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**COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS****PUBLIC HEARING WITH ELKE KÖNIG  
CHAIR OF THE SINGLE RESOLUTION BOARD****BRUSSELS  
TUESDAY, 27 OCTOBER 2020**

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**IN THE CHAIR: IRENE TINAGLI***Chair of the Committee on Economic and Monetary Affairs**(The hearing opened at 16.47)*

**Chair.** – We move to the next point on the agenda, which is the public hearing with Elke König, whom I welcome today. She is the Chairperson of the Single Resolution Board (SRB). It is the second hearing in 2020. We normally expect to receive the Chair three times each year, but this year has of course been exceptional for all of us. The public hearing is organised in the framework of the regulation establishing the Single Resolution Mechanism and of the agreement between the European Parliament and the Single Resolution Board on the practical modalities of the exercise of democratic accountability over the exercise of the tasks conferred on the Single Resolution Board.

Ms König last appeared in the Committee on Economic and Monetary Affairs last May, on 5 May. Today she is presenting the SRB's annual report for 2019. The report focuses on resolution plans for banks under the SRB's remit, the current resolution framework, crisis management measures and the Single Resolution Fund.

Ms König, you have the floor for an introductory statement of around 10 minutes and then afterwards we will come to the Q&A session. There will be 5 minute slots for the question and the answer, with the possibility of a follow-up question if time permits within the same slot. So Ms König thank you again, welcome, and you have the floor.

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**Elke König, Chair of the Single Resolution Board.** – Chair, thank you once again for allowing me to address you at this Economic and Monetary Affairs (ECON) Committee meeting today. You have already mentioned that the official reason or one of the reasons for me to be here is to formally present the SRB's annual report for 2019. Now, this report was published in June of this year and is available on our website. As this, as the Chair has rightly pointed out, is not a normal year, I suppose I will leave the annual report to your reading pleasure and, of course, be able to answer any questions, but given how much time has passed, it won't be the main focus of my little introduction today. I propose to look at a number of other areas instead.

We are only roughly two weeks away from publishing our next multiannual work programme, so the work programme 2021-2023, and our work programme 2021, and I would give you a bit of a sneak preview and talk about some of this. Second: COVID. I think we are all fully aware that there is an impact on the banks and there are challenges for banks and for us on the SRB and I'm pretty sure you're interested in this. Last but not least, the broader topics in our

resolution framework of which we should not lose sight. With that, let me first turn to the multiannual work programme, which we will publish very shortly.

Our work at the SRB will continue, although it sounds a bit boring, to focus on resolvability of banks. This has been our focus and it will stay so at least for the next few years to come. This relates to operational resolvability as well as the necessary build-up of minimum requirements for own funds and eligible liabilities (MREL), a key tool in resolution. In the second quarter of this year, we observed, just to give you a bit of a feeling, MREL issuances amounting to around EUR 88 billion, meaning a total MREL stock by now of roughly 2.3 trillion. This is not the end. There is still a bit to come but I think it's already a very comforting number.

New issuances declined compared to the first quarter of this year and the similar period last year, but the good news is that after the volatility we could envisage in markets in March, the cost of funding material decreased over the summer period until mid-September 2020. Clearly, banks must keep up the momentum on increasing MREL, especially in light of the new rules and deadlines in the second Bank Recovery and Resolution Directive (BRRD II). The other good news is that banks are able to tap the market for MREL, even in these challenging times, so the market is by no means closed.

This year, 2020, is a transition year in terms of BRRD II. We are implementing right now in the 2020 resolution plans BRRD II and the second Single Resolution Mechanism Regulation (SRMR II) through our decisions and preparing our decisions. This is not a small task for any of our staff and, unfortunately, numerous European Banking Authority (EBA) Q&As as well as some technical standards are still pending, so we are implementing a legal framework and, at the same time, discovering all the little bumps in the road.

We must, at the same time, also, of course, implement the existing resolution framework as effectively as possible, working with our partners at national and international level and working with banks themselves. Here, the core document for everyone, and I think the one that sheds the most transparency, is our expectations for banks, which clearly spells out the direction of travel for banks and is translated in detailed annual work programmes, the so-called priority letters to banks. We are currently finalising them for the 2021 cycle so that banks know well in advance what we are expecting them to focus on.

In addition, we have put onto our website additional detailed guidance, for example, on bail-in execution, and we are publishing more, including on transfer strategies, sale of business and on valuation and the like. So I think we are steadily building a framework.

