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**COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS  
PUBLIC HEARING WITH ANDREA ENRIA,  
CHAIR OF THE SUPERVISORY BOARD OF THE ECB**

**BRUSSELS,  
WEDNESDAY 4 SEPTEMBER 2019**

1-002-0000

**IN THE CHAIR: LUD K NIEDERMAYER**  
*Vice-Chair of the Committee on Economic and Monetary Affairs*

*(The meeting opened at 9.08)*

1-003-0000

**Chair.** – Colleagues, due to unforeseeable circumstances our Chair, Mr Gualtieri, cannot be here and has asked me to chair this meeting. So let me welcome you back from your holidays. We are starting with one of the most exciting days for members of the Committee on Economic Affairs (ECON) because some of the events taking place today are not likely to take place again for many years to come.

Let me begin with the adoption of the agenda. I don't hear any comments.

I have no announcements on behalf of the Chair, but I would like to inform you that the 2020 draft calendar, approved by the coordinators in July 2019, is included in the meeting documents. Unless there are any comments before the end of the day, this calendar will be considered approved by the Committee.

Moving on to item 4, let me warmly welcome Andrea Enria, Chair of the Supervisory Board established by the European Central Bank (ECB) in the framework of the Single Supervisory Mechanism (SSM). Mr Enria started his five-year term as Chair on 1 January 2019. This is his second public hearing in his new function.

Mr Enria, today we would like to discuss with you, inter alia, regulatory and supervisory challenges in banking in the new legislative term, the state of play of the preparations for Brexit, and anti-money laundering in the Banking Union. In addition, we would like to briefly discuss topics like leverage lending, stress testing and the guide to harmonised rules on internal models for banks recently published by the ECB.

I will now give the floor to Andrea Enria for a maximum of ten minutes, and then we will have the five-minute Q&A slots. The longer the questions you ask, the shorter the time for the reply. If we have time, we can go to catch-the-eye, but I will try to be strict and finish at 10.15 because we will then have a short break and continue with another important hearing.

Welcome back, Mr Enria, you have the floor.

1-004-0000

**Andrea Enria**, *Chair of the Supervisory Board of the European Central Bank.* – Chair, it is a great pleasure for me to be here for this first hearing before the newly elected European Parliament. The effectiveness of our supervisory work and the consistency of supervisory outcomes largely depend on the strength and the level of harmonisation of the regulatory framework and, in turn, feedback from the supervisor on its everyday application of the rules

is essential in ensuring that the objectives set out in legislation are met in a continuously changing market environment. So, the Banking Union's success depends on our productive cooperation.

The ECB's banking supervision is committed to fulfilling its accountability duties towards this Parliament. Both independence and accountability are fundamental to ensuring high-quality banking supervision for the benefit of all European citizens and we are, of course, committed to good cooperation with the other EU institutions. For instance, we recently agreed with the European Court of Auditors a Memorandum of Understanding regarding practical information-sharing arrangements between our two institutions, which will be signed in October. Parliament had requested this Memorandum of Understanding, which will ensure that the European Court of Auditors can perform its solid mandate for ECB banking supervision. This signals goodwill between both parties and the shared intention to cooperate constructively.

Next year, as every year, we will organise our work around a set of key supervisory priorities. The completion of the post-crisis repair process will continue to rank high in our priorities, where we will also focus on emerging risks and on the drivers of low profitability and low market valuations for European banks. In particular, we will follow up on our guidance on non-performing loans as well as on the recommendations stemming from our targeted review of the internal models stream. We will conduct on-site missions focusing on trading risks and evaluation with a specific focus on complex and liquid assets. We will continue to evaluate banks' credit underwriting criteria and the quality of their internal capital and liquidity adequacy assessment processes.

Moreover, we will monitor the sustainability of banks' business models, specifically with a view to profitability and the ongoing digitalisation of financial services. On a related note, we will closely monitor banks' vulnerability to IT and cyber-risk. Other key issues for our supervisors will be Brexit and EU-wide stress tests. Comprehensive assessments will continue to increase in number and relevance as banks relocate business to the euro area as a consequence of Brexit and as Member States – Bulgaria, followed by Croatia – apply for close cooperation.

Allow me to focus now on some of the crucial topics we have been working on over the past few months. As some of you may recall, the ECB's banking supervision committed to reconsidering its supervisory expectations on new non-performing exposures following finalisation of the new legislation. We have now carefully assessed the interaction between our approach and the new pillar one backstop for non-performing exposures laid down in the latest Capital Requirements Regulation, and we concluded that some adjustments to our supervisory expectations for prudential provisioning are warranted. These adjustments will enhance the consistency and simplicity of the overall approach to non-performing exposures, reducing the reporting burden for banks. The scope of the ECB's supervisory expectations will be limited to non-performing exposures arising from loans originating before 26 April 2019, which are not subject to the pillar one backstop. Non-performing exposures arising from loans originating from 26 April 2019 onwards will be subject instead to the pillar one backstop, with the ECB paying close attention to the risks arising from them.

Supervisory expectations for the stock of non-performing exposures remain unchanged, as communicated in SREP letters sent to the banks and in a press release published by the ECB in July 2018.

Since my last hearing before this Committee, have continued to monitor banks' preparedness for Brexit, as the likelihood of a no-deal scenario remains a concern for us. Action has been taken at EU and national levels where necessary and options are available to enable the private sector to be duly prepared in the event of a no-deal. The ECB and national supervisors have been in direct discussions with banks and have stressed from the outset that banks should plan

for all possible contingencies. They should now speed up the implementation of their Brexit plan so as to be fully prepared in the event of a hard Brexit at the end of October. While we, in general, are satisfied with the target operating models agreed with the banks, we are concerned that the execution of the plans for their implementation is, in several cases, delayed.

