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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

PUBLIC HEARING WITH ELKE KÖNIG

CHAIRPERSON OF THE SINGLE RESOLUTION BOARD

BRUSSELS

TUESDAY, 23 MARCH 2021

1-002-0000

IN THE CHAIR: IRENE TINAGLI
Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 10.15)

1-003-0000

Chair. – We can resume our meeting with our next guest. I would like to welcome Elke König, Chairperson of the Single Resolution Board, to her first hearing in 2021. 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 and oversight over the exercise of the tasks conferred on the Single Resolution Board. Ms Koenig last appeared in ECON on 27 October 2020. Since then the backstop of the ESM has at last been concluded and the Commission has launched a public consultation on its review of the crisis management and deposit insurance framework.

I am sure Members would be interested in your views on that as well as on the ongoing business of the SRB concerning the issues of MREL contributions to the Single Resolution Fund and resolvability. Ms König, you have the floor for an introductory statement of around ten minutes.

1-004-0000

Elke König, Chair of the Single Resolution Board. – Good morning and thank you, Madam Chair.

Honourable Members of the European Parliament, thank you for the invitation to address the ECON Committee. I will try to be as concise as possible, though you've raised now a whole universe of questions, to respect the timing and allow for the very interactive and interesting part – your questions.

My speech will be split into roughly two parts. Firstly, I would like to cover some of the main items since I last came before this committee, as was said, in October. So this is mainly on the progress in resolution planning and developments on the Fund. I will leave COVID a bit aside. Though it's on all our minds, I'm pretty sure it has been dealt with already extensively by Andrea Enria.

Secondly, I want to address some of the current discussion around enhancing the wider crisis management framework as well as aspects on – and this is very close to my heart – completing the banking union.

It's almost five months since I addressed you last, so let me just give you a brief overview. We have been busy on making the transition to BRRD 2. This has been challenging, as the changes are complex, but our teams at the SRB have been working well together with our national counterparts and with the banks, to make sure that this transition is a smooth one, even in a year where we all were mainly working remotely.

So the 2020 resolution planning cycle is coming to a close. Resolution plans and strategies for all our banks were updated and most of the banks have by now received their MREL targets for 2022 and 2024, and those that are lagging are those which have a resolution college, so where the decision-making process just takes a bit longer. At the same time, we have already prepared for the 2021 cycle and – this is the most important part perhaps – all banks received their bespoke priority letters with their work programme for 2021 during the fourth quarter of 2020.

Our policy work is also ongoing. As announced, we will clarify and extend our approach to the so-called public interest assessment – so the distinction between resolution and insolvency procedure – and it will account for systemic stress scenarios in particular or, to take it a bit more colloquial, for rainy day scenarios.

In addition, we will update our MREL policy, and the 2021 MREL policy will expand in particular on topics, which will become due in January 2022, like MBA. It also be a stocktake of lessons learned from 2020.

Last but not least, we will further formalise and strengthen our resolvability assessment and introduce a heat map to foster comparability. The latter might serve as a starting point also for public information about resolvability, but here I would ask for a bit of time for it to be sufficiently robust first, so that we are not ending with a hundred shades of amber, which would not be much information.

In November, we also published our multiannual work programme. This programme takes us into the end of 2023, and there it is really coming altogether – our expectations for banks on the resolvability work programme and MREL. All of this will have to be in place, and hopefully then firm and sound by end 2023.

We have, as I said already, given each and every bank a clear work programme. So we have the overall umbrella of the expectations for banks and then the bespoke priority letters. The work that we are currently really focusing on is, in particular, fully operationalising the use of resolution tools and their combined use. This includes, on the one hand, the issue around sale of business or transfer strategies. But it also includes that we have to ensure that a so-called single point of entry strategy really means single point of entry, a topic that is very close to our hearts, not least also to overcome home/host bias.

We will ensure that the MREL targets are reached, in line with the BRRD and we will be building up the Single Resolution Fund to its target level. Here, just to be clear, the 55 billion, which is lingering around, was a number that was estimated in 2012-2013 to be the target level. It's not the target level that you find in the legislation. There it says 1% of covered deposits at the end of the build-up phase, so end 2023.

