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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

PUBLIC HEARING WITH ANDREA ENRIA
CHAIR OF THE SUPERVISORY BOARD OF THE EUROPEAN CENTRAL BANK

BRUSSELS

TUESDAY, 21 MARCH 2023

1-002-0000

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

(The hearing opened at 14:36)

1-003-0000

Chair. – Good afternoon, colleagues. Let's resume our committee meeting.

I would like to welcome with us Mr Andrea Enria, Chair of the Supervisory Board established at the ECB in the framework of the Single Supervisory Mechanism. Today you will actually appear twice in the ECON Committee, Mr Enria. This first hearing will be dedicated to the presentation of the ECB's annual report on the SSM, as foreseen in the international agreement between the Parliament and the ECB. This report covers the ECB's supervisory activities in 2022. And then, in addition, you are expected to address issues on ongoing efforts to improve the supervisory process and the EU legislative initiatives relevant to banking supervision.

A separate second hearing with you and the EBA Chair, Mr Campa, is scheduled later this afternoon, in which the failure of the Silicon Valley Bank and the implications for the European banking sector will be discussed.

So Mr Enria you now have the floor for an introductory statement.

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Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – 2022 was in many ways a turbulent year. As the EU economy and its banking sector were moving along a path of steady recovery from the pandemic, the Russian invasion of Ukraine, at the beginning of the year, proved to be the root cause of yet another important exogenous shock.

However, banks remained resilient and managed to smoothly navigate the changing geopolitical and macroeconomic environment. While the fast-paced adjustment of interest rates allowed the banking sector to reach record levels of profitability and improve its market valuations, it also gave rise to the need to proactively manage interest rate risk, funding and liquidity risk.

The strength of banks' balance sheets has been a crucial factor for weathering the turbulence, which has materialised on banking and financial markets over the past few weeks. I would now like to elaborate on the supervisory developments over the past year, given that the more recent turbulent events will be discussed in a separate session later as you mentioned, Madame Chair.

Banks' capital and liquidity positions remained solid and well above minimum requirements, with the aggregated Common Equity Tier 1 ratio standing at 15.3% and the liquidity coverage ratio at 161% at the end of the fourth quarter of 2022. These are preliminary data, not yet published. In addition, the volume of non-performing loans continued to decline, with non-performing loans ratio standing at 1.8% in the fourth quarter. Return on equity reached its highest level since the start of the Banking Union, to stand at 7.7% in the fourth quarter of 2022.

Supervisory work, first and foremost, focused on monitoring the activities and the risk-reduction efforts made by banks with direct exposures to Russia and, in particular, those established in the Russian market. This work is still ongoing, for while total euro area banks' direct exposures to Russia had declined by around 20% as of the third quarter of 2022, the exit strategy used by some banking groups still present in Russia has not thus far delivered the results expected.

Against the backdrop of energy price inflation and heightened volatility of commodity prices, we used available granular credit risk data to monitor banks' credit exposures to energy-intensive sectors, such as metal and chemical products, commodity goods and energy utilities. In the light of the lessons drawn from the collapse of Archegos in 2021, we also turned our attention to possible risks arising from financial market dislocations, which could primarily affect non-bank financial counterparties.

By reviewing the governance and risk-management practices of those significant institutions most exposed to counterparty credit risks and risks related to prime brokerage, supervisors were able to identify and tackle those deficiencies which, if left unaddressed, would overly expose banks dealing in derivatives and offering clearing, securities and investment banking services to other banks and non-bank financial institutions.

Finally, we focused on the risks arising from the upward shift in interest rates. In particular, we carried out a targeted review of interest rate risk and credit-spread risks in the banking book and we looked closely at exposures to sectors especially sensitive to interest rates, such as commercial and residential real estate lending and leveraged finance. Leveraged finance also became the object of a dedicated Pillar 2 requirement add-on as a result of the supervisory review and evaluation process last year, which was targeted to a handful of highly exposed banks.

Strong internal governance and effective steering by management bodies are key for banks to continue developing adequate strategies and face the challenges ahead. This is why ensuring the effectiveness and diversity of banks' management bodies remains one of the current priorities for ECB banking supervision, making it important for us to perform our targeted reviews and on-site inspection campaigns whenever we consider it necessary. Governance arrangements are also key to instigating the appropriate strategic steering towards digital transformation. Last year, we conducted an extensive survey to better understand the state of play of digital transformation and to better plan our supervisory activities around this.

