

Press release

2 March 2021

ECB publishes guide on method of determining penalties for regulatory breaches

- Publication of guide increases transparency of ECB supervisory policies and practices
- Level of penalties set in relation to severity of breach and size of institution

The European Central Bank (ECB) is today publishing a [Guide to the method of setting administrative pecuniary penalties](#) that outlines the principles and methods for calculating the penalties used to sanction banks for breaches of prudential requirements. The publication marks a further improvement in the transparency of the ECB's supervisory policies and practices, also in line with the case law of the Court of Justice of the European Union.

Banks supervised by the ECB should comply with prudential requirements. To foster such compliance, Council Regulation (EU) No 1024/2013 granted the ECB the power to impose administrative pecuniary penalties. While the ECB enjoys a wide margin of discretion in determining the amount of the penalty appropriate in each case, the penalties must be effective, proportionate and dissuasive and must not exceed the limits specified in the Regulation.

The guide published today clarifies that the ECB sets the level of a penalty in relation to the severity of the breach and, in order to ensure proportionality, also to the size of the supervised entity.

The severity of a breach is classified in one of five categories: minor, moderately severe, severe, very severe and extremely severe. Which category a breach falls into depends on a combination of two factors: the impact of the breach and the degree of misconduct.

For breaches classified as very severe or below, the ECB sets the base amount for the penalty either with reference to a predefined "penalty grid" according to the severity of the breach and the size of the institution, or by multiplying the total profits gained or losses avoided, if they can be determined, by an amount corresponding to the severity of the breach. Where breaches are classified as extremely severe, the ECB sets the base amount as a percentage of the supervised entity's total annual turnover.

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In a final step, the ECB may increase or reduce the base amount to account for all mitigating and aggravating circumstances and ensure that the penalty is proportionate, effective and dissuasive.

Further details can be found in the ECB's [Banking Supervision website](#).

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