Just to mention, I'm sure you have all noticed that the European Court of Auditors published in late 2020 another report, which was focused a bit more on the less significant institutions, but also covered clearly the SRB. I am pleased to say that our work programme takes account of those findings and recommendations that the European Court of Auditors highlighted and that were not already addressed, for 2022.

Therefore, to be clear, I'm always pleased that the ECA has noted good progress in bank resolution but, as said, our efforts achieving resolvability will have to continue. It is crucial for all of us.

I will skip the comments on COVID, because as I said, I assume that Andrea Enria has talked about this. But let me be very clear, banks this time, this year and this crisis, are part of the solution not the problem, and let's hope it stays like this. For this to be the case I think banks, supervisors, we all need to be proactive in identifying necessary needs for change in business models. In particular, banks need to address potential NPLs in order to stay part of the solution going forward. I think this is in good hands with the supervisor, and the European Commission's NPL action plan was a welcome reminder.

One thing that is pretty clear to see is that we need to avoid any temptation to continue to provide public support to entities under the cover of the pandemic emergency where businesses – banks or other businesses in general – do not have a viable business model in the post-COVID world. But I think this is clear to everyone.

Let me now turn to the completion of the banking union and the CMDI review of the Commission. The banking union is still a house under construction, unfortunately. I am glad to see that there is currently momentum building up to address many of the aspects that are still waiting to be addressed: from how to deal with mid-sized banks, so the famous middle class, to the home/host issue – and let's be clear 'home in Europe', should mean Frankfurt for supervision and Brussels for resolution – and on to the long-running debate about a European Deposit Insurance Scheme.

The European Commission recently triggered, as already mentioned, a review of the Crisis Management and Deposit Insurance framework, including a public consultation. This welcome review will bring together much of the ongoing discussions, and I hope we truly make progress. Let me be clear once more, we need to finalise the banking union and need to put into place its third pillar.

From our perspective – and now in what's going more to the resolution framework – as a European resolution authority, we are not talking about a revolution of the system. I think we have a framework in place for resolution that evidently works. However, we must aim for evolution and this really means targeted amendments that draw conclusions from the past five years of recovery and resolution planning experience that would definitely be improvements.

I think here, to be clear, the key policy objective should be that any changes facilitate the resolution or liquidation of all types of banks if and when they fail, regardless of their funding models and, with this, foster the banking union – i.e. strengthen the European approach. We should resist any temptation of renationalising crisis management practices that could result in fragmentation, or would at least not overcome the existing fragmentation of the market.

A core piece will be, to say it again, the establishment of the European Deposit Insurance System as the third pillar of our banking union. This would enhance the level of depositor protection and should meaningfully complement the crisis management framework, particularly if it contains alternative measures allowing, for example, the support of transfer strategies in a harmonised way. If we want to increase the efficiency and coherence of the wider framework for bank failure, we should stay ambitious, advance with EDIS and complete the banking union. I've said it now three times.

Let me briefly address three other important issues where progress would be welcome. Harmonised insolvency procedure for banks. Currently, just to repeat what I said in previous sessions, we have 21-plus different procedures. This is not helpful and it's not making the

treatment of any failing bank really predictable. To be clear, it also has other risks, but I think predictability is the largest risk in this area.

Furthermore, the possibility to provide state aid to banks under less strict requirements in insolvency proceedings than in resolution, from my perspective, raises credibility and consistency questions. In this context, let me recall the need to align the European Commission's banking communication with the resolution framework.

Last but not least, all of you that have followed the SRB's activities in the past know that I always mention the outstanding backstop. Ms Tinagli has already mentioned that the backstop was concluded in late 2020, and it was even agreed that it would come into place in 2022, so two years earlier than expected. I think this is welcome. We are currently working together with the ESM and also the Member States in getting the needed paperwork done to make it happen.