Finally, on the multiannual programme, we will continue to build up the single resolution fund until 2023, when it will be fully funded and utilised. Currently it stands at roughly EUR 42 billion. In this context, the SRB takes note of the recent judgment by the European General Court. These are decisions on the 2017 *ex-ante* contributions of three banks. In one of these cases, the ruling says that Commission Delegated Regulation 2015/63, which is the basic regulation for the fund, is unlawful in part. It is for the SRB to implement the regulation that is set out for us, but of course we are now, together with the European Commission, examining these judgments, and in particular, this judgment, carefully and will decide upon the next steps, most likely an appeal to the Court of Justice.

Let me move to COVID, as the second 'topic'. Moving here, I think the EU authorities, including the SRB, reacted rapidly and in a very coordinated way to the crisis. It's clear that the measures this House helped put in place after the last financial crisis have helped cushion the banking sector against the current shock. I think none of us would like to envisage how all this would have played out with capital levels and regulation as of 2007, 2008 or 2010.

The SRB's approach during COVID-19 has been to support the banks where necessary with operational and financial relief measures, using the flexibility that is built into the resolution framework. The SRB postponed less urgent information or data requests, but as it turned out, there were only minor delays and banks provided all the information on time. In light of the challenges, I think this makes perfect sense. We also took note of the measures adopted by authorities to provide capital relief to banks in support of the economy, and this will be reflected in our 2020 MREL decisions, so mainly decisions on buffers.

In addition, the SRB carefully monitors market conditions and is currently assessing the potential impact on transition periods needed for the build-up of MREL. This means we are looking at potential leeway to be given for the 2022 binding intermediate target, not for the final 2024 targets. Based on the 30 June numbers, the impact of COVID on banks' balance sheets and funding plans is still reasonably limited. It's only for roughly a handful of banks where we will take an decision to slightly lower the intermediate target, so this is not a giant effect.

I have been doing all of this without compromising our ongoing focus on making banks resolvable. COVID does not change this direction of travel. In fact, now more than ever we must ensure that every bank under the SRB's remit is resolvable. Certain sectors of the real economy are being severely hit and many businesses – in particular, unfortunately, SMEs – are struggling. The impact on banks, that is to say, non-performing loans, will most likely take another few quarters to be felt, given the current high level of government support for the real economy, which is de facto also shielding the banks. My message to banks is very clear: banks must put in place the measures to identify and to deal with non-performing loans sooner rather than later, and cautious provisioning has never been harmful for any bank.

Asset management companies, a topic that I'm sure you also discussed extensively with Mr Enria, can be part of the toolbox, and by the way, they are part of our toolbox anyhow, but they are not the magic wand to make losses go away.

In a world of many known unknowns, there is one thing we do know. Banks that had weak business models before the arrival of the pandemic will not have become stronger in the meantime, so while certain support measures by European authorities might be necessary right now, support for banks – I could broaden this to support for any other business – should only be for those with a sustainable business model. Easier said than done. The exit strategy for current support measures most likely will be the real challenge, but let's not just talk about challenges; there's also chances.

COVID can and should be seen as an opportunity for banks to accelerate digitalisation and reorganisation to become more efficient, just to mention two. Some ongoing consolidation initiatives we are currently carrying out show that banking groups are seriously addressing relevant topics, not least the overcapacity and unfortunate low profitability of the sector. Although EU law does not require approval from resolution authorities for any consolidation, there is no merger control role for us.

The SRB supports market initiatives that enhance viability and it is in dialogue with banks on this. Rightly done, this will be a win-win in going concern and enhancing, not hampering, resolvability.

Let me, just to round this up, move to the wider issues.

There's one thing which has somehow disappeared from the landscape and that is at least felt by me: Brexit. Our message is very simple. We are prepared. We have informed the banks early enough and I think it's clear that banks need to be prepared for a hard Brexit in January. The good news is, I think the message was heard and has also been acted upon.

The other area we need to work on is clearly completing the banking union, developing a meaningful capital markets union and – it's still around – finalise once and for all the backstop to the Single Resolution Fund (SRF) and find an answer on liquidity needs in resolution. I can promise to you that I'm as unhappy as most of you are that these topics are still to be listed. All these topics are well known and have rather gained importance in recent months, but unfortunately not yet solutions.

I feel very reassured that the new Commissioner for Financial Services, Ms McGuinness, places these items as key priorities for the next four years. We are looking forward and we are more than happy to engage with you, to engage with the Commission, in good cooperation to carry these topics forward.

Last but not least, let me also use the opportunity – I'm not sure if one is around here – to greet and to welcome Bulgaria and Croatia to the banking union. They are the newest members of our family.