Our supervisors also intend to follow up on the results of the reviews of climate-related and environmental risks that were conducted in 2022. While clear progress was made compared with 2021, banks still have significant blind spots in terms of identifying climate-related and environmental risks.

As part of their monitoring efforts, supervisors will focus on banks' ability to capture these risks in their risk management frameworks. We are also urging banks to further develop their stress-testing frameworks and reduce data gaps. Banks have now received individual letters setting out the steps to be taken in order to be fully compliant with our supervisory expectations by the end of 2024.

The experience gained around two exogenous shocks in the space of only two years illustrates the invaluable benefit of a flexible and fully risk-based supervisory approach. Moving away from the start-up phase of the Single Supervisory Mechanism and taking stock of the more equal level playing field achieved by building harmonised supervisory practices and processes, we now need to look at ways of enhancing the efficiency of our work, lightening the administrative burden and making supervision even more effective and impactful.

We are, therefore, gradually working to improve our supervisory processes. We are introducing a supervisory risk tolerance framework, which will allow supervisors to better adjust to bank-specific needs and avoid tick-the-boxes exercises. We also intend to enable our supervisors to better calibrate the intensity and frequency of their analyses over time by introducing what we call a multi-year SREP approach.

With our supervisory processes benefiting from more discretion, we also need to be more accountable and hence transparent to the banks we supervise as well as the wider public. We are, therefore, taking steps to better explain our methodologies and individual supervisory expectations. In this vein, we now summarise our key concerns and findings in the executive letters that we send to individual banks at the end of each SREP exercise – a means for setting forth what we want the banks to treat as a priority. In the near future, we intend also to increase transparency on our methodologies.

Effective supervision and the soundness of our banking sector have, of course, also been made possible by the rules that you, the EU legislators, put in place. And let me recall three key legislative initiatives that you are currently working on and which are particularly relevant for supervisors.

First, there is the banking package. It needs to be put in place by the beginning of 2025, at the same time minimising any deviations from the Basel III final standards. As part of this package, you need to be as ambitious as possible regarding the requirements you introduce for banks' governance. This is the only way to achieve the solidity and success of the banking business that we truly need.

It is crucial that we conduct fit-and-proper assessment of banks' managers before they take up their positions. Supervisors must be able to ensure that candidates meet the high standards of professional competence required of them. And also, banks' boards need to be sufficiently independent and diverse in terms of their professional and educational background, gender, age and geographical origin.

Second, it is important that the new anti-money laundering authority is set up without undue delay, with adequate supervisory capacity to perform its tasks, as well as being responsible for the direct supervision of a sufficient number of institutions to have an EU-wide impact.

And finally, there is the reform of the crisis management framework. The Banking Union has more than once demonstrated its ability to swiftly manage banking crisis scenarios, taking complex decisions by means of smooth and intense cooperation between the ECB and the Single Resolution Board, as well as with several national authorities.

Our last case in this respect was the successful management of the Sberbank Group failure following the Russian invasion of Ukraine. However, we are still working under the assumption that the resolution framework would only apply to a narrow set of banks and we face very heterogeneous national liquidation frameworks and different roles for deposit guarantee schemes across the Member States. It is important to reflect on what we learned during the first few years in which we applied this new framework and move towards targeted improvements in legislation and practices. And this would also help to move us closer to completing the Banking Union.

1-005-0000

Markus Ferber (PPE). – Thank you for the regular exchanges of views, Mr Enria. We will be dealing with topical issues later on. That is why I have two questions on the general theme.

Firstly: According to your statistics, the rate of non-performing loans at SSM banks is still on a downward trend. That is a welcome development. At the same time, however, the share of loans with an increased credit risk, or stage 2 loans, has been rising steadily for several quarters. I think that is very worrying. How do you explain this trend reversal, and what does it mean with regard to changes in European banks' asset quality?