But despite the possibility to extend liquidity through the Single Resolution Fund and the backstop, the financial capacity of banks – and I've said that in numerous places – might not be sufficient to address highly adverse cash flow scenarios in the case of a resolution. Against this backdrop, we believe that a structural resolution liquidity solution – so really to find a liquidity backstop – is still needed. This should involve the Single Resolution Fund or the Single Resolution Board, the ESM and central banks. Here I think we need to stay ambitious and find a solution before the weekend. I've always been sure that we will find a solution in the case it is urgently needed but I'm more interested in having a structured solution, so to know who to call.

With that I will stop. In a nutshell, I think we have made good progress since the last crisis. There is still, of course, more to be done, but I truly believe the banking union has already proven during the pandemic that it makes a big difference. Thank you, and with that I'm happy to take your questions.

1-005-0000

Chair. – We can now start our Q&A session. Let me remind you that we have two minutes maximum for the question and three for the answer.

1-006-0000

Lídia Pereira (PPE). – Madam Chair, Madam Chair of the Single Resolution Mechanism, the Banking Union is one of the pillars of any economic recovery strategy for Europe. European banks are vital in supporting households and companies and in reversing the investment deficit and helping the real economy generate wealth and create jobs.

On the one hand, the EUR 750-billion Recovery Fund will need to be supplemented by private investment, which will require bank financing. On the other, a sector that, in the euro area, has benefited from extremely favourable conditions thanks to European Central Bank policy has a moral responsibility. To fulfil their mission banks need stability, which a Single Resolution Mechanism can and must guarantee.

I would therefore like to ask the Chair two very specific questions. Firstly, on credit moratoria. These measures were fundamental in helping families and businesses address times of uncertainty and an economy in lockdown, but the moratorium period is coming to an end and the banks will soon resume collecting interest on loans. In some countries such as Portugal, the size of moratoria expressed as percentages of loans and in absolute terms may even cause a rise in the level of non-performing loans. How do you therefore see the possible consequences of the end of moratoria on the ratio of non-performing loans held by European banks?

Secondly, on the level of litigation by banks with the mechanism: the more court cases involving the mechanism, the higher the costs and the longer it takes to resolve them, with cases

often dragging on for months or years. In a scenario of ever more cases, the financing of the Single Resolution Fund – the Banking Union’s only backstop – could be jeopardised until such time, as you, Madam Chair, rightly said, as we can decide on the EDIS. Could you therefore give us an idea of the level of litigation and amount of court cases at this point in time?

1-007-0000

Elke König, Chair of the Single Resolution Board. – Thank you Ms Pereira. I think on the topic of loan moratoria, and I would say with that the somehow protracted bankruptcy procedures, we are all very much aware that there will be more non-performing loans coming up.

This is why the Single Supervisory Mechanism in particular has put credit risk and is really monitoring this on its agenda. And I think here supervisors are on the frontline. We are watching this carefully and are constantly saying that the earlier you address it, the better you start to provision, the less pro-cyclical this will be, and it might really make a difference.

But I think this is not so much a topic for us now. You linked it to the Single Resolution Fund and the backstop and here I am not sure whether I got your question entirely right. But let me repeat. The Single Resolution Fund and the backstop only come into play if a bank is failing. They are not a tool that you can use for an ongoing concern. They are a tool to safeguard in the event of a bank failure that we are able to use to implement our resolution strategy to avoid issues for financial stability and to safeguard taxpayers under certain conditions. But let’s hope that banks are addressing non-performing loans upfront and that we do not reach a resolution scenario.

I hope I addressed your question correctly.

1-008-0000

Lídia Pereira (PPE). Madam President, my second question was more specifically about the level of litigation by banks involving the mechanism, as this is somewhat worrying if the numbers involved are significant, so I was asking if you could give us an overview of the levels of litigation and the numbers of court cases from banks that the Single Resolution Board is facing today.

1-009-0000

Elke König, Chair of the Single Resolution Board. – Sorry that I misunderstood your question. I think we have to see for the time being that the Single Resolution Board is engaged in litigation in basically two areas.

One is in the aftermath of the resolution of Banco Popular where clearly a number of creditors and equity holders that lost money are challenging our assessment and therefore went to the European Court. This is ongoing and we’ll have to see, but I think I’m confident of our decision.