With that, I would like to conclude. These are indeed strange times and these are challenging times. However, this is also a time for holding our nerve and building on all the work that you and many others have been doing over the past decade in order to promote financial stability and protect our taxpayers from having to bail out banks. You've put in place a good framework and a framework that is fit for purpose. This framework ensures that banks are part of the solution this time, and not the problem. Now we must – and we will – double down on our efforts and ensure that we deal effectively with whatever lies ahead for the financial sector or for us. With that, thank you for your attention, and I'm more than happy to answer your questions.

1-005-0000

**Georgios Kyrtzos (PPE).** – Thank you for the very interesting presentation. I have three questions. The first question concerns the fact that you said that the impact of COVID-19 on the banking sector is up to now, as you said, reasonably limited. Now that we know that the challenge of COVID-19 will continue for the next months and probably until the summer of 2021, for instance President Macron said so, do you believe that the new challenge that we face from COVID will still be within reasonable limits or is it going to become tougher? This is the first question.

The second question has to do with Brexit. You said banks are ready even for a hard Brexit. This is not the scenario, of course, we wish, but could you underline the two basic challenges, for instance, that are associated with the scenario of a hard Brexit?

And third, since I come from Greece and you know that the Greek banks have major problems, could you give us your opinion? We know that Greece has a European record in NPLs. We know that Mr Stournaras, the President of the Bank of Greece, is in favour of creating a national or a European bad bank. We know that there are some problems with the Bank of Piraeus in that there is a disagreement, if I understand correctly, on how they will proceed in the necessary capital increase. What's your opinion on all these issues? Thank you very much.

1-006-0000

**Elke König, Chair of the Single Resolution Board.** – Thank you, let me perhaps answer. When I said the impact of COVID-19 on the sector so far is relatively limited, this was referring to data we collected to potentially adjust MREL interim targets in June 2020. At that point in time, the impact was limited.

I fully agree with you that, first and foremost, I would believe that the main impact on the banks will only be really filtering through in 2021 and clearly in the second wave we've seen now, it

will all depend on how severely this will display – there is no rocket science behind that we will see more non-performing loans building up and it becoming not just a tiny walk in the park.

But so far we also need to realise that all the governmental support was basically shielding the banks, so some of this, for example on loans with governmental guarantees, this will not filter through to the balance sheet of the banks but it might be a burden to the sovereign. It remains to be seen. I think we all need to be vigilant and do a bit of driving and trying to find our way and to be very mindful.

On Brexit, from our point there are basically two challenges. One we addressed very early on together with the ECB and I think we were absolutely aligned to say that banks that had to onboard or had to come ahead to set up operations here in the banking union set up really viable organisations and not just letterboxes. This has happened, this is something which is probably not entirely finalised but I think it's basically on track.

The second topic, which is a topic for a number of our European banks, is that in the past a lot of European banks have used the UK, and in particular English law, for issuing debt, and using this market now if we have a hard Brexit, if nothing else works, then those issuances as of 1 January would no longer be eligible for MREL. This we have warned the industry already in 2018, it's known, there is some grandfathering but not for everything. So, that's something which we just need to see that it goes through the system. Those would be probably the two I mention. And, of course, you know about financial market infrastructure, CCPs and the like, but that's more a supervisory topic than a topic for us.

On your questions regarding the Greek banks, let me start with a standard sentence: I never comment on any specific banks, but I think it's fair to say that, in particular, the Greek banks are still from the last crisis burdened with high, you might even call them unsustainably high, non-performing loans and I know that there is a scheme, I think it follows the nice name Hercules, to address the topic and any ideas to address it are welcome and we would always be strongly in favour to redefine solutions that are a sustainable solution to address non-performing loans, be it in Greece or be it anywhere else.

1-007-0000

**Pedro Marques (S&D).** – Ms König, thank you for being with us again. It goes without saying that the rise in NPLs could bring some problems to some banks in Europe, that's for sure, so we need the resolution framework operational and with all the firepower needed. So what would be your priorities for the revision of the crisis management framework that the Commission has announced for 2021? That would be my first question.

Do you think that we need an holistic approach – a bad bank, a backstop to the SRF? What would be your priorities to make it feasible? It seems to be clearly needed.

The second question is about the firepower. As regards the current framework, in terms of the contributions to the SRF – and you referred to the judicial decisions that we know about – some banks have asked for legal clarification and some are asking for relief on the contributions. How do you stand on this?