Let me now turn to the regulatory challenges in banking for the new legislative term. At this juncture, it is important to remember the lessons from the last crisis. We support the full, timely and consistent implementation of the final Basel III package. The reform cycle needs to come to a close and we must finish the important job we have started. It is imperative to complete the work on risk-weighted assets and internal models. The objective is to ensure that those banks which, in the past, made inappropriate use of internal models to drive down their regulatory capital make the necessary adjustments. The international standards substantially reflect the analysis conducted by the EBA on the consistency of risk-weighted assets and the findings of the ECB's review of the internal models stream. The expected impact on capital requirements is concentrated in large banks, which in most cases have already been requested to adjust their models.

We also need to acknowledge that the implementation of the Basel II floor was more lenient in the EU, making the new output floor more costly here than in other jurisdictions. Although the output floor might have an unwarranted impact on low-risk business, it also ensures a more level playing field between banks using internal models and banks relying on standardised approaches.

It is essential to complete the last chapter of the post-crisis reform agenda and to give banks and markets certainty that the regulatory requirements have achieved a stable configuration. This is something the industry asked a lot – to have stabilisation of the capital requirements and I think it's a reasonable objective, but we need to finalise this package first.

Beyond the implementation of Basel III, the next review of the Capital Requirements Regulation and Directive should be an opportunity to address also existing shortcomings. In particular, we have already flagged, together with the EBA, the need to enhance the harmonisation of the framework to assess the fitness and propriety of banks' board members. The existing differences in national legislation seriously impair the conduct of supervisory tasks in the Banking Union. In addition, competent authorities should be able to require institutions to meet their supervisory Pillar 2 requirements with capital instruments of the highest quality, so common equity Tier 1.

The prudential and supervisory approach to information and communication technology risk – ICT risk management – may also need further attention, and be integrated into the regulatory requirements.

Regarding further reforms, it is important to continue strengthening the institutional architecture of the Banking Union, the third pillar of which – a European deposit insurance scheme – is still missing.

Structural impediments to bank integration and consolidation, driven by the incompleteness of the Banking Union, along with other legislative obstacles to cross-border banking in the euro area, are weighing on the health of our banks which suffer from low market valuations. So, this segmentation in our own Banking Union is an important structural impediment also to the recovery of profitability and market value.

Finally, let me stress that we are integrating money-laundering risks into our prudential framework. The ECB works closely with the EBA and national prudential and AML/CFT supervisors on implementing the tasks set out in the Council's action plan. In this context, we

established a coordination function internally that leads our policy work on updating the SSM methodologies to consistently take account of AML/CFT concerns in the relevant supervisory activities – so from authorisation, to fit and proper internal governance and controls and withdrawal of licences. Still, I see a need to further strengthen and harmonise the overall AML framework in the European Union – especially higher harmonisation would be very welcome.

A number of other issues that I and my predecessor discussed frequently with this Committee over the past legislative term remain very important for our work. Amongst them, leverage lending, as mentioned by the Chair in his introduction, stress testing and internal models. We are providing supervisory guidance on leverage lending but still remain vigilant about market developments. The market is growing quite fast and the level of leverage and the quality of these exposures is deteriorating. We conducted a targeted stress test to review the liquidity risk and we are already preparing for the next years' EU-wide stress test exercise. Our work on internal models has proven effective in addressing inconsistencies and unwarranted variability in banks' use of internal models. I would be happy to discuss these issues more in detail, should you have questions about them.

1-005-0000

**Chair.** – Thank you very much, Mr Enria. We will now go to the questions. Just to repeat: it's up to five minutes for questions and answers. The shorter the question, the more time for the answer.

1-006-0000

**Danuta Maria Hübner (PPE).** – Chair, it is a great pleasure to see Andrea Enria here with us. I would like to ask a short question. My first question would be, talking about Basel III, because you mentioned it, do you think there is a space where the EU could deviate, and why, from Basel III?

My second question regards the SREP. Did you identify any concentration of risks in the specific areas when doing the SREP?

My third question is on Brexit, because we know that you and the Single Supervisory Mechanism (SSM) has been just pushing banks to have all the contingency measures; there was a lot of monitoring. You have also cooperated with the PRA, we know that, but recently you have pointed to the need for further adjustment of business and booking models by banks and there's not much time for that. How do you see the chances for a satisfactory improvement in the months – one month actually or one month and a half – to come?

The last question is that Mrs Nouy was always raising the question of national options and discretions and many of them have been identified. One of the issues has been always the national insolvency regimes. So my question to you is do you see a chance that the lawmakers of the Union could move in this direction? And do you see also any chances to use the experience and the very rich toolbox that the American authorities have for this? Is there any chance of learning from the Americans?

1-007-0000

**Andrea Enria, Chair of the Supervisory Board of the European Central Bank.** – These are very rich questions that deserve a whole session. I will try to be concise but I would very much like to go more into details on all of your questions.

On Basel III and the space for deviation from the international standards, let me say clearly that the bulk of the proposals which are on the table in international standards are perfectly aligned with the analysis done by the European Banking Authority (EBA), with the proposals laid down by the EBA and with the findings of our own analysis of internal models. So they are definitely a repair process which is, in my view, necessary and important. I don't see any reason for deviation. Furthermore, if you look at the impact of this, it is focused mainly on large banks. If

I remember well, the shortfall identified by the EBA is EUR 135 billion, EUR 127 of these are in globally systemically important banks and other systemically important institutions. So, basically, it's only on large and mainly cross-border banks so the idea that there could be specificities for these banks is, in my view, not really warranted.

