

1-001-0000

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS**PUBLIC HEARING WITH ELKE KÖNIG
CHAIRPERSON OF THE SINGLE RESOLUTION BOARD****BRUSSELS
THURSDAY, 1 JULY 2021**

1-002-0000

IN THE CHAIR: IRENE TINAGLI*Chair of the Committee on Economic and Monetary Affairs**(The hearing opened at 10.30)*

1-003-0000

Chair. – We can now move on to the next item on the agenda, which is the public hearing with Elke König, Chairperson of the Single Resolution Board (SRB). Welcome, Ms König, to your second hearing in 2021.

This 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 for the exercise of democratic accountability over the exercising of the tasks conferred on the Single Resolution Board.

Today Ms König is here to present the SRB's annual report for 2020. I'm sure Members will also be interested in more recent developments, including the Commission's review of the crisis management and deposit insurance framework, the issues around the Minimum Requirements for Own Funds and Eligible Liabilities (MREL), contributions to the Single Resolution Fund (SRF) and resolvability.

As usual, the following will apply: Ms König will have the floor for an introductory statement of around ten minutes and afterwards we will turn to the Q&A session and there will five-minute slots for the questions and answers, with the possibility of a follow-up question, time permitting, within the same slot.

Ms König, welcome again. You have the floor.

1-004-0000

Elke König, *Chair of the Single Resolution Board.* – Thank you, Madam Chair. Good morning, and good morning honourable Members.

It is a pleasure to be with you once again at the Committee on Economic and Monetary Affairs. It's only been three months since we last met, but nevertheless, I think there is quite some news. Hopefully we are all seeing the beginning of the end of the pandemic in Europe, and with that a return to a more normal way of working, and perhaps to an in-person meeting next time. I am an optimist by nature.

Recent economic and earnings forecasts, I think give rise to cautious optimism. However – and I am sure that Mr Enria has very much elaborated on this – Covid implications might not yet be fully depicted in banks' balance sheets.

So we need to stay cautious, and I think the key challenge – and I said this already quite some time ago – remains for all of us to manage the orderly phasing-out of temporary support measures.

But I'm also, as I said, optimistic. We all, with prudent management – and when I say 'we', I mean the real economy, the banks and also other regulators – can weather the transition, and hopefully can turn this crisis into a real expansion, so make use of a good crisis.

Overall, banks and regulators – and I think we can state this with quite some pride – have worked very well together to overcome the crisis in the past year. We showed the necessary flexibility in the beginning, but we also stayed firm on our core task, that's to say updating all the resolution plans for all the banks under our remit and ensuring that by now all banks have received their 2022 and 2024 MREL targets and also clear operational targets for 2021 and beyond.

If you want more information, I think we've tried to play this out in our annual report, but I'm sure – and I take your initial comment on that – that you are more interested in the next steps than in what happened last year, so let me try to move on.

As I said, we have really continued the annual resolution planning cycle for 2020. We've concluded it – and I'm always saying internally 'after the cycle is ahead of the cycle', so the teams are already full-speed working on the 2021 resolution plans. Most of them, or a majority of them, have already been submitted to the ECB for their comments, so this process is ongoing.

For the vast majority of all banks, we anticipate resolution scenarios should they fail – it's either open bank bail-in or it's sale-of-business scenarios. But we have also some banks for which we would believe that normally insolvency procedures remain the option to go. This is, in particular, promotional banks and banks with very peculiar business models. I'll come back to the public interest assessment later.

We are – or rather, I would say the banks are – making tangible progress with respect to building up MREL capacity in line with the new requirements. The MREL shortfall for the Banking Union as a whole significantly decreased its stance by the end of last year, at around about EUR 20 billion compared to more than EUR 30 billion a year ago.

I think here there is one simple message to be given. Our message to the banks has been consistent for at least the last 12 months: the market is wide open and they need to consider issuing. They know their requirements. It's up to them to decide whether they want to have buffers on top of risk requirements to keep them safe. But there is definitely no reason to wait for tomorrow. So banks should issue and should stay ahead of the curve.