Third question: what about the conditions for access to the fund? These are not normal times and normal circumstances, so shouldn't we evaluate the conditions for access to the SRF and decide if some changes are needed to enlarge the scope of the banks that can be supported? Shouldn't we really be doing everything at this time so that taxpayers are protected from responsibility problems and that the sovereign bank nexus isn't reinstated? What are your views on this?

1-008-0000

**Elke König, Chair of the Single Resolution Board.** – Those are not easy questions. On the risk or crisis management framework, one topic which comes first to my mind is to align or to fill the gap between the resolution framework we have at European level and national insolvency procedures.

There is a lot of discussion – and you will have heard this – about deposit-funded mid-size banks that might be too big to be put in insolvency, too small to be put into resolution. There's a lot of debate around this. For me it's very simple. Let us really focus. Do we have all the tools at hand?

I think we have a perfectly fine working resolution framework but how do we deal with banks that might struggle or might not have the needed MREL capacity, but for which you still need to find a solid solution? This could be a 'resolution-like' framework or the like.

Second, in this entire framework, also to clarify what a deposit guarantee system is allowed to do and what's not within the remit of the deposit guarantee system, which is under the nice headline of a least-cost test, and perhaps also to address something which we have addressed already in 2017, to say that we have on the one hand a resolution framework but on the other hand we still have, within the remit of the Commission, the state aid framework and in this context the banking communication, where the conditions are not fully aligned. Those would be more topics.

The NPL topic for me is important and I find it very reasonable that the Commission has, together with this Parliament, started to address the topic and to try to find solutions. Whether then in the end a European bad bank or national bad banks are the solution or whether we should not rather focus on very much tailor-made bank specific solutions remains to be seen. I think here all options need to be on the table and we are definitely willing to contribute to this debate. That I have always been very sceptical about the European bad bank, I think is reasonably known. I find it a bit too big of a baby to be managed.

Contributions to the fund: there was a lot of debate in early summer, with the banks requesting some SRF holiday. Here it's very clear, the SRB is the rule taker at Level 1. This is laid out in the delegated regulation and there is an intergovernmental agreement around the contributions to the fund and there the leeway for us is very small. With hindsight, the industry was very much asking for a holiday in 2020 and perhaps then accelerated pay contributions in 2021. I think we are now seeing that 2021 will by no means be an easier year for the industry than 2020. So I don't think that this is reasonable.

As to the discussion on the recent lawsuits, I think here you'll bear with me that I will refrain from assuming what could be the outcome. I still hope that we will succeed and get a very clear ruling then from the ECJ.

Conditions to SRF access: well, it's very clear the SRF has its conditionality. You need to have the famous 8% own funds, and liabilities to be bailed-in first. Is this something to be discussed, to be lowered? Not for us, for the SRB, but it's definitely a discussion that we have here, a certain conditionality which we don't see in other areas. So it's more about aligning the rules in total, from my point of view.

1-009-0000

**Luis Garicano (Renew).** – Thanks, Ms König, for being here. It's really a pleasure to see you.

You were just talking about the General Court of the EU and the annulment of the decisions setting out the annual contribution of the German banks and the Austrian bank. The General Court indeed argued that the SRB had not provided sufficient evidence about this calculation,

that it used opaque methods for calculating contributions that were related to risk adjustment. I agree with you: there is no easy way out. But I also don't think we should accept just waiting to see what the next ruling says because this ruling says already that the SRB cannot replace the contested decision without again infringing the obligation to state reasons before the legal framework.

In your introductory remarks, you said that, together with the Commission, you will examine the judgment and will decide on the next steps, and I welcome that. I also welcome your view that the appeal is not on the table, but you cannot add to this uncertainty in the sense that to tackle the next banking crisis, we need the SRF ready with its money. So, what do you plan on doing as regards the 2021 contributions? I don't want long-term plans or ideas about what happens in the next court ruling. This is for next year. But, for in a few months, will the SRB refund the funds? Will you push the Commission to propose a new delegated regulation? Will you introduce a safe room so that people can see what the calculations are? What is your plan for in a few months?

My second question has to do with the fact that we are in the middle of a second pandemic wave, as some of my colleagues have said. The SRB is well set up for individual banking failures, but if there were systemic banking failure and a systemic banking crisis, do you think you would be able to deal with it, and if not, how would you envision – you talked a little bit about a bad bank – how would you envision such a systemic failure, at the Council?

1-010-0000

**Elke König**, *Chair of the Single Resolution Board*. – Thank you, Mr Garicano. I had feared that you were digging deeper into the Single Resolution Fund. I have to be very fair. This is a ruling against three banks and you have rightly cited that in one of these cases, the General Court stated that we cannot really cure the lack of transparency because we are bound by the delegated regulation. But this is in itself also the answer, which makes it very difficult for us now to see how to move forward because we are not the authors of the delegated regulation; we are rule-takers here.