The only point on which I personally have been puzzled about the Basel package has been the output floor. The output floor is a sort of a request which has been put by many G20 jurisdictions which do not rely on internal models in their jurisdictions. I trust the repair process that we have done internally via TRIM and via the EBA repair process and I see some of these potential distortions that the output floor could induce in risk sensitivity, but at the same time it is something which is important for the credibility of the European Union in terms of adoption of international standards and sticking to our word in terms of the international community. Although there are some issues there, I think that we should be loyal to our negotiations. I think that it has been calibrated in a reasonable way and I think it will not be excessively burdensome for banks.

Your second question was SREP and the concentration of risks. Let's say, there are indeed issues of concentration of risks, but the main point I would flag to your attention is that there are only two areas probably in which the SREP scores deteriorated in the last cycle, and these are governance and operational risks. I mean in these areas, let's say, we need to focus more and more our attention. Governance weaknesses are at the origin also of many of the scandals, AML issues and conduct issues that we have identified recently. I mean I am surprised how many findings in our inspections relate to data integrity, data quality, IT infrastructures and the digitalisation challenge and cyber-risk. I think we need to devote more attention to that.

On Brexit, in a nutshell, we had indeed raised in our Q&As, in our messages on the European side, the importance of working models, business models, avoiding that we have empty shells in the EU. We've made this message clear to all the banks that approached us for relocation plans and I must say that we came to satisfactory conclusions in terms of target operating models. So, the target operating models that the banks relocating have defined and which have been agreed with us actually imply significant risk management capabilities in the euro area. The point, as I mentioned in my introductory remarks, is merely execution. So we see that while the lending point is agreed, how fast you get there and what the steps are that you make to get there is still an issue of concern on our side, because we see slow progress.

Options and national discretion, especially the point on insolvency regimes: on insolvency regimes, we do have a problem. What we have seen is that the assumption in the BRD was that where the ECB and the SRB declare a bank failing or likely to fail, and then if it is not of public interest at European level, it is passed into national liquidation procedures and we thought that there was no need to care at European level about what happens next. The experience in these first years is that instead it's very worrying in this respect. We do have banks which are failing or are likely to fail but are not put into liquidation because that is no legal basis. For instance, if it is an AML issue, as we have seen in Latvia, we can have a court that rejects insolvency processes and therefore this means that the bank remains with a licence for a long time after being declared failing or likely to fail. Then you have administrative cases where you have only corporate insolvency, ordinary insolvency procedures, others in which you have administrative tools and also Member States where you can deploy state aid in liquidation that makes the investors better off than in resolution. I think that we need harmonisation in this area and I would plead to have an administrative tool for liquidation along the lines, as you said, of the US arrangements.

1-008-0000

**Jonás Fernández (S&D).** – Mr Enria, first of all, welcome. It is difficult to be asking you questions after my colleague Danuta Hübner has asked hers as she seems to have already summarised most of the issues many of us were concerned about.

That said, I still have two questions I should like to put to you. The first of these concerns the process of Bulgaria and Croatia's entry into the banking union, the process of adopting the euro, and hence the extension of your institution's activities to include supervision of the banks in those two countries. I would like to know how you view this process, how long we can reasonably expect it to take for these two countries to join the euro and to what extent this process might also serve as an example for other countries still outside the euro area which, under the Treaties, have to join it at some point.

The second question basically relates to financial stability issues. Following your hearing, we have the hearing with the candidate for the post of President of the European Central Bank. Some of us believe that we should keep to the current accommodative monetary policy approach in the long term, given the economic outlook for the euro area as a whole and the risks we will face in the coming months. I would like to ask what you think the impact on financial stability will be of a further extension of accommodative monetary policy measures by the ECB in the days and months to come?

1-009-0000

**Andrea Enria, Chair of the Supervisory Board of the European Central Bank.** – Thank you very much for your questions. On the issue of close cooperation, so the demand for close cooperation from Bulgaria and Croatia, this is something we are indeed in the process of completing. We have completed the comprehensive assessment for the Bulgarian banks and we have identified two banks which have a capital shortfall that would need to be filled and we are now in the process of following up. The banks are designing plans to repair the issues which have been identified in the comprehensive assessment, and once these plans are approved and move forward, then the next steps in the process will be to complete the procedure and enter into the close cooperation arrangements. At that stage also the process for the whole question concerning joining the euro will start.

With Croatia, we will start the comprehensive assessment shortly. I think it is in September, if I remember well. In general, as we have seen in the Bulgarian case, there is approximately one year from the start, from when the demand is made, and the comprehensive assessment is completed and the requests for the banks in terms of capital, if there is any need, are put forward. So that's more or less the timeline on our side.

Of course the process also entails a review of the legal set up, which has been conducted already in the case of Bulgaria and is being conducted in the case of Croatia, to make sure that the relatively new uncharted territory, in a sense, of close cooperation in which the ECB would give instructions to the national authorities could be put into operation in an orderly manner.