The second area of litigation is litigation indeed around the Single Resolution Fund. This started already in 2016 and has carried on. There was one decision last year against the Single Resolution Board where the Court in its first chamber came to the conclusion that the delegated regulation is unlawful in part. This has been appealed by the European Commission and us and we are confident that the ECJ will follow our reasoning, but like always, we have to wait for this ruling.

So there are quite a number of legal cases but I remain confident that this is just part of citizens’ and also banks’ rights and we will have to see in a totally new framework what the Court will decide here.

1-010-0000

Eero Heinäluoma (S&D). – Madam Chair, Ms König, I am delighted to see you here in the ECON Committee.

In your recent speeches you have stressed that we must keep up the momentum on increasing minimum requirements for own funds and eligible liabilities (MREL) and that the SRB will continue to focus on making all banks under its remit resolvable. Of course this relates to personal resolvability as well as the necessary build-up of MREL, which is a key tool in the solution. I welcome this statement, certainly today when we can expect a rise in non-performing loans in the coming months, as we have heard today.

Put banks under pressure. Special MREL buffers are therefore a key effect to ensure banks' resolvability. However, to increase transparency is once again key.

Now I'm looking a little bit outside the eurozone, especially at Sweden. We know that outside the banking union, the Swedish National Debt Office publishes the MREL decisions it has taken. The Bank of England has also announced that it will disclose the resolvability assessments, including MREL cases, by 2022.

Has the Single Resolution Board made plans to publicly disclose each MREL decision and, if this is not the case, bank by bank decisions?

And if these decisions are not made public, how will it be possible for us to follow how the Single Resolution Board is implementing the policy it has been mandated by the co-legislators?

1-011-0000

Elke König, Chair of the Single Resolution Board. – Thank you for this question. I think we have to see that the legal framework in the banking union is quite straight. The banks will have to publish the required MREL requirements by 2024 when the final MREL requirements kick in, but not before. And, of course, they have to publish anyhow their total loss-absorbing capacity (TLAC): so the international requirements, which only are applicable to the largest banks.

This was a deliberate decision by the legislator. We have in the past said – and I don't see a legal hook for that – that we will not publish bank-specific targets, in particular, not as we are still in the build-up. So we are not talking about transitional targets. But what we did since my last hearing, because I promised it there and then the team worked very hard to get it in place, is that we published on our website aggregated MREL build-up numbers. And perhaps let me use this opportunity, as this is a public hearing, to put up two statements.

On the one hand, I'm really pleased to see that MREL build-up is going on despite the pandemic. There was market turmoil in March, April, but since then, the market is wide open. So, our message has always been to all the banks: please you know your targets, you know where to go and the market is open so, bluntly, go for it, build up the necessary MREL. We can only do this as an encouragement but we are doing it and the banks know their targets.

On transparency, I'm very closely following what the Bank of England, for example, is stating here. They want to urge the banks to make their own statement and then obviously follow-up with a summary. And I think again here, bank-specific assessments are not part of our framework to be published by the authority, but the idea to use over time and again on an aggregated basis the heat map is perhaps a good step.

And let me be clear: we really encourage transparency and we will do whatever we can and listen carefully also to the ECON Committee.

1-012-0000

Luis Garicano (Renew). – Good morning, Madame König, it's good to have you here. I have a couple of questions. First of all, as you know, we from Renew support very, very much your

efforts to try to make the banks resolvable, to try to avoid state aid. So we are really, really aligned with everything you said in your statement. I wanted to ask you two questions.

One is about the target size of the SRF, which is 1% of the cover deposits and of course the deposits with the central bank, which have been skyrocketing as a result of quantitative easing, also come with a target. So the banks are obviously screaming and complaining that there is this target size increase from EUR 55 to 70 billion is unwarranted to me.

The issue is with really having this larger target fund means that the SRB is going to be more confident that it can resolve more banks. The question is really, as I put it the last time we were together, whether we just have a Rolls Royce parked in the garage. That really doesn't make sense if at least, we're going to be driving this Rolls Royce of a fund around then we will be happy in Renew.