And my second question: In recent years, it has become apparent that the crypto sector is largely isolated from the rest of the financial system. For a long time, crypto-asset volatility and crypto service provider bankruptcies had no impact on the traditional financial system. But with the collapse of Silvergate Bank, which was the bank for a host of crypto-asset service providers, we now have, for the first time, a case where problems in the crypto-asset sector have also spilled over into the traditional financial system. What is your assessment of this case, and do you see increasing interdependencies, i.e. dependencies, between the crypto world and the banking world? And what does that mean from a regulatory and supervisory perspective?

1-006-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you very much for your question. You're absolutely correct: the non-performing loans have kept decreasing, but we have seen some upticks. Actually, we have seen some upticks if you look at sectoral non-performing loans. For instance, asset quality has already started deteriorating a bit in the in the consumer finance area.

But it is true that there has been an increase in stage two loans. So the loans which are underperforming, that start showing signs of deterioration. This is to some extent not unexpected, this is something that we were foreseeing. The continued decrease in non-performing loans is also driven by the number of continued sales and securitisation operations which have been made by the so-called 'high NPL banks'. So banks which had still a significant amount of legacy portfolios. This continued throughout the pandemic and also in 2022. So this reduces the numerator. Of course, there is also an increase in the denominator, so the loans, which has helped the ratio to go down.

But anyway, there is, not surprisingly, some signs of increasing credit risk in certain sectors and in certain set of counterparts that we are closely monitoring, of course. That's why during the pandemic and last year we put a lot of emphasis in our supervisory activities on internal risk controls. Because this is the main issue that would enable the bank to identify early the problems, taking them early and sorting them out early. So the recommendation to banks is always to engage with customers and find solutions as soon as there are signs of deterioration.

On the crypto sector, you are right, this is quite isolated. There has been very limited, almost none, interaction with the official banking sector. This is not changed. In a sense the collapse in the crypto market last year has not created any wave in the in the official banks.

I would argue that it is important also that the standards that have been approved by the Basel Committee at the end of last year - which are particularly strong and conservative on the exposures of banks towards crypto assets - are implemented in the European Union as soon as possible. That will be another important element of protection. Of course, MiCA is also another important protection.

Let me say only one point on crypto is that I started my career as a supervisor after the Ambrosiano and during the BCCI case. For this sector, it is particularly important to have global standards and to have a consolidated view on risks. If you look at FDX, one of the problems was that they had several entities in different jurisdictions, and they were able to shuffle risks amongst them without any authority being able to understand what the real risk was. So, in any case, this dimension of a consolidated view on the group will remain crucial.

1-007-0000

Markus Ferber (PPE). – And Silvergate Bank has no influence on the real banking sector?

1-008-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Silvergate was a very small bank that dealt with crypto and basically put itself into voluntary liquidation without, from what I understand, any impact on other banks. So it doesn't seem to raise any supervisory concern.

The case of Silicon Valley Bank is a bit more difficult because there, there was a crypto asset exchange that had significant reserves placed with the bank. So this crypto asset fund was not able to guarantee the conversion into dollar at par. So that created some turmoil in the crypto asset world. But again, nothing that contaminated other banks so far.

1-009-0000

Aurore Lalucq (S&D). – In late 2022, if my memory serves me correctly, you, José Manuel Campa and Luis de Guindos voiced your concern about the failure to fully implement the Basel agreements at European level. What's more, I think you added that not implementing those agreements would have repercussions for the European Union's reputation and competitiveness and would be a blow to the financing of the European banking system. You warned us co-legislators – not just us; there is also the Council and the Commission – that too many deviations from Basel would be problematic. Allow me to make a side comment: I think nonetheless that there are often differences of opinion between co-legislators and supervisors, particularly on the issue of crypto and banking regulation – and I myself am concerned about that. Can you tell us, apart from the points you mentioned in your address, what are the points on which we really must not deviate from the Basel agreements, given that negotiations are ongoing?

My second point concerns the issue of European banks' liquidity ratios and management of interest rate risk. As a supervisor, how do you view that? Because it's not all that difficult to manage interest rate risk, normally, and yet we have seen how it has bankrupted some banks in the US – it's therefore no trivial matter! So, in terms of liquidity ratios and rate risk management, are we better equipped?