We are currently, to be very clear, preparing a bit along the lines to be on the safe side for business as usual for 2021, and I think the industry could see that even before the ruling, we had started to collect the information and the like. We are really here, together with the European Commission, assessing all chances. If we go for an appeal, well then, this will first give us time, but then it needs to be decided where to move and what will be the ruling. I don't think it makes much sense to anticipate, to say here and there, so we are really a bit in this situation of, on the one hand, moving forward as normal, and at the same time now, hopefully getting clarity from the Court of Justice as soon as possible and then we'll take the next step.

On the second question, systemic failure, I think I'm normally an optimistic person. I always try to have, as a minimum, a plan B, if not a plan C, but I'm still looking at what we had seen from the vulnerability assessment done by the ECB, and even if you now try to navigate between what they call the baseline scenario and the worst-case scenario, I think it's absolutely realistic to see that not every enterprise, not every company and not every bank will come out of this in totally good shape, and we might see one or the other banking failure. I'm not, for the time being, really seeing a systemic failure of entire banking sectors or the like. But, in any case, if we see more than one bank failing, well then, we have to deal with more than one bank.

I agree with you: it would all be by far a more comfortable feeling if we had already a backstop to our fund, if we had the liquidity in resolution settled and if we also had, don't forget, the third pillar of the banking union fully up and running. But you have to deal with the realities and take it from there and hope that with good planning – and I think we are doing good

planning – that we are well prepared to deal with individual cases and also, if need be, with a number of cases.

1-011-0000

**Valentino Grant (ID).** – Ms König, as a result of COVID-19, banks will have to meet very high costs when managing NPLs, which in this period are on the rise all over Europe.

In the light of this, would it be possible to consider temporarily reducing the contributions to be paid into the Single Resolution Fund for 2020 and 2021? Will the situation triggered by the pandemic allow you to adopt a new approach to your public interest rate analyses?

In May 2020, the Single Resolution Board published its policy on the minimum requirements for own funds and eligible liabilities – MREL for short – as part of the banking package. That decision will become operative as from the 2020 resolutions planning cycle.

Each new decision will set two binding MREL targets: an intermediate target, to be achieved by 1 January 2022, and the final target, to be achieved by 1 January 2020. In the light of what we are experiencing with COVID, would it be possible to extend those targets by at least two years?

1-012-0000

**Elke König, Chair of the Single Resolution Board.** – I have to apologise that in my first part, I had to build on my slightly tricky Italian because I didn't find the button to get to the English version, but I think you asked about the Single Resolution Fund and whether we could delay contributions to the fund. Here, if I guessed the question rightly, I have already answered. We are bound by the legal text, the level 1 delegated regulation, and in particular, in this case, also the intergovernmental agreement, which doesn't give us any leeway to postpone contributions to the fund. If we were doing so, it would actually even create the risk that a country, if it is not fully contributing, would not have access to the utilised part of the fund, so this would be purely detrimental. There is basically no room.

What we have done in 2020, and might also be needed in 2021, is that we flattened a bit the curve in saying that we don't take the full effect of deposit increases in balance sheets, and in particular in 2020, we have seen a considerable increase in deposit, into consideration, so not to overshoot in contribution, but that's about what we can do.

On the second question, and again apologies, because only then I found the bottom to get to the English version, on the minimum requirement for own funds and eligible liabilities (MREL) decision, it's clear we are now, in 2020, introducing MREL in line with the new framework and here, the first binding intermediate target is 2022 and the final target is 2024. Now, the good news is, for quite a number of banks neither the intermediate target nor the binding target is unreachable – de facto quite a number of banks have already sufficient MREL to meet even the 2024 target. We have given leeway for the 2022 target but which de facto then means, as we didn't change the end point, 2024 gets a steeper build-up. There is a rule in that we could extend it by two years, but under very exceptional conditions, and we would like to reserve this really for very exceptional cases. I hope I've answered your question, and apologies but this was my hiccup with technology.

1-013-0000

**Chair.** – Thank you very much. Actually, your Italian is pretty good as you guessed correctly: the first question was about the contributions. Now I have a request from the next speaker, Sven Giegold, from the Greens. I know he is here.

1-014-0000

**Sven Giegold (Verts/ALE).** – *Frau König, schön Sie wiederzusehen.* I will continue in English. Recently, it has been claimed that banks have been reluctant to use capital buffers during the



crisis, also because they are constrained by their MREL requirements. Have you examined this effect, and what are your findings on its extent and relevance?

