Danièle NOUY
Chair of the Supervisory Board

COURTESY TRANSLATION

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

Frankfurt am Main, 18 November 2015

Re: Your letter (QZ-154)

Honourable Member of the European Parliament, dear Mr Borghezio,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 22 October 2015.

In your first question, you asked how the fair value of derivative exposures is measured. The ECB uses financial information reported by the supervised institutions according to the applicable accounting framework on the basis of Commission Implementing Regulation (EU) No 680/2014. In particular, the International Financial Reporting Standards (IFRS) provide detailed guidance on fair value measurement and the applicable fair value hierarchy. It is worth noting that the strict standards for prudent valuation, as laid down in Article 105 of the Capital Requirements Regulation (CRR), require prudential reports for supervisory purposes to be subject to filters to reflect the uncertainty affecting the estimation of fair values.

You also asked whether and how the ECB confirms the accuracy of the fair values reported. The ECB indeed assesses the methods that supervised institutions use to establish fair values. Such assessments are carried out in the context of on-site inspections which focus on market risks, including market risks stemming from on- and off-balance-sheet derivatives. During such on-site inspections, the ECB uses different approaches, including spot checks, to assess whether the valuation methods used by supervised institutions are consistent with applicable accounting requirements, whether prices are verified independently and whether parameters and assumptions for the valuation of illiquid assets are adequate.

Yours sincerely,

[signed]

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