Lastly, it's very hard not to ask you about what happened between Crédit Suisse and UBS – the fact that there is going to be a colossus and that there is nevertheless a question mark about hierarchy of claims and hierarchy of losses ... I would have liked us to be given reassurance on that point.

1-010-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – On the Basel deviations, let's say now we are all focused on how damaging the decision of the US authorities not to apply Basel standards to middle-sized banks has been in terms of the impact. And we have been, and I compliment the co-legislators in the European Union for their decision to be extensive in the scope of the application of the international standards.

But, of course, we have chosen also here and there not to deviate from the international standards, and alleviating them under the assumption that this would facilitate some lines of business. And again, for me, the recommendation is always to try and stick to the international standards because they cannot be, maybe, the Bible, but still, they are the best that authorities across the world have come out with in terms of protecting the stability, the safety and soundness of our banks.

In the areas which, in my view, are more delicate, again, I think that we have this deviation introduced already in the past on credit value adjustment risk, which is a deviation that we only have, which is quite impactful on certain lines of business and certain banks. And, especially in a period in which interest rates are increasing, I would be very careful also on alleviations of the prudential framework for commercial and residential real estate, which are of course very sensitive to the increase in interest rates.

On liquidity and interest rate risk, indeed, they are at the core of our focus in terms of supervisory efforts. We started already with interest rate risk already in 2021. I will be more precise in the next exchange of views, but let’s say on interest rate risk we made last year a targeted review which went very deep, also with a campaign of on-site inspections at banks. Looking at risk management practices, we identified a number of weaknesses in banks in terms of hedging, in terms of stress testing, in terms of assumption on depositors’ behaviour. And we asked the banks, of course, to remediate and strengthen their management of interest rate risk.

So we have the tools and we are using them extensively. And the stress test also that we will run this year under the EBA hedges will help us focus on those topics. On liquidity ratios, let’s say the liquidity ratios of European banks at the moment are very strong.

Maybe one point I would mention is that we have seen some episodes in which the volatility has been very, very high. So we need maybe to focus more our supervisory work - we have already done so, to be honest - on the different type of counterparts for banks, making sure that we are particularly attentive on those business models which have weaknesses on their funding strategy. But we have already started last year to review the funding plans of the banks. We know that the TLTROs, the lending facilities of the ECB, are being phased out. So we have put a lot of emphasis on that.

Credit Suisse-UBS: we had this issue of the hierarchy of claims, let’s say the point that has raised some concerns is the fact that the additional Tier 1 instruments in Switzerland contain a specific clause that is not available, not used in the contracts and in under the legislation in the European Union that enables, basically, the supervisor to trigger a permanent write-down of these instruments to zero in case of a public support being deployed for the bank.

And so this has created to some extent an inversion of the hierarchy, because equity-holders still received some positive value for their investments while the additional Tier 1 investors did not. So this created some turmoil in the market for additional Tier 1 instruments and contaminated also other asset classes.

So yesterday we clarified that this type of approach would not be, let’s say, feasible under the European framework. And, of course, it would not only be the case in a resolution where we would have to follow closely the hierarchy of claims, but we as authorities would also apply the same approach in orchestrated private solutions.

1-011-0000

Georgios Kyrtsos (Renew). – I would like to thank Mr Enria for his presentation and for his excellent work, of course.

I have three questions. The first one has to do with the differential in interest rates. We know that the interest rates on deposits remain very low, whereas interest rates on loans given by the banks keep increasing. I come from Greece and this is very characteristic of the situation. Okay, this is good for the performance of the banks - we want the banks to be profitable and solid, etc. - but it’s not very good for the economy, the society, and even for politics, because there is a lot of dissatisfaction. Do you think that this situation is normal? Is it going to continue, is it going to be improved? Have we reached the threshold where there has to be some kind of intervention? Please tell us your opinion.

The second has to do - the second question has to do with the role of the state Saudi bank that speeded up or influenced the collapse of Credit Suisse. This is kind of an exogenous factor, but do we have in European banks major investors, let’s say from the Arab Peninsula, that could be less sensitive to our European needs? Let’s put it in this way. Does this worry you?