Second question: in recent statements, you indicated that the SRB uses flexibility in the resolution framework. You stated that the SRB takes a forward-looking approach to banks that may face difficulties meeting those targets before new MREL decisions take effect. What exactly is this forward-looking approach? What does it mean for the currently effective MREL targets based on the first Bank Recovery and Resolution Directive (BRRD I)?

By the way, I would find it really helpful if you could publish the time series on the aggregate MREL levels and targets for European banks, which would allow everyone, stakeholders, to better understand the progress made. Can you commit to publishing such a time series on the MREL targets?

Finally, you know this is my *ceterum censeo*, have you made progress on analysing and tackling potential substantive impediments to resolvability for European banks, as outlined in EU law and previous work programmes of the SRB? By the way, have you yet identified any bank with a substantive impediment and asked it to resolve that issue?

1-015-0000

**Elke König**, *Chair of the Single Resolution Board*. – Thank you, Mr Giegold. Let me perhaps start with capital requirements and MREL being a constraint. I fully understand banks saying that they eat into their buffers at some point they need clarity to build them up again, but they are also adult and I would expect that banks have a very good understanding of their capital requirements and can manage it.

On the MREL side, as I said, and this links already a bit into your second question, we have seen – or have been more anecdotally hearing – that with risk-weighted assets increasing, but at the same time government support decreases risk-weighted assets, with total balance sheet size growing because of building up liquidity buffers, that this could be a real concern for MREL under BRRD I or BRRD II.

De facto, I would say this was not yet seen to this extent within the June numbers. This is why I said when we said we will look into the interim targets and see whether there's a need to act, it was, in the end, not really material. So I think it's more that you need to ask for a lot so that you get a bit and we need to keep a bit of a course and say, in the end, banks need to be resolvable, MREL is needed, buffers are there to be used and then to be built up again, not tomorrow but over time.

On flexibility, I have to put it a bit into context. This was a topic and it was very much asked for during the first wave of the pandemic, so in particular in April, May, June, when we all didn't know really where to go and a lot of banks were just saying, 'But what if we are not able to meet our BRRD I MREL targets?' At that point, we said, 'we are not reassessing the old MREL targets, but we are putting all our focus on BRRD II and on the 2020 MREL targets.' We are currently seeing that basically banks can issue again, so banks can replace existing MREL issues and the only flexibility we are granting is, indeed, to roughly a handful of banks, perhaps a bit more, to give them big leeway in their intermediate 2020 target, not changing 2024 MREL targets. As I said, there is an exception in the framework that in very few exemptions, you might consider that a bank needs up to 2026 to build up the MREL, but this is the absolute rare exemption to the rule which says '2024: MREL needs to be built up'.

Aggregate MREL levels: honestly, we had started to think about something like that last year and then we thought a bit, 'we have the problem that we have a BRRD I, we have a BRRD II, we have increased the number of banks included.' But I think it's now a really good idea, and

I will talk to the team and we will offer additional transparency so that you don't need to collect it out of various SRB presentations. Thank you for the good idea. We will take it up.

Progress on substantive impediments: yes, we are making it and I think there the crucial part is that our expectations for banks now make it absolutely clear – and you will see this when you get the multiannual work programme – that we are building exactly on this timeline for including, now, the next topic, liquidity, which will be a key focus for 2021 in resolution planning. We are seeing, so far, that the banks are really making progress but we are also setting up a 'resolvability heat map', and my first assumption without having seen a final heat map yet is that we will move in shades of amber. We will see a bit of green, we will see, hopefully, very little red on this, but we will see a lot of shades of amber. I hope, unlike with our current COVID risk that, over time, this is definitely moving into green and not into red. But no decisions up to now have been taken.

1-016-0000

**Derk Jan Eppink (ECR).** – Ms König, European banks will likely see an elevated number of downgrades to reflect the deterioration of their operating environments, driven by the sharp drop in GDP forecasts following the outbreak of COVID-19. At the same time we are getting closer to the end game in the Brexit negotiations. Now, you are using the words 'knowns and unknowns'. Obviously this is Rumsfeld speak. There are known knowns and then also known unknowns and unknown unknowns. So that's more or less the area in which you're operating. Now, my question is would you agree that any Brexit-related deterioration in the asset quality and profitability of European banks is likely to be surpassed by the adverse effects of COVID-19?

1-017-0000

**Elke König, Chair of the Single Resolution Board.** – I wasn't aware that this was Rumsfeld's speech. I thought it was just a nice way of putting it because I wanted to avoid a black swan.