Let me just briefly touch also on the Single Resolution Fund, the emergency fund that can be called upon in times of crisis. We are on track to meet the target of 1% of total covered deposits by the end of 2023. The annual contribution in 2021 was just above EUR 10 billion euro and the fund now, actually today, contains EUR 52 billion.

As deposits have been rising sharply, not just during the crisis but already ahead of it, so in 2019, we currently assume that the fund will reach over EUR 70 billion in 2024. I think you all know that this is a topic that the industry is sceptical, critical upon, but let's be clear: this is a fund as a last resort to solve a major crisis, and we at the SRB are rule-takers here.

Staying with the SRF, we are working closely with the European Stability Mechanism (ESM) to ensure the successful operation and implementation of the Common Backstop by early next year. There's ongoing work to ensure the repayment capacity and also ongoing work to ensure that in case we are using our fund or we are using the backstop for lending, for liquidity support, that we have a collateral framework in place. So overall, the word is 'fiscally neutral' and reducing the risk here.

Our policy work has continued. I'll skip this at the moment, but just to say that the expectations that we set for banks, that we published early last year, are setting the scene and I think each and every bank knows by now what the steps are to be taken and that we are really strongly working towards having all banks being, in principle, resolvable by the end of 2023. That is the date also by which the MREL needs to be built up.

So let me just come back briefly to the so-called public interest assessment, so the demarcation line between a positive assessment, meaning resolution and negative assessment, meaning national insolvency procedures. As announced last year, the SRB has worked and has revised its public interest assessment policy. It now covers also system-wide events, which is obviously, in the current context, even more relevant. I'd expect that this will broaden the remit of banks for which resolution, and not national insolvency procedures, will be the solution in case they fail. I think this is the right step.

Let me now touch on a very sensitive topic, but one which is keeping us a bit busy or perhaps even concerned – 'home-host' frictions. In the Banking Union, the discussion of home and host should be a topic of the past. But unfortunately, it's not. There are several reasons for this. One of them is the missing third pillar of the Banking Union – so the European Deposit Insurance Scheme (EDIS). But another one, the trust placed in resolution strategies, which is the trust basically placed in us in really enacting in particular the so-called single point of entry or SPE resolution strategy, which – and I'll try to shorten here a bit – means in principle that any resolution action is only enacted at the parent level – the resolution entity – and all subsidiaries are kept out of resolution, as a going concern or – to use this phrase – live and kicking. In principle the SPE approach relies on upstreaming of losses to the parent or downstreaming of capital to an ailing subsidiary. It sounds simple, but needs to be implemented soundly, needs sound preparation and needs to always reflect that, in principle, entities are failing and not groups. So you need to also respect the relevant corporate tax and whatever legal framework. By enshrining the SPE approach into the bank's financial structure in going concerns, the economic commitment of a parent to its subsidiary will be enhanced over and above the pre-positioning of internal MREL. I think it's mandatory. This should also reduce any concern that the SRB might opt for a variant strategy that is not aligned with the interests of a subsidiary – or, to put it bluntly, this should ensure that the subsidiary is not abandoned in resolution, even in cases where the parent itself is failing. This is a very relevant topic. We are testing also kinds of this with dry runs. We are working on it. And I can assure this committee that this SPE strategy, to be operationalised fully is a key priority for the SRB for 2021, and this will hopefully help overcoming the home-host friction that otherwise might actually fragment the market and might have a negative impact on financial stability despite internal MREL and the like. Just as a topic to which we are very much committed.

With that, let me move to the topic that you, Madam Chair, have already addressed: CMDI. At the SRB we are following very closely the review of the crisis management and deposit insurance framework being carried out currently by the European Commission, and we have also prepared and published comments regarding this framework.

I think we have a good crisis management framework, but there is definitely also room for improvement. For example, at the moment, we are operating in a way where many national

solutions have to be found, and honestly are found, in cases where resolution is deemed not possible, or too difficult, for whatever reason. This leads in individual cases to different outcomes depending on the country and is hardly conducive to the development of a European internal market.