So my question is, does having this larger fund increase our confidence that we're going to be able to resolve the banks and avoid all this state aid that is being taken? And particularly now my second question on state aid. The recent ruling on Banca Tercas by the ECJ, which said there was no state aid to Banca Tercas from national authorities, was very influential. The national deposit insurance shows that the state aid framework and this DGS should be aligned in the deposit insurance guarantees. How should we reform the state aid framework to avoid this kind of conflict?

1-013-0000

Elke König, *Chair of the Single Resolution Board*. – Thank you, Mr Garicano. Let me perhaps talk first of all about the target size of the SRF.

The target size of the SRF is driven by the cover deposits and, of course, 2020 saw, with the pandemic as a trigger, a steep increase in cover deposits. And with that comes in principle a steep increase in contributions to the fund. Now the SRB decided very deliberately that we don't believe, and I think also all the forecasts don't show this, that cover deposits will increase in the same pace as they did in 2020, but they will obviously increase. So the target size is growing, but I would use the word, we definitely within our remit tried to flatten the curve, and you know that we had a public consultation that ended last Friday. We are now seeing what the comments were, and then we'll have to take our final decision.

I have heard you saying before that it's a Rolls Royce parked in the garage. Now I have to confess I've never driven a Rolls Royce, but I'm very committed that we will use the framework, and for me the framework is built out of all pillars. It's built out of making banks resolvable – so operational resolvability – building up the necessary MREL in banks and then to have the fund to be enacted, if and when you need it in a resolution decision.

You know about the safeguards and the conditionality to use the fund, but I think we are all aligned that there is clearly not the feeling that we want to keep the garage locked. We use it whenever the conditions are fulfilled.

On the recent Banca Tercas ruling, I've learned in university, I'm not a lawyer, but that most cases that come before a supreme court are very specific cases, and this is definitely also holding true for this case. And the ruling is far more related to the question: what can voluntary DGs do and where do you interfere and where do you get into state aid consideration?

But there is a broader thinking, and I think that was on your mind when you asked behind. We are clearly very much advocating for a European system and European rules, not least to avoid that we have a multitude of national schemes, which first are fostering the link between the sovereign and the banks, because it's basically the sovereign behind the national system. And

secondly, of course, with the multitude of rules, different optionalities for the DGSs is also allowing for a lot of varieties and with that potential unpredictability and I think we need to work on EDIS and let me perhaps use it as an opportunity to say, nothing can be built overnight. But when we talk about hybrid model and the like, let's always ensure that it's only a step into EDIS and not the end of the journey. So let's not keep a transitional period to become the final solution.

1-014-0000

Francesca Donato (ID). – Ms König, you said a little while ago in your speech that you hoped that companies whose business model was unsustainable would not continue to receive public support.

The Governor of the Bank of Italy, Ignazio Visco, has flagged up the serious risk of small and medium-sized banks not being able to meet the MREL requirements, and hence of their having severe difficulties remaining sustainable.

Given the dramatic times in which we are living, with NPLs naturally on the rise owing to the conditions on a market straight-jacketed by the response to the pandemic crisis given by governments and the European Union itself, coupled with the fact that the criteria established for banks' classification of 'past due' and 'default' and of 'defaulting debtors' create the conditions for a chain reaction of failures and hence an exponential increase in NPLs, do you not consider all this to be at odds with the objectives set for us?

EDIS should have been set up at the same time as the Single Resolution Mechanism was introduced, because not doing so has created a system in which the so-called 'too-big-to-fail banks', i.e. the banks key to the system, will benefit from the support of the backstop when they are on the verge of failing and thus the public money raised through the ESM will go to save big banks, while small banks are put in the position of being unable to be rescued by their respective governments – we witnessed the Commission's decision a few years ago forbidding the rescue of two Italian banks by the *Fondo interbancario di tutela dei depositi* (Italian Interbank Deposit Protection Fund) which led to a total of six banks failing, and which the Court of Justice has now condemned and declared the decision to be mistaken – and we now find ourselves facing a number of similar situations.