And the third has to do with what you said, that we need to work on anti-laundering rules and the system. Obviously, the war is going to continue. So we have to keep in mind Russian oligarchs subsidising or financing Putin’s war, etc. What do you think are the gaps that we have to deal with?

1-012-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – On the interest rates, let’s say we as a prudential supervisor are definitely avoiding any intervention that could interfere with the pricing mechanisms of the banks. What I could notice is that in general there is a sort of relatively normal dynamics, in the moment in which there has been a reduction and interest rates have even gone into negative space, the margins of banks compressed extremely, because they’ve not applied until the very late stage negative interest rates, for instance, to depositors, while they of course were facing negative interest rates on their deposits for instance at the central bank.

When the margins reopen there is a sort of faster adjustment on the asset side where sometimes contracts are incorporating variable rates conditions, while the reaction on the liability side is a bit slower.

I’m convinced, especially now, that the extraordinary central banking facilities are being withdrawn, the competition amongst banks for depositors will increase and we will see also the effect on the depositors’ side.

On the role of Arab or other investors, indeed, in the ownership structure of our banks we do have also some sovereign funds and some investments coming from foreign jurisdictions, including the United Arab Emirates and Saudi Arabia. I would not comment on the role they played on Credit Suisse because it’s not a bank we supervise, and I do not have anything to say about that. But in general we see also foreign investors in our markets as a positive part of the governance of our banks and we have not noticed any specific problem there.

On anti-money-laundering rules, we are not, as you know, an anti-money-laundering authority. The interface between the prudential supervisor and the anti-money-laundering framework is generally the internal governance and the internal control. If banks have strong internal governance, strong internal controls, generally they don’t engage in activities which have raised concerns in terms of money laundering or criminal activities or sanctions. So that’s the most important element that needs to be strengthened. We have significantly increased the cooperation with the AML authorities, exchanging notes and information to be able to perform a strong review of our banks from both points of view. And of course the establishment of a European anti-money-laundering authority will be a major step forward because what we see so far is that the types of assessment that we receive from the different national authorities are very diverse in terms of focus, quality, depth, so having a harmonisation and a strengthening of the AML functions at the European level will be very positive for our banks and for our market.

1-013-0000

Ernest Urtasun (Verts/ALE). – Mr Enria, one gets the feeling, given what has happened recently with SVB and Credit Suisse, that we are going back on the promises we made in 2008. With SVB, the Americans have decided to bail out all the depositors, with no limits, and with Credit Suisse – and I would say this is almost more worrying – a decision has been taken to reverse the loss hierarchy, and the Swiss have ended up bailing out the shareholders. I think that is very worrying.

This hasn't happened in the European Union, obviously, but my first question is whether you think it would be possible within the framework of the European Union, because I think it would be useful for the authorities to send a very clear message that the regime we built from 2008 onwards – the resolution regime – is sound and is being maintained within Europe, and that we are not going to go down the same path as the Americans and the Swiss. That's my first question.

The second question is about something that we Europeans are doing badly, or are starting to do badly, and that is the application of Basel. And I'm very glad that today you've said very clearly that you don't want any deviations from Basel, because that would mean European banks having risks that aren't covered. But I would like to ask you one question: if, ultimately, the EU ends up being a jurisdiction that doesn't comply with Basel, what impact do you think that might have for the Basel regime internationally? What kind of message are we sending to other jurisdictions?

1-014-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you very much for your question. First of all let me express again strongly my faith in the working of the institutional framework that we set up in response to the crisis. I think that we have done an excellent job globally now to strengthen the framework and to enable authorities to manage also complex crises in a smooth way without creating, ideally, damages for depositors and for the markets at large. Of course we always learn a way to improve it, but the overall framework is, in my view, positive.

On the issue of the write-down of additional Tier 1 holders and the application of losses in the case of Credit Suisse, let me be clear, the framework that came out from the great financial crisis entails that creditors should be exposed to losses in case of a bank crisis. So that is important. And the issue that we raised and is that we need to follow a proper hierarchy of claims. And ideally, I think that would be the avenue for us in the European Union, this should be performed within the institutional framework that we have. So ideally with EU resolution, but also if we have a private, orchestrated solution of the crisis, as was the case with the acquisition of Credit Suisse by UBS, it would be important to respect as much as possible the hierarchy of claims. So that's the point that we made in our statement yesterday.