We have talked about harmonising, or rather enabling, bank liquidation for long but very little has happened so far, and the fragility of some national systems might be taken as an excuse, and actually as a reason, for ongoing ‘creativity’ or bail-outs in disguise in individual cases.

Honourable Members, I am sure that bail-outs in disguise was not what this House had in mind when it voted to create the Banking Union, and it’s not what the BRRD and the SRM are about. Therefore, my full support to the CMDI. I am working to ensure that we have one consistent framework dealing with all banks.

In this House, the idea of the ‘level playing field’ is often mentioned, and taken very seriously, and we take it very seriously too. Well, if we are serious about having a European framework that treats all banks and all depositors equally, then we do need to get reforms on the way, not least to the deposit insurance scheme in place. Equal treatment throughout the Banking Union with EDIS as a strong EU safety net, and with sound governance at EU level, will bolster the financial integration that is needed to have a solid return on the investments made to establish the Banking Union. These are investments made by you and also made by the banks.

The time for beating about the bush is over – we lack EDIS, and we must get that show on the road. I see there has been good work ongoing at Council level, but they have not yet crossed the finishing line for the work programme. I see that the Eurogroup President, Paschal Donohoe, is keen to see progress, and I very much support this. Another idea – perhaps a fall-back – was recently floated by the UBS Chairman Axel Weber, when he talked about a European Charter for significant institutions. This might also be an idea that can provide some food for thought. But my clear message would be: put all the banks into one system and complete the Banking Union.

So with all that in mind, I very much welcome the Commission’s initiative, as I said, and am more than happy to discuss the issue further also with you.

Let me close with one short comment regarding the resolvability assessment as this has always been a topic that your committee has been very keen on. We are just working on this in terms of resolution, to increase the visibility of banks’ progress on resolvability, and we will be doing this by using a ‘heat map’. My promise here to this committee is that once we are able to see really that this heat map is showing tangible results, that we are not ending up in all shades of amber, then this heat map, which is our annual assessment, could also be something that we use for publication, as we did now with the MREL data that we regularly will publish in future. Here I thank this committee for having pushed for this.

So, with that, I think I will stop. Perhaps just to say I think we might be in the calm before the storm. I hope not. No one knows. But I think we should anyhow use time wisely. As it holds true for banks that sound provisioning has never been harmful, it’s also for us to prepare and perhaps to also get the Banking Union in place.

So I hope that CMDI and finishing and finalising the Banking Union will soon see the finishing line. I’m very optimistic. With that, I thank you.

1-005-0000

Chair. – Thank you very much. And now we start our Q&A session. We don't have much time. We are a little bit overtime. So let's try to keep to the time.

1-006-0000

Paul Tang (S&D). – Thank you, Ms König, for your clear messages on completing the Banking Union and also your clear message to banks: 'don't wait until tomorrow'. This is what my question is about. What we see is, of course, a legacy of the COVID crisis that may pop up in the form of non-performing loans now and in the future, combined with another legacy – the legacy of potentially stranded assets.

The European Union is moving and it's starting to move to make the economy more sustainable. The Climate Law was signed on 14 July, and pretty soon the Fit for 55 package will be presented. This will have implications, given that the climate change risks on banks' balance sheets are not priced in enough.

Do you see there being a risk for the banking sector that various assets may become suddenly stranded? How does the SRB seek to address this proactively, to avoid a 'green swan' event leading to multiple bank failures?

1-007-0000

Elke König, Chair of the Single Resolution Board. – Thank you very much for your question, I don't have a crystal ball, of course, but I think regarding non-performing loans that it's pretty clear that proactively addressing these – and I know that in particular the ECB is very active here and we have seen non-performing loans declining – is the only solution.

Plus, of course, any action – and this House has just been active on this – to ensure that 'non-performing loans', I would not call them 'stranded assets', can actively be managed. I would hope very much for the out-of-court, dealing with collateral, as the next step to come. But I think this is on track and it's addressed by the supervisor, so constant reminders to the banks might do.

When it comes to sustainable finance and, with this, possible assets becoming no longer attractive, or stranded, I don't think that this is something which will happen from one day to the other. So banks need to be active, need to address it. And we have to focus in our assessment on resolution planning, because it might be a question of how attractive the book is that this bank has in the case of a resolution, or whether there are special vulnerabilities. This would be my answer.