What would you suggest? Do you not think that setting up EDIS should be a precondition for moving forward with everything else?

1-015-0000

Elke König, Chair of the Single Resolution Board. – Thank you, Ms Donato. I think we can agree that in an ideal world, all three pillars of the banking union would have come at the same time, but we are not in an ideal world. And there you also need to see that to join forces on a European level, sometimes it takes time to really get everyone to the same level, but that's a totally different debate.

For me, it's absolutely clear that when you refer now also to Governor Visco's comment that we have to acknowledge that we have currently a debate about a group of banks which that seem to be too big to be put, like any other business, into regular insolvency procedures, there have been concerns about financial stability. But then, at the same time, there is a lot of debate about whether for those banks it's too burdensome to build up MREL, it's too burdensome to make them resolvable. And there I would strongly disagree, because you can't have banks, call them this middle class, which are competing in the market and get somewhat of an easy way out.

Therefore our answer, and I think we've been consistent there: we need to make these banks operationally resolvable, these banks need to build up the necessary MREL, this might not be

as much MREL as you might have for a global systemically important bank, because potentially transfer strategies, sale of business ideas could play a role here.

And then on top we need to think about, in the case of a failure, how would you address this and there, there is a role to play for deposit guarantee schemes because those banks are mainly funded by deposits. And there's a role to play for the SRF, but I think it's a joint effort on both sides. It's not just a 'and now I need to find someone to fund a problem' situation.

I would not be as negative as you, looking at the banking industry as a whole. I think the assessment that the ECB did last year ... and let's wait then for the European stress test that is going to happen this year – how, really, the problem will be for the banking market.

We will for sure see an increase in non-performing loans, but I think it will be very much depending on how step-wise you phase out the public support and how active and pro-active banks are also in ensuring that they are covering potential losses adequately. So, I think there I would still believe that we are not facing a very systemic crisis. Let's hope that I am correct.

Looking at the entire framework: I would agree with you, and I've said that before, we need to finish EDIS and we need to ensure that the national systems basically are aligned and that we have a European system. But like always, the exit from the crisis ... and to make a smooth exit and to avoid funding unsustainable businesses in whatever industry is clearly the challenge that's now on the table.

1-016-0000

Sven Giegold (Verts/ALE). – Welcome again to the European Parliament, Madam König, and this time from Lower Saxony. I have two questions. First, the SRB has been recently criticised about the way it assesses the public interest for placing a bank in resolution. Several stakeholders claim that the SRB applies national insolvency proceedings to mid-size, or even significant, banks or rejects to consider system-wide events such as for other financial instability, as is requested by the SRMR at the stage of the public-interest test.

Similarly, the European Court of Auditors' report on resolution planning in the SRM concluded that there are inconsistencies in the internal resolution team's assessment of critical functions. They may risk that the SRB does not flag a function as critical, although the real economy would be negatively impacted in the event of a bank failure. This would result in the SRB assessing that there is no public interest and deciding against placing the bank under resolution.

How do you respond to this criticism? Are there incentives for the SRB to lean on the negative side for the public interest assessment in the light of the significant litigation risks associated with resolution, as in the Banco Popolare case?

And second, as regards COVID-19 measures, you have stated in previous hearings at the European Parliament that the SRB adopted a forward-looking approach to 2019 MREL targets as well as having provided some further relief to banks by allowing changes to the intermediate MREL targets under the BRRD 2. These measures sound far-reaching vis-à-vis the BRDD & SRMR framework given that the latter, unlike the CRR, has not undergone a quick-fix legislative change in light of the COVID-19 crisis. One can only say 'sound' in fact, as it remains extremely obscure what these measures entail in practice. On the SRB website there's only a very generic statement on two paragraphs without any details on the content and scope of the envisaged measures.

With a view to your strong commitment on transparency here again, in line with the practice followed by the European Supervisory Authorities, can you commit here to make public the guidance followed by the internal resolution teams in applying COVID-19-related relief?

1-017-0000

Elke König, Chair of the Single Resolution Board. – Thank you Sven. Let me first start with your statements regarding the public interest assessment (PIA). I've made already the statement, and this is hopefully becoming also public in the coming weeks, that we have taken up the criticism that our PIA was too much focused just on an idiosyncratic bank failure.

