Brussels, 25 April 2017

European Parliament, ECON public hearing on updating CRR, CRD, BRRD and SRMR

Talking points Erste Group CEO Andreas Treichl

- The eastern part of the European Union, including Austria, has a population of 110 million people. After the departure of the UK, this region will be home one out of four people in the EU.

- Europe is a debt-oriented society, except for Switzerland and the UK, the two European countries with the most developed capital markets – and it's worth noting that in the near future, neither of these will be a member of the Union. So, its financing and therefore its growth depends almost entirely on bank financing. Bank regulation therefore has an even greater impact on this region than on other EU countries that benefit from better access to capital market instruments.

- Even if the EU decides to dramatically speed up the process of establishing a European Capital Market Union with all the necessary changes in corporate law, tax legislation and accounting rules, it will likely take another half a century – more than two generations – to catch up with Switzerland and the UK.

- The tightness of the corset that regulation imposes on banks in the eastern part of the EU therefore has a dramatic impact on the ability of these countries to foster economic growth and prosperity.

- After drastic write-offs of intangibles and bad loans in some Eastern European countries, the banking system in the region now looks healthy, strongly capitalized, and with sound and conservative liquidity positions.

- **It is crucial that regulators engage in a profound dialogue with politicians from the region to make sure that the right balance is struck between ensuring that a banking system is safe and that at the same time it is able to assume risk.**

- **There is a danger that the "new banking legislation package" - on top of the low interest environment and low demand for loans - will unwittingly disconnect us banks from the real economy.**

- **We need to focus more on how lending is being impacted on the demand side.** Policy-makers need to address how they can help to boost incomes, investments and confidence more broadly. In CEE and Austria, there is a significant lack of trust in the political establishment – that's something all of us need to focus on. In contrast, even more measures focused on influencing the supply side of credit are likely to have only a limited impact.

- **More Europe required -** the Banking Union should be extended to also include the non-Eurozone countries in the EU. It also makes sense to lower the number of supervisory authorities involved in the supervision of cross-border banking groups.

- As a bank operating across borders, we are currently confronted with no less than 10 European and national authorities, each with differing practices and data requests. The Review by the European Supervisory Authorities could be used as a step in this direction, but it should also include a review of the macro-prudential framework.

- There is a need for a clear task split between Supervisor Authorities and Regulatory Authorities, and to introduce a risk-based approach within the supervisory practices of the Single Supervisory Mechanism. While the 'new banking legislation package' further blends responsibilities, what we need is for simplicity to become a key guiding principle.

- Within the new CRR/BRRD package, the EBA will be mandated to come up with up to **50 further new standards and guidelines**, covering not only technical, but also highly political issues. The EBA should refocus on standard-setting and become more involved in benchmarking supervisory practices.

- **We fully support the single European rulebook, although we see a strong need to reduce its complexity and existing level of detail. Otherwise, we fear a danger of a further split and fragmentation of supervisory practices between the Banking Union (ECB Options and Discretions and Guides) and the other Monetary Supervisors.**

- **The United States has embarked on a very different path – the US has deregulation on the agenda even though the next Basel steps are still unclear. It is time to rebalance the regulatory framework in the EU and to rethink the merits of being stricter than the US (MREL/TLAC).** The current regulatory and supervisory practice is about to reach -- or has already reached -- a point at which **side-effects start to overshadow the benefits, namely by being too intrusive, too risk-averse and too complex.**

- **The Capital Markets Union includes useful elements,** but further developments are still needed to ensure broader access to capital markets and to limit the regulatory burden. T**he Prospectus Regulation by itself cannot be seen as a breakthrough** in terms of strengthening capital markets in the EU.

- **Regarding capital requirements (CRR, CRD) and the resolution framework (BRRD and SRMR): these two parts (supervision/resolution) should not be discussed in isolation.** We see a need to extend the focus on the interplay between the going concern and the gone concern perspective. **More resolution should ultimately also lead to less supervision**. In contrast, **national ring fencing provisions contradict the idea of resolution groups and special purpose entities potentially have huge impacts on the financial market stability of home countries.**

- **We support strengthening the application of the proportionality principle even for small institutions that are part of larger banking groups and are therefore currently considered as significant under direct ECB supervision**

Concluding remarks

- It's our duty to warn about the stifling impact that never-ending policies and regulations have on people's quality of life. We have reached the point where it makes sense to press the "pause" button and reflect on the impact of these regulations. **My wish is to complete the package ASAP in whichever way, and not have it changed for at least the next 10 years.** Not just because this regulatory overload is impacting banks' profitability, but also because it affects European countries' ability to deliver prosperity to their citizens. All of us – politicians, supervisors, and yes, bankers too – must ultimately focus on doing our bit to allow the people of this continent to create, maintain, and pursue prosperous lives.

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