1-008-0000

Luis Garicano (Renew). – Good morning, Frau König, it's great to see you. I wanted to ask you three different things. Let's see if I can formulate them clearly

The first one concerns the depressing outcome of the roadmap negotiations between the Member States. It appears nothing will happen until December. I don't know how many times the Member States have postponed the Banking Union by six months. You probably are keeping track every time, six months more. And I wanted to ask a very precise question. In your view, should we proceed with the parts that are less controversial: BRRD issues relating to resolution into your portfolio before consensus on regulatory treatment of sovereign exposures (RTSE), on sovereign exposures and deposit insurance, which seems always to be postponed and not to be possible?

Or should we wait until the whole four pillars of the whole package are there, which I don't know how long it would take. Uncertainty, particularly from Germany and from Italy seems huge. Second, concerning Greensill, we know that the German deposit guarantee scheme (DGS) is suspected to pay EUR 3.1 billion as a consequence of the collapse, the Italian DGS as well.

And really the question here is whether the information, whether you are receiving information and the early intervention powers and triggers for resolution are really there for you to rely on them.

And our sense, of course, is that SRB is kept completely in the dark about impending cases and these things suddenly explode under your under your eyes. So to what extent can you trust what is happening from European supervisors? To what extent are you informed yourself about what's happening at SSM level and at the European level before a resolution becomes necessary?

1-009-0000

Elke König, *Chair of the Single Resolution Board*. – Thank you and it's great to see you. I would prefer to be here in person, but let me try to answer your first question. The SRB is clearly not the one who is holding the pen for these negotiations. And I have carefully read the statement also from the president of the Eurogroup that he needs to make, or he wants to make, progress on all these fronts together. And I think he's the one who is best placed to decide upon this.

You sometimes believe: 'can you just make progress on my file? I don't care so much for other people's files', but I think it is probably not realistic. So I think that I would fully trust the president of the Eurogroup to try to find the best way forward. But I agree with you: it's a bit depressing the number of roadmaps we've seen and some people have heard me saying: 'at some point you need to hit the road and not just draft the next roadmap'. And I hope that point will come soon.

On Greensill – and you know that I'm never commenting on individual cases – but I can assure you that the SRB is well informed in this case, not by the ECB so much but by the national authorities. We are always also strongly pleading with our national counterparts, because this was a less significant institution, for them to keep us up to date on any files they see looming.

But let me use this as a comment for something totally different. What we are seeing here is that you have a number of banks where so-called deposit accumulators are acting. So, companies that provide fantastic transparency to consumers about the interest you can get for term deposits or the like, but then also, this is then the flip side, are taking somehow a ride on DGS because they are advocating that you can place your deposits of up to EUR 99 999 in certain banks.

Perhaps we need to remind people that, of course, this is guaranteed by the DGS, but I would still hope that people think about where to put their deposits. So but it is then helping those banks to increase cheap -funding and perhaps at a risk. So I think this is a topic we need to address.

1-010-0000

Danuta Maria Hübner (PPE). – Good morning Ms König. As usual, it is a pleasure, and I thank you for your work.

I would like to address in my questions two of the issues that I think are important for you and for us. One is related to the UK leaving the European Union – and I know that you have with the Bank of England a cooperation agreement, and we all know that there was one of those very difficult, problematic issues, which was the bail-inable nature of the liquidity issued under the third country. Then I understand that as regards the eligibility for MREL, you found a solution. So congratulations.

My first question to you is whether there are still any problematic issues that need a solution with the UK, and what would they be?

The second issue that I would like to raise with you is the Single Resolution Fund. You spoke about where we are and what's happening and huge progress. That's obvious, and thank you also for your openness to find a solution.

But of course, we still hear that, at the end of the day, we might have situations where we will have to reach out to taxpayers' money, especially if we know the potential that EDIS would create when it comes to the provision of the necessary liquidity.

