Maximum period of six months from the date stipulated in the decision imposing the PPPs

Legal review

- ECB enforcement decisions are reviewable under Art. 263 TFEU.
- The Court has unlimited jurisdiction – may adjust penalty amount.

3. Enforcement tools in Banking Supervision – process for imposing PPPs



3. Enforcement tools in Banking Supervision – use cases and strategic value of PPPs

Key use cases for PPPs

- Escalation ladder for institutions delaying corrective actions
- Addressing ongoing and continuous infringements of ECB decisions. Particularly useful in cases of non-submission of information, failing to correct risk control deficiencies within agreed deadlines
- Reinforcing credibility of ECB's supervisory actions

Principles guiding the use of PPPs

- Proportionality: amounts must match the severity and take account of the relevant circumstances surrounding the infringement
- Effectiveness: PPPs must incentivize compliance without being excessive

3. Enforcement tools in Banking Supervision – practical application of PPPs

- Started discussing C&E risks with banks back in 2019
- Banks have taken steps to integrate C&E risks into their strategy, governance and risk management
- A number of banks did not perform an adequate materiality assessment
- Those banks received binding supervisory decisions, including the potential imposition of PPPs if they fail on their requirements



4. Charting the way ahead

While PPPs have played a limited role so far, their potential for broader, more strategic application is clear. Lessons from the banking turmoil in March 2023 make a case for more active use of supervisory tools.

They are especially well suited for today's dynamic supervisory environment, where timely remediation appears to be key.

As supervision becomes more agile and proactive, the enforcement response must follow suit – and PPPs can bridge the gap between dialogue and deterrence.



5. Concluding remarks

- Supervisors strive for being effective and continue exploring ways of systematically assessing the extent to which its supervisory activities achieve their intended outcomes.
- Timely remediation of deficiencies is critical.
- Enforcement must be seen as part of supervision, not separate from it.