The outcome of the solution of the takeover by Credit Suisse by UBS is positive because, let's remind ourselves, Credit Suisse was a globally systemic, important bank which means that a disorderly liquidation would have been very disruptive for global financial markets. So having this solution has been very positive. But there was this issue of the hierarchy of claims that was particularly delicate for us.

On the cases in the US, again, I think that it is important to maintain the framework that we have. So far it operated relatively satisfactorily, I think, in a satisfactory way. I think it is important to ensure that, again, there is the proper distribution of losses, first of all, to shareholders and then along the hierarchy of claims. What happened there, of course, is that the US authorities triggered the so-called 'systemic risk exception' that was linked to a particular turbulence on the side of uninsured corporate depositors for retail banks. I think that in this case the better protection of the system that we have is to avoid these extreme business models that give rise to these violent run on the depositors' side.

On your point on the Basel application, I would argue that there is an effect we are having because I hear that, of course, seeing that the European Union starts deviating from the international standards, the discussion in other jurisdictions also is becoming more difficult and there could be other deviations that are introduced in other systems. So eventually the result will be that the global system generally will be weaker than it would have been if all the jurisdictions were to implement the global standards.

And again, let me remind that for me what is important we should focus on also is the institutional setup, so these are not standards that are being written in an ivory tower by some regulators. There has been a huge international debate. We reported to Parliament extensively and there has been an endorsement by the G20. So the more all the jurisdictions stick to their international commitments, the better.

1-015-0000

Dorien Rookmaker (ECR). – Thank you for coming to the ECON committee, Mr Enria. I would like to do this in Dutch. The events at Silicon Valley Bank demonstrate that smaller, unsupervised banks can pose a significant risk. As far as I have been able to follow events, Silicon Valley Bank was having funding difficulties and then launched a share issue, prompting serious concerns among large creditors owed money by Silicon Valley Bank, and then a run on the bank ensued. I would like to ask you whether you think that those scenarios are also possible in Europe. After all, banks maintain buffers for financial risks. But what precisely are they doing to manage the risk of a crisis of confidence?

Secondly, do you know how national competent authorities carry out their supervision of non-systemic banks? Because I am being given hints that this differs quite a bit between them. And, of course, we can harmonise in Europe; but if the harmonised rules are applied differently – and the same applies, of course, to Basel – then we will still create an imbalance and risks will remain hidden. So I would like to know what you think about that.

And then there's the events at Credit Suisse. They showed that buyers of AT1 bonds were running huge risks with their investments. Credit Suisse generated a 17 billion loss for investors. Can you tell us how many billions in CoCos – that's what they're called – are on European banks' balance sheets? And, fourthly, to what extent do you find that the ECB's interest rate adjustment could pose a threat to banks' financial stability and viability? Do you think that banks could get into difficulties because of higher interest rates?

1-016-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – The first question on small banks and high risk of bank runs, let me say that, first of all, these were not small banks . I mean, Silicon Valley Bank, First Republic are all banks that have north of USD 200 billion in assets.

So in our framework, they would be considered significant institutions under the responsibility of the ECB and would be also mid-sized, let's say, in our constituency. So they are not very small banks. What drove the run on deposits was - I will elaborate more in the next exchange of views - not so much the size but actually the fact that these banks had a very concentrated deposit base, and they had a very uniform composition of liabilities and assets concentrated on tech firms, venture capital, investing in tech firms and crypto asset providers. So very homogeneous. And they also invested with poor asset and liability management practices, long-term deposits, so deposits into long term assets. And this led, with increasing interest rates, of course, to valuation losses.

So it was an extreme interest rate risk exposure coupled with concentrated uninsured depositors and a homogenous genius business model. This was the, let's say, the combustion that drove the run. And we don't have any examples of European banks of these extreme features.

About NCAs. NCAs, of course indeed carry out the direct, day-to-day supervision of what we call 'less significant institutions'. But this is done within the framework of the Single Supervisory Mechanism, so the methodologies are agreed within the Single Supervisory Mechanism. There is an oversight function that is developed at the ECB, engaging with the national authorities, and we cooperate very closely.