My question to you is related to an idea which is somewhere in professional journals, that we would consider a euro system liquidity and resolution facility that involves some form of guarantee that would be backed by public budgets for collateral and that the resolved bank could use to access ECB refinancing. My question to you is whether a collateral could be, for example, an SRB bond that could be lent to the bank in resolution.

Also on this issue, because when collecting the fees in this cycle, which would be the second cycle, you are also offering to the institutions a kind of consultation, what are the concerns that they raised in this consultation and which you are, I understand, open to address. Could you share with us the concerns?

1-011-0000

Elke König, *Chair of the Single Resolution Board*. – Thank you. Again, I would like to be back in real person to person meetings.

On the UK issue, I think we have to state, for the SRB, that we have an ongoing good relationship with the UK. We put in place the cooperation agreement well ahead of Brexit so that we could enact it fast, and we have worked with them and we've seen that they – for the time being, and we all always talk about 'for the time being' – are willing to basically allow for the bail-in decision to be recognised. Now, this is not cast in stone, but therefore we have said that for this interim period, we would align our regulation to the one on the supervisory side, so until, I think, mid-2025, we would still count issuances under UK law, and this would allow the majority of those that are not under EU law to be recognised. I think this is ongoing and the rest remains to be seen. Of course, if the UK somehow changes the system, well then we have to reassess.

On the Single Resolution Fund, you've raised two questions at the same time. Regarding the use of the Single Resolution Fund for liquidity, I think nothing has changed compared to last time. It's a bit like the debate on EDIS and the like. It's not really moving fast. There are various ideas about how to be able to use or to even leverage the SRF for liquidity use. We have always said that we believe that in the case of need that goes beyond our means, the Eurosystem should be the solution to look at, but of course the Eurosystem needs to have a guarantee that there will not be losses.

Now, I firmly believe there will not be because we are talking about a bank that has been resolved, and not an ailing bank anymore. But one idea was that the SRB, via the SRF, could be the first loss guarantee. Another idea was that the SRB issues bonds that can be used as collateral. Now, the problem is the bonds would be basically backed by the Fund, but the ESM backstop is also backed by the Fund. So we are double-using the same guarantee, which might be tricky.

There are a number of ideas, and I think this would go far beyond this session. I would just hope that we get back to the table and try to find a sound and simple solution – not for our website – but there is a need to know 'what in case of' is going to happen, and I don't think that there will be any solution without the Eurosystem being considered.

On the second question on the Fund, of course, the industry is very much wondering and very outspoken on the fact that the contributions to the Fund are increasing. We are now expecting the Fund to be above EUR 70 billion at the end 2023 or in 2024.

One topic in the consultation was of course the argument of the industry ‘too much’, but there we have to say the rules are clear: it’s 1% of covered deposits and if covered deposits increase, well then the Fund increases.

Another topic within the consultation was around the question of using so-called ‘payment commitments’, so guaranteeing payment instead of paying in in cash. Here we have assessed everything and have not changed our view, so we allow these payment commitments up to 15% of the total. But overall, the questions were more for us a proof, during the consultation, that the industry is very well able also to assess and to estimate the cost for them – so overall, a positive outcome.

1-012-0000

Gunnar Beck (ID). – Madam Chair. Good morning, Ms König. The Federal Court of Auditors published a devastating report on the planned ESM reform. In the Court’s view, the plans pose significant risks to the German budget because they communitise banking risks through the introduction of the fiscal backstop.

At your hearing before the Bundestag on 31 May, you assured the Members of Parliament that such rescue operations were out of the question, thereby contradicting the report by the Federal Court of Auditors. According to the Göttingen Professor Schorkopf, an expert in constitutional and European law, the ratification of the ESM Treaty by the Bundestag in 2012 was essentially based on financial assistance to countries being linked to economic policy measures and reforms. He now considers this conditionality to be jeopardised by the suspension of the Stability Pact and the planned ESM reform. Susanne Wixforth from the German Trade Union Confederation made an interesting proposal: She called for the conditionality of financial assistance to be henceforth not solely dependent on the criterion of stability, but also on the strengthening of the economic and social structure of the beneficiary country.

