Question for written answer Z-000080/2017
to the Chair of the Single Resolution Mechanism Board
Rule 131a
Marco Valli (EFDD)

Subject: Financial risks posed by Level 3 and Level 2 assets

Level 3 and Level 2 assets constitute a major risk for financial stability, as they are hard to quantitatively evaluate and liquidate.

As a matter of fact, their fair value cannot be determined using directly observable market data but, as in the case of Level 3 assets, they can only be priced using complex and discretional internal models.

The estimated value of Level 3 and Level 2 assets amounts to EUR 162 billion and EUR 3.3 trillion, respectively, and in total is equal to twelve times the level of non-performing loans net.

In the Asset Quality Review and Stress Test carried out by the Single Supervisory Mechanism (SSM) in cooperation with the European Banking Authority (EBA), these assets and the underlying modelling assumptions have been assessed only indirectly and in a qualitative way.

By contrast, the SSM has always put a great emphasis on the assessment of credit risk underlying the portfolios of commercial banks. This asymmetry is being critised by part of the industry as indicating a bias in favour of banks more specialised in wholesale banking than those oriented more towards commercial banking.

Considering the above, can the Single Resolution Board (SRB) disclose whether it will look at these financial assets in its bank resolution processes, and if so, how?