On the issue of monetary policy, of course you know that there is a strict separation principle in terms of monetary policy and supervision. I would just say that the low interest rate environment that has been in place now for a while has, of course, exercised downward pressure on the interest margins for banks on profitability from that side, but on the other hand, it has determined a more positive macroeconomic outlook, which has helped improve the ability of borrowers to repay their loans and also the ability of banks to manage their non-performing portfolios. Also, it has had a positive impact on volumes in terms of lending. How, on balance, these two elements take place is the issue. Of course, let me say that there is also the issue of macroprudential policy, so when the relatively accommodating stance of monetary policy could generate a risk appetite by investors, by banks and the like, sometimes the macroprudential

authorities can start increasing the macroprudential buffers, and this is what many authorities across the euro area are now doing.

1-010-0000

**Luis Garicano (Renew).** – Mr Enria, the fear of recession seems to be growing in the markets and the question really is, what are the implications for financial stability? I wanted to address two particular issues in this respect. The first one concerns the doom loop, the possibility of the doom loop returning. The sovereign exposures of banks, particularly to their own sovereigns, seem to continue being excessively high. There was a proposal that this Parliament reviewed that the Commission made concerning sovereign bond-backed securities (SBBS). The Commission made a proposal. Parliament has adopted a first reading position but we see in the Council no appetite for advancing the file. How important is it, in your view, to adopt this proposal? Do you see other instruments to try to solve this problem? How would we solve also the safe assets scarcity and how would SBBS contribute to that?

The second question concerns the risk reduction and risk sharing conundrum that we have been facing for the last few years. The view on the political side was that we should wait until substantial risk reduction was taking place before adopting certain risk-sharing measures. What is your view on the progress we've made on NPL reduction and, particularly, what's your view on whether it's really now already possible from that perspective, or would you consider it advisable to start developing the insurance, the other measures such as the backstop to the single resolution fund, etc., that involve more risk sharing?

1-011-0000

**Andrea Enria, Chair of the Supervisory Board of the European Central Bank.** – Thank you very much for your questions. In terms of fear of recessions, of course the sky is getting darker and of course we need to prepare for that. Let me remind you that we did a stress test recently which showed an increased resilience of the European banking sector in terms of capital buffers. We will soon publish the results of the liquidity stress test that will show resilience also on that side. But of course the low profitability, the low market valuations, the low capital generation capacity are, for us, a concern.

The doom loop and sovereign exposures: of course, the very establishment of European supervision is an important element in terms of addressing this issue, but is unable on its own to resolve the problem that was identified during the last crisis. We still see that whenever there is a deterioration in the situation of the sovereign, the sovereign spreads widen the ability of the banks to access funding markets on reasonable conditions become much more difficult.

First of all, let me say that there are supervisory tools to control the sovereign exposures of banks that we deploy. This is taken care of in the stress test where we also introduce sovereign shocks and we look at the ability of banks to withstand them. In our supervisory review, in the valuation process, when we see excessive concentration of exposures we can take action on the bank. I have always been personally very supportive of the SBBS proposal, which came also from the ESRB Advisory Scientific Committee, and I think it is a very important element. I think that the two things could come together – so a more consistent regulatory framework for sovereign exposures and a sort of common safe asset developed.

In terms of other instruments, I have always been public in my view that one of the key issues is the mark-to-market of the sovereign exposure. We see that banks, when the sovereign spreads widen, tend to move their exposures from the trading or available-for-sale to the held-to-collect positions. I think that we need to have a little bit of discipline there, and this would already be a strong incentive for banks to more actively risk manage their sovereign exposures.

In terms of risk reduction, the sharing, the progress made in terms of risk reduction is significant. In 2018 we had EUR 150 billion of NPL sales and securitisations and EUR 30

billion of sales of foreclosed assets, so a EUR 180 billion correction only in terms of sales and securitisations. The levels are going down significantly, including in banks in the tail of the distribution, with the highest problems, and banks are over-achieving their targets, in most cases. So banks are going beyond the target that we agreed with them. Having said that, I've always been relatively sceptical about the idea that you first should do something and then start something else. In the European Union, we have always worked well with roadmaps, so we should have an engagement in parallel on both trajectories – the correction, which we need to keep very strong, and also the EDIS process.

1-012-0000

**Sven Giegold (Verts/ALE).** – Thank you, Chair. The message, which I hear from you Andrea, and also from the ECB, in general, is the following: on the one hand, the business environment in Europe is getting worse, but the banks are better prepared. On the other hand, we see the ECB on the monetary side announce low interest rates and that the activist monetary policy stand will continue.

This creates additional risks for the banking sector and for other financial players, in particular with the long-term guarantees. So do you think it is now also the role of the European Central Bank Supervisory Chair to increase the efforts to get Member States to increase their efforts for common fiscal policy and more common and proactive economic policymaking, so that the ECB gets more space in order to reduce the pressure on the long-term interest rates, because I see a real danger to the stability of the financial system.

You cannot build buffers alone against such a trajectory, and there I also see a role for the supervisory side to make clear that we need less pressure on the profitability of boring banking, and that is where I would like to understand your role.

Lastly, when you came here last time, and also in your work in the European Banking Authority (EBA), you were a champion of transparency in banking supervision. So could you tell us how far you got? Will you publish the stress test results in the ECB? So you are part of the stress testing you do internally. Will you now go forward publishing Pillar 2 guidance, and will you finally give a scale to your famous graph, which plots all the 107 banks, but has no scale, so not even on an anonymous basis can we see the distribution of the capital requirements. Perhaps this graph could be the first 'Enria transparency graph', if you improve it.