The downgrades I'm pretty sure we will see as a consequence of COVID and the economic downturn, I have not so far in my thinking linked with Brexit and Brexit negotiations. So, I would rather say we are fully aware of the economic impact of COVID. As I said, probably like most, we are a bit steering through the fog to seek clarity, which I can only translate into good advice to all banks, to have their risk management fully alert and aware and to start to set up additional provisions whenever they believe in it and not to believe it will go away.

I think that's all I could say to this and for us, all these known unknowns are one of the reasons why we said right in the beginning that we would not step down on our work on resolution planning. We try to give big leeway, but resolution planning needs to be ready because if we have to go into action, we need to be prepared.

1-018-0000

**Danuta Maria Hübner (PPE).** – Good afternoon, Ms König. It's such a pleasure to see you in such good form, all the best to you.

I have two questions for you.

One is related to the fact that the European Commission published, I think a week ago, its work programme for 2021, and there is a kind of enigmatic statement there that the Commission will present next year legislative proposals to revise the framework for handling EU bank failures. My question to you, in this context, is what real, actual legal gaps do you see in your system that would require a legislative solution? If you see some, which would be the priority?

My second question is related to the central counterparties (CCPs). You would probably agree with me that CCPs are the risk-management infrastructure for the entire financial system. At the beginning of July, we finally managed after some years to agree with the Council on the

CCP Recovery and Resolution Regulation. Some market participants welcomed this and they believe that the risk of interconnectedness has now shifted towards CCP and will be a CCP issue rather than a bank issue. My question to you is whether you agree with this perception of the risk and interconnectedness, and how do you see your role now in the context of this new legal framework on recovery and resolution for the CCPs?

1-019-0000

**Elke König**, *Chair of the Single Resolution Board*. – Thank you, Ms Hübner, and I'm also pleased to see all of you. Remote working is not entirely my world.

With that, perhaps to go first to the 2021 work programme and the topic the Commission wants to address. It's what they call in this a 'crisis management framework' and it's, on the one hand, the harmonisation of deposit guarantee systems and the possibility under which circumstances you can use deposit guarantee systems. It's not the European deposit insurance scheme (EDIS), but it might be, if we want to be very optimistic, a step into the direction of going to EDIS, then it's definitely the topic that I already mentioned beforehand, midsize banks, and is there a need for specific rules for certain deposit-funded mid-size banks? I think we all need to acknowledge if we want to find a resolution scheme and if we have a failing bank, losses need to be allocated. There is no cost-free solution, but it is at least something to be discussed and also part of this should be, and will be I hope, the banking communications of the Directorate-General for Competition (DG COMP). So we are looking forward, we are working closely together with the Commission, to see this. It's not about loopholes in the resolution framework; it's rather accomplishing and completing this framework.

The second topic, I think we all agree, CCPs, and to push CCPs out of the financial crisis was a step in the right direction. But clearly this has now made CCPs a bit the heart of the system and accumulating a lot of risk and, therefore, really being probably the point where all the bigger banks are interconnected via their participation in CCPs. We will become, in this new framework, one of the many members of the CCP resolution colleges, but in joking terms I would say, looking at the members of these colleges, it feels a bit like the United Nations. We'll have to see how this framework works and we'll have to play our role and be vigilant because if a CCP fails, it probably is because a big bank failed and then we need to make sure that this is not trickling on via the CCP and then the other banks get into deep trouble. It is still a topic to be watched, but I think now we have to work with the framework that you have put in place and make sure that it really works, or come back to you.

1-020-0000

**Alfred Sant (S&D)**. – Ms König, very serious practices to cover the resolution scenario have now been put into practice, as the manual *Expectations for Banks* has continued to confirm. However, I get very different takes on the resources of time and personnel that banks are having to devote to service resolution requirements. The manual itself and even your latest annual report for 2019 make no direct reference to the matter. Has the Board carried out an assessment of the compliance costs that resolution measures have been implying for banks? If so – if you do have such an assessment – could it be published?

My second question: with regard to measures that are being implemented for financial markets infrastructures (FMIs), maybe it's already been mentioned, but has any assessment been carried out of how these measures are affecting the operating procedures of secondary banks, as well as of the systemic banks that are on the medium to small size in the spectrum of systemic banks and which might be having problems if their access to FMIS (Financial Management Information Systems) is being curtailed?

Thirdly, one understands that, in your role, thinking outside the box in a way, you focus mostly on how banks had better shape up to cope with the resolution, should it unfortunately have to be saved. But has your work giving you any insights at all that you could share with us on

another, perhaps deeper problem: how can European banks become more profitable, apart, of course, from the proposal that's usually made for them – to cut operating costs?