Well, my question to you is basically quite straightforward: Did the German Federal Court of Auditors lie in connection with its comments on the risks of the planned ESM reform?

1-013-0000

Elke König, Chair of the Single Resolution Board. – Let me try to answer the part of the question that’s for me, perhaps. I won’t comment on the ESM treaty in totality because that is definitely for other people to talk about.

But when it comes to ESM providing the backstop to the SRB, you need to consider that this was an exchange of something that was within the ESM Treaty, called direct recapitalisation of banks. And this has been deleted. And when I look at the risk for the ESM, then I think this is a substantial enhancement for the ESM. And to that extent, I don’t think that the Bundesrechnungshof, the German Court of Auditors, has rightly assessed the situation.

It’s a difference whether you give a helping hand to an individual bank in a certain Member State or you provide a credit line to the SRB, which is basically to be repaid – and there are very strong conditionalities in this entire framework – and has to be repaid by contributions from more than 3 000 thousand banks within the Banking Union. So you have a by far more diversified and broader basis for repayment. And with that a far lower risk.

On the question of conditionality and the like, I would leave this to the governments and to the ESM to consider, because this is not part of our part of the ESM changes.

1-014-0000

Johan Van Overtveldt (ECR). – Thank you, Chair. Good to see you, Ms König, as always. Two issues I'd like to raise with you. First of all, there was a very interesting column in the Financial Times a few days ago by Neel Kashkari, the President of the Minneapolis Fed and also the general manager of the famous TARP fund that was so important to end the financial crisis.

He made basically two arguments. First of all, the aggressive budgetary policies that we've seen in the United States as well as in Europe were basically, according to him, bank bailouts. If these policies had not been introduced, we would have seen gigantic problems at the level of the banks.

And, secondly, given his first point and given the frequency of crises that we see, he makes an argument for much higher capital requirements for the banks. He suggests to go from the present more or less 13% to at least 20%. I'd like to ask your opinion on that statement. Secondly, cyber-security: we see with frightening frequency more and more cyber-attacks on all kinds of institutions. And I have the impression it's waiting for the big thing, which, of course, might happen in the financial sector. Do you share that fear of cyber insecurity and what, are according to you, for Europe, for European banks, the weak points in the cyber-protection mechanism?

1-015-0000

Elke König, Chair of the Single Resolution Board. – Thank you for your question and happy to see you again. I don't really share this very focused view of the measures that were taken by governments to be bank bailouts in disguise. I think they were bailing out the entire economy or supporting the economy which, clearly, as a consequence, is also helping banks because banks kept on lending in areas where otherwise a responsible bank management would have said 'let's wait and see what's going to happen'.

So I think this is a bit too narrow-focused in the assessment. But you have heard me also saying in the past that when we look at what will be the outcome of the crisis or what will be the fall-out for the banks, that, of course, the banks were shielded by the support that was given to the real economy. But this also shielded us from huge unemployment and all further measures.

The discussion about what is the right level of capital is an old one. Already years ago I heard some people saying it needs to be 20%, it needs to be 30%. I think sound management and monitoring of asset quality is minimum as important as the overall number, because you might otherwise wake up and the numbers aren't gone despite a very high capital ratio. But here I would be a prudent person and say 'more is better'.

So but is 20 the right number? Is it 30? I think one thing is for sure. If we had seen the crisis like the pandemic in 2007-8 with the capital levels at that time, we would be in a far more difficult position. So all the reforms we have enacted have really proven to be helping. And banks this time are not the problem but part of the solution.

Cyber-security: I think this is clearly far more a topic for supervisors for going concerns. And of course, I agree that in a world where we are increasingly working remotely, where we are using technology every day and hardly have anything left which is still on solid paper, cyber-crime is also an increasing risk. But I would first and foremost see supervisors here, and I know that the ECB in particular is very active and is trying to address it.

We will not – never, ever – be able to weed it out. We have for our resolution planning thought about it. So what if the bank is basically locked? If you can't get access to any data, what to do? What I think there is the judgment is still out. Because we also don't have a miracle wand – a magic wand – to solve the problem.

