



**EUROPEAN CENTRAL BANK**  
BANKING SUPERVISION

**Danièle NOUY**

Chair of the Supervisory Board

Mr Mario Valli  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 9 August 2017

**Re: Your letter (QZ-077)**

Honourable Member of the European Parliament, dear Mr Valli,

Thank you for your letter on the supervision of Level 2 and Level 3 assets, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 24 July 2017.

As discussed during the presentation of the ECB Annual Report on supervisory activities on 23 March 2017, ECB Banking Supervision recognises and addresses the complexity in the valuation of Level 2 and Level 3 assets, including derivatives, and has adopted a supervisory approach that promotes thorough supervision and understanding of these products. More details on the issue are provided in a recent letter of reply to one of your colleagues, Mr Marco Zanni.<sup>1</sup>

With regard to further supervisory activities on this topic, I would like to highlight the fact that the current draft of the EBA methodology for the 2018 EU-wide stress test (dated 7 June 2017) contains explicit provisions that take into account the uncertainties related to the market liquidity and modelling of Level 1, Level 2 and Level 3 assets.<sup>2</sup> The topic will continue to receive supervisory attention by the Single Supervisory Mechanism (SSM) next year, in particular where banks are exposed to such assets. Let me highlight that the SSM's supervisory priorities indicate supervisory focus areas and cannot be understood as an all-encompassing list of supervisory activities carried out within the SSM. The ECB is currently preparing the

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<sup>1</sup> [https://www.bankingsupervision.europa.eu/ecb/pub/pdf/170322letter\\_zanni.en.pdf](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/170322letter_zanni.en.pdf)

<sup>2</sup> <https://www.eba.europa.eu/-/eba-issues-2018-eu-wide-stress-test-methodology-for-discussion>

draft priority areas for 2018. This process will be concluded in the fourth quarter of 2017, and the publication of a summary is envisaged for the end of this year.

Yours sincerely,

Danièle Nouy