And finally, on additional Tier 1: additional Tier 1 is computed as a capital instrument. So it's clear that, if a bank is under stress, they are supposed to absorb losses, that's how they have been constructed. And actually one of the main repair actions following the last crisis was to avoid that you had bailouts, no? With governments injecting taxpayers money into the banks while the investors in capital instruments were still receiving regularly payments of the coupon.

So it's correct that these instruments absorb losses in in a crisis. As I mentioned before, there was this issue of the hierarchy structure that was very delicate. But these instruments are not dangerous or, let's say, instruments that should not ever ... They are important elements, actually, of the capital structure of banks. They help absorbing losses. When equities is reduced because of losses, they can be converted and become shares in several cases and then make the bank stronger and help the resolution of the bank. So they are useful instruments.

1-017-0000

Dimitrios Papadimoulis (The Left). – Madam Chair, Thank you Mr Enria for being here once again and for the information you have shared with us. I have two questions. The first one is regarding the assurance given by the US Federal Deposit Insurance Corporation that all deposits, both insured and uninsured, will be fully covered, and that the insurance for uninsured deposits will be paid by a deposit insurance fund and the sum recovered through bank levies, not by charging taxpayers. Based on this assurance, I would like to ask you the following: Do you not consider that it is particularly important to press ahead with the single European Deposit Insurance Scheme, which has been deadlocked for years, delaying the completion of the banking union, despite having your support, as well as that of the Commission and the European Central Bank?

And my second question is: Since we are all aware that the reassurances given up until now by yourself, Ms Lagarde and the Commission are no longer enough to convince depositors and everyone who contributes to the functioning of the banking system in Europe, I would like to ask you what, in your view, needs to happen as a priority when minimising deviations from the Basel III standards, in order to limit the direct and indirect risks you yourself outlined. Specifically, I would like to ask you: What do you mean by the need to pay attention to different aspects of liquidity? What risk is there in the different aspects of liquidity?

1-018-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Well, on your first question on the FDIC and the coverage of uninsured depositors, this, as I mentioned before, has been a rather controversial decision, but was a decision that has been driven in the US by a specific feature of the run on Silicon Valley Bank that was eventually being extended to other regional banks and contaminating also banks that did not have the same characteristics. So that's a decision that the US authorities took, triggering this 'systemic risk exception' and preventing in any case that taxpayers' money was used for this purpose. We respect this decision.

I don't see, again, the reason for changing anything in the European set-up at the moment because, exactly, we don't have these types of extreme business models that would trigger these types of concerns. Do we need to move forward to oversee this? Yes, for sure. I wouldn't say that this is because of Silicon Valley Bank, to be honest. I would say that this is exactly because we need to avoid that the differences that we have now in different DGSs – in the operation of different deposit guarantee schemes – can create different dynamics in different Member States because as we have seen, the turmoil moves very fast, also cross-border. So it is important that we have a homogeneous system and the CMDI package could also be an important step forward even before EDIS to make progress in harmonisation of the functioning of deposit guarantee schemes.

On the soothing words, I think is the first time somebody tells me that I'm using soothing words with the banks! I'm happy to hear that. In general, I would say that it is indeed important for me that we come as close as possible to the international standards because these provide the yardstick with which everybody is judged at the international level. And if there is a deviation today, there could be the, in my view, misguided impression to be supporting lending maybe in specific lines of business, but this generally occurs with inappropriate coverage of the risks that accompany this business that can come back tomorrow in case there is a default of a bank. And I'm sure that legislators or supervisors would in that case be blamed. So I would really call on you to be as careful as possible and as diligent as possible in staying close to the international standards.

1-019-0000

Danuta Maria Hübner (PPE). – One question is about your annual report on supervisory activities in 2022. When you actually admitted that you were not very happy about sufficient progress in banks, risks, controls and internal governance. Where are we today? Are we moving in the right direction? That would be my first question.
The second, could you share with us some comments on how you cooperate with the SRB today and especially with the new authorities, and how does it work in context of the current situation?

1-020-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Governance remains the area in our supervisory review and evaluation process with the highest number of findings. And for us, it's a little bit the origin of most weaknesses that we see also in other in other areas.