So for me, it is ongoing supervision and scrutiny of bank security measures.

1-016-0000

Eero Heinäluoma (S&D). – Thank you, Ms König, for your very balanced and constructive approach in your presentation.

We know that you and SRB really have an important role here to play in making the economic world safe in Europe. And we know that a real Banking Union cannot be without an effective institution looking after potential failing banks. I have some questions in my mind, and they are coming from the MREL world: despite the fact that overall the building of MREL goes relatively into the right direction. And we know there's a strong concentration of MREL shortage in some countries. To what extent is this concerning you in Portugal with the economic impact of COVID still looming?

Secondly, we all agree that the banks should be able to solve their problems themselves, not taxpayers. However, in your introduction, you outlined the challenges small and medium-sized banks are facing when it comes to boards issuing MREL. Based on which evidence do you come to this conclusion? Are the banks unable or unwilling to issue MREL debt? If so, how can this be given that banks have had time to adapt to the current legal framework since 2015?

And thirdly, to tackle this challenge, the SRB proposes new transfer tools. It's interesting to hear that. Which guarantees do you have that these new tools will work in practice better than the existing ones, and do not run the risk that these banks will not have to build up MREL at all, and that in the end the taxpayer will have to pick up the bill once more if something bad happens?

1-017-0000

Elke König, Chair of the Single Resolution Board. – Thank you for your very relevant question. I think it's fair to say, and you saw this on our website, that MREL shortfalls are concentrated in a few markets. And, of course, we are very much in discussion and monitoring also that those banks are, stepwise, addressing the MREL shortfalls.

We have – and this might be interesting for this House – we have given in a few cases banks the additional time that the legislation allows, until 2026, so that they have a realistic path to build up the necessary MREL and we are, as I said, closely monitoring their funding plans.

There is no way around and I think the banks know it. Have they started in 2015? No, of course you always first assume that something goes away, but I think by now all banks know that MREL is not going away.

On the small and medium-sized banks, this is a topic which is on our desk for a while and it's something that's also in the academic arena of discussion. We have in the Banking Union quite a number of banks, some of them really smaller but also mid-sized banks, that are basically deposit-funded.

So they have in a stylised form a very simple branching. They have equity and they have deposits and they have in the past not regularly tapped the market and therefore were, at least at the beginning, always saying, well this is very difficult. We don't have a track record, it's expensive and the like.

I think the answer, like always in life, is somewhere in the middle. We are clearly focusing also for those banks on their operational resolvability. We are focusing and telling them the market is wide open. Well, there's always a first time you need to tap the market if need be, and you should do so. And I think you can see that a number of banks are on the market as first-time issues.

At the same time, and this is probably a bit different from your expectation, we are saying for those banks, it's probably not about the bank to be recapitalised in case of failure and then slowly wound down. But these might be cases where we are able to use what's called transfer tools, and these are in the BRRD since the beginning, meaning we can sell the business, we can sell parts of the business in case of need, and with that mitigating a bit the effect of a potentially not fully fledged MREL yet.

Is this easy? No, it requires, of course, preparation. If you want to transfer certain assets, you need to be able to separate them. And so our work for those banks is basically, on the one hand, really pushing them to issue MREL, on the other hand, making sure that they are operational, capable in case of need to use the so-called transfer tools, be it an asset management company, be it a sale of business, and leaving behind parts of it.

It's an ongoing work, and I think it's necessary to carry on because in the end, and this I stated I think in this committee too, we cannot have a group of banks which is too big for going into regular insolvency procedure, but too small for being resolvable and then is competing based on an easy way out. And the easy way out would indeed be someone needs to fund it, be it the DGS, be it in the end, the taxpayer.

So our commitment is to make also those banks fully resolvable by using our tools.

1-018-0000

Chair. – Thank you very much. We have completed the list of our registered speakers, and I don't have requests for catch-the-eye, and it's noon, so we can conclude our public hearing. I really thank you, Elke, for your availability, for being with us today and your generosity in answering all the questions. Thanks to all the MEPs that participated in the debate. I wish you all a nice day.

(The hearing closed at 12.01)