1-013-0000

**Andrea Enria, Chair of the Supervisory Board of the European Central Bank.** – Let me start from the last question. I think that's an easy win. I can definitely commit to give more transparency on that graph. You know that in terms of Pillar 2 Requirements and the disclosure of Pillar 2 requirements, I'm not satisfied with the status quo. Of our 118 banks, we have 76 that publish the Pillar 2 Requirements and others that don't. We also have different approaches in terms of securities market regulators' approaches to that, so I am in contact with the colleagues at ESMA to try to see whether we can find a more harmonised way forward. By the way, legislation, of course, is helpful in this respect because the new legislative framework, the new Capital Requirements Directive (CRD), will require banks to disclose Pillar 2 Requirements and that will be very, very helpful.

On Pillar 2 Guidance (P2G), we have some discussions internally. There is some reluctance, which is linked to two facts mainly. The first one is that we are changing somewhat our approach to Pillar 2 in general, so we are reviewing the Pillar 2 approach with a view to make it more risk-by-risk and to make better use of the input from the Internal Capital Adequacy Assessment Process (ICAAPs) and Internal Liquidity Adequacy Assessment Process (ILAAPs), so the timing of this transition is a first issue. The second is a concern – that I personally do not share but which we have in the supervisory community – that Pillar 2G is

perceived by markets as a sort of hard minimum requirements, which it is not. I mean these types of buffers are there to be used in case of need.

On your question on monetary policy, you know that there is this strict separation principle and my view is that, in general, we as supervisors, as the banks, should take the monetary policy stance as a given, as an exogenous factor. I think that there are elements that need to be put in place to take into account the potential impact that this has in terms of the risk-taking attitude of banks on the one hand, so the macro prudential buffers that need to be built in order to avoid that an extremely accommodating monetary policy could generate excessive incentives to risk-taking and, on the other hand, in terms of pressure on profitability, we need to put pressure on banks to change their business models, to become more profitable. We see other areas which have negative interest rates – in Switzerland, in Sweden – in which banks achieve much higher profitability than euro area banks. So there could be levers that banks could use to, in any case, improve their issues. What concerns me the most here is that there are structural impediments in the euro area, which make the life of our banks more difficult and these structural impediments are mainly the segmentation of our own domestic market, the Banking Union, the euro area, into national buckets because of a number of impediments. This is also preventing consolidation, is freezing excess capacity in the system and is making our banks more inefficient. I think here is where we should focus our efforts.

1-014-0000

**Hervé Juvin (ID)**. – I have just one question, but two versions of the same question.

Short version: do you think that if, at the end of the process of standardisation and concentration we may be seeing, only a few systemic groups are left in the European banking system, then the security of that system would be improved?

Long version: increased capital requirements, solvency and liquidity ratios and the standardisation of risk management systems are in the process of significantly slimming the difference between national banking systems and the difference between cooperative and mutual banks, shareholder banks and regional or public banks, where they still exist.

I was under the impression, however, that diversity within a system contributed to the resilience of the system as a whole. I would simply like to ask whether you think that eliminating specific national features of banking systems and organisational and institutional differences between banks will help make the European banking and financial system more resilient?

1-015-0000

**Andrea Enria**, *Chair of the Supervisory Board of the European Central Bank*. – Thank you for the question. I absolutely agree with you. I mean the diversity in the ecosystem of our banking sector is indeed an element of strength and resilience, and I don't perceive our work to be an element of 'one size fits all' standardisation.

As you know, proportionality is a constitutional principle in a sense, for our supervision. We have definitely graduated and structured our supervisory approaches according to the scale, systemic relevance and business model of the banks. We are in many cases monitoring differently different business models, applying requirements which reflect the specific business reality of the banks.

Where we want standardisation is, of course, where we identify good practices and where we want to raise the bar for all the banks in terms of risk management capabilities. So let me make an example: if you go to a small cooperative bank, of course you can be proportionate in terms of the requirements that you put on reporting, or the need to establish specific committees internally and the like, but you want the risk management standards to be up to the right level,

with checks and balances internally so that you can achieve good results in terms of risk management.

There are jurisdictions now outside the European Union that are thinking to drop entirely risk-based supervision. To drop the concept of risk-rated assets and move only to a leverage-ratio based approach.

I would strongly discourage the European Union to follow similar approaches. We have seen that also in the European Union small banks, often acting in cohorts, have been a source of systemic risk.

1-016-0000

**Derk Jan Eppink (ECR).** – Mr Enria, you were just referring to the phrase ‘the sky’s getting darker’ and I think it’s always good to consult the weather report! There is in your portfolio one bank – the Deutsche Bank – which is very systemic and which is of gigantic proportions but is on a wobbly structure. My question is: do you regard the restructuring plan of the Deutsche Bank sufficient?

1-017-0000

**Andrea Enria, Chair of the Supervisory Board of the European Central Bank.** – You will understand that I cannot in this session enter into discussions on individual banks. So, I am afraid I will not be able to take this question.

The only thing I can say is that, in general, if anything we should be concerned that there has not been enough restructuring in the European banking sector in the post-crisis environment. Everybody is comparing the EU banking sector with the US banking sector. I think that the main focus of this comparison should be on the fact that in the US banking sector you have had a much quicker way of addressing structural problems at banks, asset quality problems at banks, and you had more exit from the market. So, excess capacity was absorbed faster, also through a consolidation process, that managed to create institutions that were more robust. What we have shown in our analysis at the ECB of business models, a couple of years ago, was that the banks which have been more effective in terms of refocusing the business model – adding strategic steer, identifying the business areas which are generating profits and focusing on those, and dropping areas which are not profitable, and investing in new technologies – are banks which have now managed to complete the transition and to be in a much more solid position.