1-021-0000

**Elke König**, *Chair of the Single Resolution Board*. – Thank you, Mr Sant.

We have not done an impact assessment of the compliance costs for banks, but I can assure you that working together with the banks, I've seen it already, before even the SRB was put in place, that the entire work on recovery and resolution for banks has undergone a certain evolution. I think it started out with a team for regulatory affairs being in charge of drafting some responses to keep supervisors at that time happy, until the banks realised that most of the requirements we have – or most of what has to be in a recovery plan which goes to the SSM or to supervisors – is actually very helpful for their own organisation.

When we ask for a plan for operational continuity, I would hope that each and every bank thinks about operational continuity themselves, when we ask for a clear governance scheme and the like. I think if we were to add up the cost, we should also then have considered the benefit it has for the banks themselves, and this is a bit the same on access to financial market infrastructures (FMIs), if I understood your question correctly – is this an issue for banks? Yes, it might be, but the issue is not so much the issue for the banks, for example, to ensure that there are bail-in clauses when these are FMIs outside the EU; the issue is rather that we are dealing here with a kind of a triangle. We have on the one hand, the FMI, we have on the other hand, the bank, and on the third side, the authorities. Talking about access to FMIs is basically, first and foremost, to ensure that FMIs are willing to deal with a bank in resolution and would not say, 'ah, this bank is shaky, let's rather turn the back', and here I see a role for us, also, to ensure that FMIs also understand that they have to be part of the solution. So I think it's there.

On your third question, I wish I had an ideal solution. Europe is definitely in a situation where we have on the one hand, the need for banks to become more efficient, and here, you would say, the best advice is always to cut costs. COVID will probably be part of the solution because a number of branches that had to be closed in March or April might not be reopened. That's one part digitalisation, but also COVID can play a good role. On the other hand, we are in a very mature market. We are in a market with a lot of players, so I'm also watching a bit the obviously kicking in activities to merge, to consolidate the industry. There are a number of issues, and I think the banks are best placed themselves to look into the various options that are there and I hope we will end up with a still very diversified banking system.

1-022-0000

**Chair**. – Thank you very much. This was the last registered speaker. I know we are a little bit late, but I have a request from our colleague Mick Wallace. I will give him one minute for his question and one minute, Ms König, for the reply.

1-023-0000

**Mick Wallace (GUE/NGL)**. – Dr König, you were talking about that the idea that a European bad bank would be too big a baby to be managed. I'm just wondering – is it your remit whether to say yes or no to a bad bank, for example if Greece wants one now or whether they don't, is that within your authority? You probably know that we have a bad bank in Ireland called NAMA, and they've turned out to be a total disaster, costing the Irish people billions because of how they have operated and I'm just wondering – is that your call?

Secondly, recently, NAMA were given a five-year extension to their lifetime. So they're now allowed to go to 2025, and this had to be agreed at some level in Europe and I'm just wondering – were you involved in those talks? Did you have a say in the matter? Given that NAMA at home, not only did they put an awful lot of people out of business, they had a detrimental effect on the housing crisis. They've had a detrimental effect on the rental market, particularly in Dublin city, because they sold so much stuff at fire-sale prices to vulture funds. These have

been a total disaster in Ireland, and I'm wondering – who is making the call? Who is allowing the likes of NAMA in a Member State like Ireland to behave like they do, and who gave them an extra lifetime of another five years?

1-024-0000

**Elke König**, *Chair of the Single Resolution Board*. – Thank you, Mr Wallace, for the question.

To be very clear, when I commented on and gave my personal assessment of the European bad bank or the like, we have no call, at least not currently, in our framework on this. We are just participating in the debate about how to address non-performing loans, how to address a potential peak in non-performing loans and, of course, as one of the agencies here in Brussels, we are giving our view, possibly our personal view, our experience, and there my sentence is very simple: asset management companies can be part of this. This can be a dedicated asset management company for the portfolio of a certain bank; it might be, as is the case in a number of Member States, a national scheme behind it. I would be very sceptical to see a European scheme which is very far away from dealing with individual issues, but it's a debate to be had.

On NAMA, your comment, to be very clear, we have not been involved, and there is no room and no say for the SRB in NAMA or in similar schemes. What comes to my mind is SAREB and the like that were set up during the crisis.

1-025-0000

**Chair.** – Thank you very much, Ms König for your availability and for answering all the questions. Thank you also to all the MEPs who participated. Thank you for taking the time.

*(The hearing closed at 17.54)*