It is a moment in which, in particular, banks face - besides the challenges of the day that we have been discussing somewhat and will discuss further in the next session - more structural long term challenges: digitalisation, climate change and climate risk and environmental risks. In these areas, there is a need for strong steering by the boards, and for us it is important that you have, first of all, the right skills in the boards and second, that you have the right challenge of the executives. So there needs to be sufficient checks and balances within the governance of the banks.

These are areas in which we are focusing quite a lot. We will have this year a targeted review again on board effectiveness and we will have further work also on diversity in boards, which are two important elements of our focus.

On cooperation with the SRB, I must say I am very pleased. Honestly, it has always been one of the strong elements of our framework, not only because of what is written in the legislation, but also because of the…, we have an MoU. We share data, we meet frequently. When there is a bank that starts having some signals of weaknesses, we engage with the SRB so that they can start their preparation early. This is done in a confidential way and works honestly very well. Also, during the weekend of Sberbank, we managed to run our complex processes in parallel, so as to be able to finalise the whole process by Sunday evening. And that also was very successful.

So personally, I hope that Dominique Laboureix would agree with me, the cooperation is excellent.

1-021-0000

René Repasi (S&D). – Madam Chair, I would like to follow up on the question that my colleague Aurore Lalucq was asking on the AT1 capital. In reply to her question, you said that what had happened in Switzerland wouldn't be feasible under the EU framework and referred to a clause in those bonds. And indeed, in the small print it was said that the Swiss authorities may disregard the normal order of priority, and they made use of this particular clause.

I'm therefore wondering whether you have knowledge of any comparable clause for SSM - supervised banks in AT1 bonds? And, provided that there are any, what does this mean in consequence? If we were in a situation in which there is either a commercial merger between a bank that is in distress, which means that then shareholders could receive some sort of compensation, and there is, other than the AT1 bonds, the only possibility that there is some sort of bail-in. So whether you would oppose the commercial merger and push the bank into a resolution or accept a commercial merger, even if it's at the expense of the priority?

1-022-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – The first answer is simple. To my knowledge, and there have been also private investigations which have been made in rather thick contractual papers of additional Tier 1 instruments of European banks, but there are no clauses like the ones that you find in the Swiss additional Tier 1 instruments. So this is not present in European banks.

For the second I mentioned clearly, we do have a clear hierarchy of claims in resolution, but we do also have a policy commitment. I do personally have a policy commitment to respect the hierarchy of claims also in a case of orchestrated private solutions that do not trigger formal resolution proceedings. In any case, my understanding, again, is that the additional Tier 1 instruments that we have all entail either a conversion into equity, which would then make at least the additional Tier 1 holders pari passu with shareholders, or a temporary write-down clause that would enable the additional Tier 1 holders to recover value when there is the upside after any type of solution. So both the structures and the policy and the legal framework point in the same direction.

1-023-0000

Chair. – We have not much time, but I would like to give myself the catch-the-eye just one minute for one question, because in this past couple of weeks also after all the turbulences that we've seen in the banking sector, some people are wondering if it would be a good idea and if the SSM is thinking about increasing the solidity and resilience of banks by putting a sort of restriction on buybacks or dividends. Others say this could be actually a way to force capital away from banks and put more pressure. But I would like to see your view, if it's something you intend to do, you're thinking about or what are your reflections on this possibility?

1-024-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – No, definitely this is not something we are considering. We have already reviewed the distribution plans of our banks. They've submitted to us their capital projections also under adverse scenarios and nothing has changed that affects our assessment of those capital plans. So all in all, the distribution plans of the banks under our supervision entail in aggregate a payout ratio of 51%. So it is, let's say, in a normal, ordinary ballpark. So all in all, we wouldn't see any need to correct our assessment on distributions.

And I know that there is sometimes a nervousness because we did this recommendation during the pandemic, but there we were in a totally different environment in which we had total uncertainty, the economy was in a standstill, the largest recession in peacetime European history and we had no visibility on the path of asset quality. We are in a completely different framework right now, we can differentiate across banks, so these solutions are not even considered.

1-025-0000

Chair. – So that was focused and fast. Thank you very, very much. So we conclude our public hearing with Andrea Enria.

(*The hearing closed at 15.35*)