1-018-0000

**Derk Jan Eppink (ECR).** – The criticism has been all along that bond holders buy too many bonds of their own country, so exposure is too elevated. In 2018 this exposure even increased in Italy and Portugal and risk premia will also increase. What are you going to do about this trend?

1-019-0000

**Andrea Enria, Chair of the Supervisory Board of the European Central Bank.** – I think I mentioned this point in my reply to Mr Garicano. We do have tools in our box to address sovereign exposures. We do this in the stress tests where we have a specific stress on sovereigns which then impact the banks and which is then used to determine the capital buffers that we require for the banks. Also, if there is an excessive concentration of banks with respect to certain categories of borrowers, including sovereigns, this is addressed in the SREP process – the Pillar 2 process – and also there we can have recommendations and specific requests for banks. So that’s the process by means of which we address this.

1-020-0000

**José Gusmão (GUE/NGL).** – I have two questions. The first one is this: If the skies are indeed becoming darker, if our monetary policy is already at its maximum setting and if our coordinated European fiscal policy instruments are so very weak, is it then reasonable to persist in endeavouring to overcome the national segmentation of the European financial system,

which means the cross-border financial concentration of European banks and the creation of pan-European banks, when one of the most widely accepted lessons drawn from the last financial crisis is that size matters and that big banks are rock solid until, one day, they are not?

My second question concerns imbalances in the Banking Union. This relates not only to the delay affecting the deposit guarantee scheme, as a result of which the Banking Union is basically resting on just two legs, making it inherently unstable, but also the transfer of decision making to the national authorities on paper alone. Ultimately, it is the ECB or DG COMP - it is never very clear which, since both have a finger constantly in the pie - that are pulling the strings in dramatically different ways, depending on the political and economic clout of the Member States involved in such interference. The upshot is that, once the resulting decisions are taken, the taxpayers of the Member States concerned are left to foot the entire bill. My question is whether this dichotomy between control and responsibility can be resolved through more centralisation - which this document appears to advocate - or whether, on the contrary, it should be he who pays the piper who calls the tune and vice-versa?

1-021-0000

**Andrea Enria**, *Chair of the Supervisory Board of the European Central Bank*. – Some of you have probably already hear me making this speech, but I cannot avoid it. In terms of the concentration, in terms of the national segmentation versus too-big-to-fail and the like, look at the way in which, in the US system, the crisis has been managed. You had strong similarities between, for instance, Puerto Rico and Greece – so two countries, two states more or less of the same size that had problems on the sovereign side, which of course put the banks in that country in a very difficult position. In Puerto Rico, you had basically the FDAC enter the banks at the weekend. They took control of their assets and liabilities and then sold these assets and liabilities and branches to banks from other states. So the banking sector, the risks in the banking sector in one state were absorbed by interventional banks in other states and this helped disseminating risk sharing with private means and limited the need for intervention from the government side, from the official sector. In the European Union, in Greece, we had a loop between the banks and the sovereign that was very difficult, as you know very well, to address and which still leaves the Greek banks with a very high level of non-performing assets.

In my view, the issue is that we need to build a system which is more area-wide and which allows the banking sector to play a role in sharing the risks rather than amplifying shocks that hit the individual Member States. European Deposit Insurance Scheme (EDIS) is a key component of these mechanisms and it is important, as you say, also to reconcile the controls and the safety net dimension. I wouldn't go as far as saying that there is interference from the European authorities in decisions that should be for national ones in their supervisory area. There is a clear legal framework which endows the European Central Bank with the responsibilities for the banks in all Member States participating in the Banking Union, so I wouldn't say that element plays a role here.

1-022-0000

**Lud k Niedermayer (PPE)**, *Chair*. – We will now start the second round of questions. Unfortunately, I have to cut the scope for questions plus answers to four minutes, and we must be strict because we can't afford to run over time.

1-023-0000

**Georgios Kyrtos (PPE)**. – The major problem for Greece is non-performing loans, which have reached record levels in the eurozone, creating problems for banks and the economy as a whole. According to the Greek business journals, the Financial Stability Fund has issued a recommendation in the light of developments in Italy in 2018, which is receiving the joint support of the Government and banking sector. It is proposed to channel non-performing loans, possibly exceeding EUR 20 billion, through the four systemic banks into an asset protection scheme (APS). The plan is expected to come into effect by the end of 2019. I should be grateful

for your views on this matter. In other words, how exactly should we deal with the issue of non-performing loans in Greece?

I should also like to hear your opinion on interest rate disparities. According to today's 'Kathimerini', the average interest on loans of up to EUR 250 000 in Greece is 4.9 %, compared with 2.06 % for the same amount in the euro area. In other words, interest rates in Greece are two-and-a-half times higher at a time when our economy needs to become more competitive. I would be interested to hear your take on this. Allow me to say that Greek public opinion sets great store by what you have to say.

1-024-0000

**Andrea Enria**, *Chair of the Supervisory Board of the European Central Bank*. – First of all, let me say that Greek banks have been very active in dealing with their non-performing loans issue. They have managed to achieve the targets that we agreed with them in the last years. This notwithstanding, the NPL ratio, as you correctly mentioned, remains very high, also because the banking sector is undergoing a deleveraging process. So the average ratio now is 41% and with a 41% NPL ratio the banking sector becomes dysfunctional, it's clear.

So we need to have further progress. The banks have set ambitious objectives for the next three years. But, even if they meet these ambitious objectives, which is a reduction of two thirds basically, in their NPL structure, they will still remain with an 18% ratio at the end of the process. So this means, as I mentioned several times, that additional initiatives are warranted. In my view, the proposal by the Hellenic Financial Stability Fund, which is being supported by the Greek Government, is a good one. There has also been a proposal by the Bank of Greece. I think that at this juncture, if you want to deal with such a massive amount of non-performing loans, some form of policy tool is needed.