We have broadened it, and it will be applied for the 2021 resolution planning cycle to address systemic or financial instability. I would call it the 'rainy day' scenario, and the idea here is to base it on the idea that a bank failure could happen at a point where, basically, the entire economic system is under stress and we will root it in the EBA stress test adverse scenario. This is now very technical, but I think it's a very sound system, also, to address the second point that some people might have a different idea of what 'rainy' means than others, so inconsistencies within our team, so we want to root it basically on the EBA stress test, which then of course means some interpolation in between.

So, is there an incentive for the SRB to avoid a positive PIA because we are afraid of litigation? I think the short answer is 'no'. But there is clearly within the current system, the fact that we have, at least as of today, on the one hand, a European resolution framework and on the other hand, national deposit guarantee systems and national liquidation frameworks. And here I think we need to make this step forward that we align this to a European system so that there is not a, let's call it an 'escape lane' into national procedures ahead of resolution.

The second topic on annual adjustments. I think this comment was made at the peak of the concerns about the impact of COVID on bank balance sheets, where all the banks had still in place their 2019 MREL targets and there was a lot of call for adjusting, easing those targets. This we did not do.

What we did – and I will be happy to think about more clarity, probably in our next statement – what we did was that we asked the banks for information based on June 2020 so that, for a very small number of banks, we adjusted the interim target for 2022 to reflect a bit the development of their balance sheet and their funding plans. We did not adjust any of the 2024 MREL targets.

But I will be happy to look into the wording once more to perhaps give a bit more guidance here. So, the 2024 MREL targets are all based on the existing framework, and the only thing we did in a very few cases is not to use linear build-up but to smoothen a bit the build-up of these MREL targets. I hope this clarifies and, as I said, we'll look into this once more.

1-018-0000

Johan Van Overtveldt (ECR). – Thank you, Madam König, always good to see and hear you. I try not to take up the issues that were already taken up by my colleagues, but I want to raise three points. First of all the home bias in banks' sovereign exposures remains of course problematic and it will tend to get worse with the consequences of the COVID pandemic. What does this mean, according to you in terms of the resolvability of banks if and when problems really arise?

The second issue has to do with the shadow banking system, which in recent years has grown substantially, and of course there are also links between the shadow banking system and the traditional banking system. Again my question is: how does that reflect upon your work as a resolution authority?

Thirdly, of course, you emphasise a lot, very understandably, the need to finalise the banking union, but I think also for your work is a better organisation of and a finalisation of capital markets union would also be of much relevance, given for example, the private risk absorption that would increase substantially with a capital markets union or a real capital markets union.

1-019-0000

Elke König, Chair of the Single Resolution Board. – Thank you, Mr Van Overtveld. Home bias or the home/host discussion is indeed a topic that we find worrying because in the end banking groups within the banking union need to be able to fungibly put liquidity or capital to where it's needed.

Now this is a very broad topic to discuss. I would say, from our side, it's clear we are working and we have been working on implementing write-down and bail-in decisions in resolution or, as I would put it, we are really focusing on ensuring that single point of entry really means exactly this, a single point of entry, so that there are safeguards that losses get upstreamed or capital gets downstreamed within a group, and that this is not just something for a sunny day and in rain you might abandon the institution which is behind the thinking of where the risks come from.

I think this is doable and it's necessary, because otherwise you might end in a situation where, with internal MREL and the like, you get the feeling that everyone is nicely safeguarding his little garden, but it's ending in a tragedy of the commons because the group will not have sufficient fungible means at the centre to deal with a problem where it occurs. I will stop here. It's a very long topic.

Shadow banking is definitely a topic that has been with us since, basically, 2009-2010. It was considered shadow banking and the 'dark side' for a couple of years, then it seems to have moved more into sustainable market-based funding and got a more glamorous feature. But I think what we have to face here is there are errors in capital markets that behave like a bank and then the old saying should hold true, 'if it's the same business, there's the same risk,' and the same regulation should hold true. And I'm very much watching here that this is more on the supervisory side, and I'm perfectly aware that on certain areas also the ECB is very much focusing its activities.

And you are perfectly right, there's nothing to add: the banking union needs the capital markets union, not least because we need a purely European capital market and this would also help banks to be able to raise the needed capital, the needed MREL, within the European market. It's a bit sad when you once in a while hear that for banks, it's not an issue to raise MREL at all outside Europe.

1-020-0000

Pedro Marques (S&D). – Thank you, Chair, and thank you, Madam König, for being with us again. I will put publicly some important questions for us. First of all on the management of the banking crisis framework. We consider that completing the banking union is indeed still the big priority. EDIS is indeed the most important instrument. So, I would like to have some comments from you on the completion of the banking union.

First of all, some are trying to link the actual creation of EDIS to an advancement in the regulatory treatment of sovereign debt on banks' balance sheets into differentiated treatment. Isn't this in the end a way to cancel the completion of the banking union, given the disruptive consequences of such a move within the euro: the different treatment of sovereign on the banks' balance sheets at least without a public safe asset accessible to all?

And second, another way to endanger the banking union and postpone the EDIS adoption would be the idea of reinforcing permanently, the utilisation of the national DGS within the resolution framework as it would reduce the implementation of EDIS and it would increase the bank sovereign loop. Would you concur with me? How would you see it moving forward, this idea?

Finally, the issue of the resolution framework for medium-sized banks. Some of them, their business model is that they are basically deposit banks. How do you see the situation about

MREL in these banks? How do you see the differentiation of MREL that you have just referred to which could be probably an interesting idea.

1-021-0000

Elke König, *Chair of the Single Resolution Board*. – Thank you for your question, Mr Marques. On the crisis management and deposit insurance framework (CMDI), I think we all know that the debate on completing the banking union and all of this has always been a discussion of ‘how many things do you want to link with each other?’ And they are all most likely relevant.

I think here my say would be: solving the sovereign risk exposure together with this might be an issue where we need to acknowledge that sovereign risk is, of course, a risk, but there is a Basel process to be considered and there are other topics to be considered. So it should not be the stumbling block from my end.

I think you’ve raised a very valid point in linking the discussion of EDIS to the current – I wouldn’t call it enforcement of DGS – but the idea of the hybrid model. And then my only response is: a hybrid model can be a starting point so that you’ll see more risk reduction, or whatever you want to link moving forward. A lot of people have heard me saying that in my own family, a temporary solution sometimes has the tendency to be the eternal solution, and I think we should avoid here the temptation to take one step forward and end with a model which is rather reinforcing national exposure, and therefore the link between the sovereign and the banks at national level rather than moving into EDIS.

So any hybrid model should have a very clearly spelled-out path into EDIS from my understanding, because only that way, and to go back to Mr Van Overtveldt’s comment in this context also, this is an important part to overcome the home/host bias, because only then you can ensure that decisions are taken on a European level and have to be funded and also the responsibility borne at a European level.

On the medium-sized banks, I think I repeat myself a bit here: I wholeheartedly believe that we need to make progress here on multiple fronts. We need to make progress on making them resolvable. There can’t be an escape lane for medium-size banks that are valuable packages in the market but unresolvable or too big for an insolvency procedure.

So we need to work on making them resolvable. We need to work on them having the suitable MREL, and here the risk is clearly, though it might sound contradictory, that a bank that is entirely equity-funded might find itself when going into trouble in a situation where equity is slowly but steadily eaten up, and you cannot make the bank failing or likely to fail, but you are losing your buffer for MREL.

So there must be a sound MREL buffer and at the same time we need to think about what is the resolution strategy and how can we support them, including a fit-for-purpose DGS/fund or EDIS. So it’s more work to be done, but I would rule out a middle class that gets an exit lane from making themselves resolvable.

1-022-0000

Chair. – Thank you very much. We have concluded our list of speakers. We are perfectly in time. I thank Ms König again for this exchange of views and thank all the Members for participating. The committee hearing is closed.

(The meeting closed at 11.16)