The guarantees on securitisation have worked in Italy in reducing significantly the stock of NPLs, so I am confident that it could also work in the Greek framework. So I am supportive of that, and we are closely working with the banks and with the authorities in Greece to that purpose.

In terms of interest rates, again, that is an issue. It's clear that if the banks have a very high level of non-performing loans, if the risk environment is still very, very fragile, of course this is reflected also in prices. So I think it's more an issue of addressing these issues, rather than having interventions on interest rates.

1-025-0000

**Margarida Marques (S&D)**. – I have three questions. Firstly, the European Union and the Member States have been making a major effort to reduce risks in the banking sector. It is important to further diminish risks in the financial sector. In recent years, efforts to cut down non-performing loans (NPLs) have been making considerable headway. Despite this, however, the volume of NPLs in certain Member States remains high. It can only be reduced through the development of secondary NPL markets. Therefore, my question is: How do you think the European Central Bank can help achieve this objective?

Secondly, the action plans in question have been implemented with relative success and it is now up to those responsible at national and European level to finalise matters without further delay. This is particularly important regarding the benchmarking of national loan enforcement and including insolvency frameworks. More efficient and predictable frameworks will facilitate NPL management in line with their original purpose of ensuring greater transparency. It is important to align, organise, analyse and dissect the legal framework to facilitate disclosure, thereby ensuring that transparency is more than just a word. My question is therefore the following: How do you think that the European Central Bank can help and encourage banks to

exchange information more effectively and improve market discipline, ensuring effective supervision and monitoring of risk taking by banks?

Thirdly, in December 2018, the European leaders called for further progress in work on the Banking Union and agreed to establish a backstop in the form of a resolution fund. It ought to go ahead. However, the Banking Union is not complete without its third pillar, the European deposit insurance scheme. My question is therefore the following: Will you seek to bring about a change of heart among those who have been impeding the adoption of this mechanism?

1-026-0000

**Andrea Enria**, *Chair of the Supervisory Board of the European Central Bank*. – On your point on the progress on NPL reduction and the secondary market, first of all let me say that, as I hinted in my reply to a previous question, the progress is significant, and the secondary market has worked better, to be honest, than I was expecting. Some of you might remember that, two and a half years ago, I proposed an asset management company at the European level exactly because I thought that the secondary market was shallow, was not deep enough and liquid enough to help addressing these issues. I must say that actually the development in the liquidity in the market, the number of transactions, the number of players, and the number of services also has increased significantly.

I think there has been also initiative from the EBA and the ECB, which have helped to develop common templates, for instance for information on non-performing loans, and the ECB is also very keen and has launched an initiative to maybe even have a European platform, a sort of eBay entry point for investors which are interested, where these templates could be posted. That's an additional element that could be put into the picture.

On the insolvency regimes and the like – benchmarking, predictability, transparency – predictability and transparency we are already starting to try to improve. I think that what we have done a few weeks ago in terms of explaining all our policy on non-performing loans a step in this direction. We are publishing a lot of our methodologies. We plan to publish more also in terms of information and give more comparability going forward and I agree with you that there should be a push. I am very favourable and supportive of a push to greater transparency and market discipline. On EDIS, I think I've already made my point. I think the ECB actually has been already quite vocal – both the SSM wing and the central banking side – on the need to move ahead in this area. I stand ready to further support progress.

1-027-0000

**Billy Kelleher (Renew)**. – Just to say at the outset, non-performing loans have been discussed quite a lot here this morning. In the Irish context, non-performing loans in Irish banks have been reduced from about 15% in 2016 to about 4.5% now.

So, there has been a substantial, aggressive approach by Irish banks to shift their non-performing loans from their balance sheets. Having achieved all of that, we still have a situation where Irish banks charge twice the interest rates of the Eurozone for mortgages and for credit to small and medium-sized businesses.

That may be sustainable in the short term, due to the fact that the Irish economy is growing quite rapidly, but with the challenges on Brexit, credit to small and medium-sized businesses and competitiveness of the broader economy is critical. So from that perspective why, and how, do we address the issue of high interest rates in the Irish economy due to the fact that, in their supervisory role, the ECB and the national central banks are completely – and rightly so – independent of governments. But how do we address this particular issue when we have, as I said, a sort of a systemic approach in the Irish banking system to gouge profit by charging excessive interest rates to small and medium-sized businesses and on the mortgage front? So the non-performing loan issue can no longer be used as an excuse for that particular reason.

On the issue of Brexit itself, have you done any analysis – not in the context of banking institutions moving into the Eurozone, but in the context of the risk to economies that could be very exposed to a No-deal Brexit – of a Brexit that could have profound implications on currency exchange between the Sterling and the eurozone itself?

So on those two issues, where do you see the supervisory role: firstly, on interest rates; and secondly on making sure that there is a response mechanism available to sovereigns and to banks in the context of Brexit?

1-028-0000

**Andrea Enria**, *Chair of the Supervisory Board of the European Central Bank*. – Well, let me say, first of all that I confirm your point that there has been significant progress in the Irish banking sector, in terms of dealing with and reducing the level of NPLs. This is something that we view very positively.

In terms of the interest rate, which reflected also the comment made previously, let me say that, if you look at the previous crisis, you had a credit cycle, which was going towards a sort of bubble in some sectors, and you had mispricing of rates. So you had excessively low interest rates and excessive over-extension of credit. So the system that we have set in place also entails that, for instance, national authorities also from the macroprudential side, can start putting in place macroprudential tools when they see some heating-up in some specific sectors.

So, for instance, if you see the real estate market going towards a bubble, you can require lower loan-to-value, loan-to-income ratios; you can ask for additional buffers of capital and the like. This of course has an impact on interest rates. So I would expect, according to the place where different Member States are in the credit cycle, to see an impact on interest rates.

Of course, the other point is what I was mentioning before. The element that should put discipline into this is competition. So you would like to see the ability of banks to enter markets, and if there are excessive interest rates being charged in certain jurisdictions you would expect competition to bring this to a more positive set-up. Unfortunately, the integration of the market is not yet such as to trigger these positive developments.

In terms of Brexit, we are studying especially, of course, the impact on banks – not only location, as I mentioned before, but also the exposure of euro area banks towards risks emerging from Brexit. Our colleagues in the Financial Stability wing of the ECB have also tested stress scenarios which entail shocks to trades and the like. Again, if you take these – rather static, I would say – types of assessment, the conclusion you reach is that they should be manageable. But of course if you take a combination of macroeconomic shock, trade disturbances and maybe financial market dislocations, it is clear that we should stay cautious on the potential risk ahead.

1-029-0000

**Stefan Berger (PPE)**. – My question is about cryptocurrencies. Next year, for example, Facebook will launch its own digital currency, Libra. A lot of people are warning of the threat posed by Facebook's new project, saying that consumers could turn away from the euro and that Libra could challenge the monetary pillar of the European Central Bank. This currency raises serious concerns regarding investor protection, terrorism financing and money laundering, and the ECB should regard Libra as a wake-up call. My question is, could a European stablecoin, established by the European Central Bank, offer a reliable alternative, and has know-how already been generated in this area?

1-030-0000

**Andrea Enria**, *Chair of the Supervisory Board of the European Central Bank*. – The designated Vice-Chair of the ECB's Supervisory Board, Yves Mersch, made a speech the day before yesterday on this issue which addressed many of the points that you raise. I would say, of

course, from the supervisory side, that my main focus is on compatibility with the regulatory framework. That's the most important thing.

When I was at the European Banking Authority (EBA), we made an analysis of the risk from cryptocurrencies and we came to the conclusion, first and foremost that, in any case, you need to extend anti-money laundering controls to include cryptocurrencies. This has already been factored into AMLD5 and is an important precondition. The attitude so far in the regulatory community has been provided that customers are informed that they risk losing all their money they put into these initiatives – i.e. we warn them but we don't take specific responsibility, we warn them that there is no safety net protecting them if they put savings into these initiatives – I think that of course if you have an initiative like Libra developing on this scale, size and cross-border dimension, we would need to reconsider whether this stance is still appropriate. I think that there is work underway, both at G7 and Financial Stability Board level. We are involved in this type of work and so that's the appropriate way. It is a global initiative so we should try to find global responses, I think.

1-031-0000

**Jonás Fernández (S&D).** – Under the Council Action Plan on Anti-Money Laundering of December 2018, several measures are listed for clarification of certain aspects related to the withdrawal of authorisation. Namely: (a) clarify the degree of discretion of the prudential supervisors and the criteria of the withdrawal of authorisation once a serious breach of AML/CFT rules has been verified; (b) ensure a uniform interpretation of the language referring to serious breaches of AML/CFT rules in the Capital Requirements Directive; (c) ensure a consistent consideration of the consequences of withdrawal; and (d) identify measures available to prudential authorities to address prudential concerns stemming from money-laundering/terrorist financial risks and breaches of AML/CFT rules.

Can you update us on the ongoing work on these items?

1-032-0000

**Andrea Enria, Chair of the Supervisory Board of the European Central Bank.** – Thank you very much for your question. I am sorry to bounce the ball back to you in a sense, because many of these issues will indeed require legislative action, I think.

The point on the withdrawal of the license, that we have identified and raised to the attention of the public debate that led also to this requirement in the Council Action Plan is the fact that, in some cases, you have a major AML concerning a bank which leads to a failure or likely failure of the bank – so a decision by the authorities on a failure or likely failure – but then in the national legislation you don't have tools to actually put the bank into liquidation, and it is difficult to start a process to withdraw the license. So what we would like to have is a little bit more harmonisation of the legal basis that makes sure that, if you have cases of this type, you have a strong and clear legal basis on which to withdraw the license immediately. So that's an important element.

In terms of branches, this is one of the areas where the responsibility remains with the host authorities, and there have been hiccups in the past – for instance the Estonian branch of the Danske Bank – in terms of identifying precisely cooperation arrangements, responsibilities and the like.

The AMLD5 has already fixed this to some extent. We are setting up a stronger framework and we have already done MoUs with all the AML/CFT supervisors. We signed a MoU in January this year that increases the cooperation between prudential supervisors – the ECB on our side and the national AML/CFT authorities.

But still, maybe on the regime for branches some further improvements at the legal level might be warranted. We know for instance that if it is a branch in a third country, it is not under the responsibility of the ECB; it would be under the responsibility of the national authorities. So the way in which you deal with those cases is probably a little bit more complicated, and there is further progress to be made.

1-033-0000

**Lud k Niedermayer (PPE), Chair.** – That concludes this session. Let me sincerely thank Andrea Enria for being with us and for his great effort to address our questions. My thanks to all of you for being able to stick to the time.

*(The meeting closed at 10.21)*