



PARLAMENT EWROPEW

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# RAPPORT

dwar il-proposta tal-Bank Ċentrali Ewropew għall-hatra tal-Viċi President tal-Bord Superviżorju tal-Bank Ċentrali Ewropew  
(N7-0003/2014 – C7-0017/2014 – 2014/0900(NLE))

Kumitat għall-Affarijiet Ekonomiċi u Monetarji

Rapporteur: Sharon Bowles

PR\_NLE

**WERREJ**

**Pagna**

PROPOSTA GĦAL DEĊIŻJONI TAL-PARLAMENT EWROPEW .....	3
ANNEX 1 ANSWERS BY SABINE LAUTENSCHLÄGER TO THE QUESTIONNAIRE ...	5
RIŻULTAT TAL-VOTAZZJONI FINALI FIL-KUMITAT .....	18

## PROPOSTA GĦAL DEĊIŻJONI TAL-PARLAMENT EWROPEW

**dwar il-proposta tal-Bank Ċentrali Ewropew għall-hatra tal-Viċi President tal-Bord Superviżorju tal-Bank Ċentrali Ewropew  
(N7-0003/2014 – C7-0017/2014 – 2014/0900(NLE))**

**(Approvazzjoni)**

*Il-Parlament Ewropew,*

- wara li kkunsidra l-proposta tal-Bank Ċentrali Ewropew tat-22 ta' Jannar 2014 għall-hatra tal-Viċi President tal-Bord Superviżorju tal-Bank Ċentrali Ewropew (N7-0003/2014),
  - wara li kkunsidra l-Artikolu 26(3) tar-Regolament tal-Kunsill (UE) Nru 1024/2013 tal-15 ta' Ottubru 2013 li jikkonferixxi kompiti speċifiċi lill-Bank Ċentrali Ewropew fir-rigward tal-politiki relatati mas-superviżjoni prudenzjali ta' istituzzjonijiet ta' kreditu<sup>1</sup>,
  - wara li kkunsidra l-Ftehim Interistituzzjonali bejn il-Parlament Ewropew u l-Bank Ċentrali Ewropew dwar il-modalitajiet prattici tal-eżerċizzju tar-responsabbiltà demokratika u tas-superviżjoni tal-eżerċizzju tal-kompiti mogħtija lill-BĠE fil-qafas tal-Mekkaniżmu Superviżorju Uniku<sup>2</sup>,
  - wara li kkunsidra r-Regoli ta' Proċedura tiegħu,
  - wara li kkunsidra r-rapport tal-Kumitat għall-Affarijiet Ekonomiċi u Monetarji (A7-0086/2014),
- A. billi l-Artikolu 26(3) tar-Regolament (UE) Nru 1024/2013 jipprevedi li l-Bank Ċentrali Ewropew (BĊE) għandu jibgħat lill-Parlament il-proposta tiegħu għall-hatra tal-Viċi President tal-Bord Superviżorju u li l-Viċi President għandu jintgħazel minn fost il-membri tal-Bord Eżekuttiv tal-BĊE;
- B. billi l-Artikolu 26(2) tar-Regolament (UE) Nru 1024/2013 jipprevedi li l-hatriet għall-Bord Superviżorju bi qbil ma' dak ir-Regolament għandhom jirrispettaw il-prinċipji tal-bilanċ tas-sessi, l-esperjenza u l-kwalifiki;
- C. billi, fl-21 ta' Jannar 2014, il-Kunsill Ewropew ħatar lil Sabine Lautenschläger bħala membru tal-Bord Eżekuttiv tal-BĊE bi qbil mal-Artikolu 283(2) tat-Trattat dwar il-Funzjonament tal-Unjoni Ewropea;
- D. billi, permezz ta' ittra datata t-22 ta' Jannar 2014, il-BĊE ppreżenta proposta lill-Parlament għall-hatra ta' Sabine Lautenschläger bħala l-Viċi President tal-Bord Superviżorju tal-BĊE għal terminu ta' kariga ta' hames snin;
- E. billi l-Kumitat għall-Affarijiet Monetarji u Ekonomiċi tal-Parlament imbagħad ipproċeda għall-evalwazzjoni tal-kredenzjali tal-kandidata proposta, b'mod partikolari fid-dawl tar-

<sup>1</sup> ĠU L 287, 29.10.2013, p. 63.

<sup>2</sup> ĠU L 320, 30.11.2013, p. 1.

rekwiżiti stipulati fl-Artikolu 26(2) u (3) tar-Regolament (EU) Nru 1024/2013; billi fl-ambitu ta' din l-evalwazzjoni, il-Kumitat irċieva curriculum vitae mingħand il-kandidata proposta kif ukoll t-tweġibiet tagħha għal kwestjonarju bil-miktub;

- F. billi l-Kumitat ipproċeda għal smiġħ mal-kandidata proposta fit-3 ta' Frar 2014, u li matulu din tal-aħħar għamlet stqarrija preliminari u imbagħad wieġbet għall-mistoqsijiet li ġew indirizzati lilha mill-membri tal-Kumitat;
1. Japprova l-proposta tal-BĊE għall-ħatra ta' Sabine Lautenschläger bħala Vici President tal-Bord Supervizorju tal-BĊE;
  2. Jagħti istruzzjonijiet lill-President tiegħu biex jgħaddi din id-deċiżjoni lill-Bank Ċentrali Ewropew, lill-Kunsill, u lill-gvernijiet tal-Istati Membri.

## ANNEX 1 ANSWERS BY SABINE LAUTENSCHLÄGER TO THE QUESTIONNAIRE

### A. Personal and professional background

*1. Please highlight the main aspects of your professional experience in financial supervision.*

After taking my final degree in law, I started my professional career at the Federal Banking Supervisory Authority (BaKred) in 1995. During the first four years I gained experience in almost every aspect of prudential banking supervision by being in charge of supervision of small banks as well as internationally active investment banks. During the second half of the 1990s, German global banks extended their international and trading business. The change in banking business was followed by a change in supervision from a strictly quantitative to a qualitative supervisory approach. The focus shifted to the new products, i.e. derivatives, and to the quality of risk management in banks. Because of the “diversity” of my supervisory portfolio I had the opportunity to “apply” almost every supervisory measure in the German Banking Act, such as the order for special examinations, the dismissal of board managers, the order of capital reduction, the granting and withdrawal of banking licenses, the prohibition of lending business and the closing of business.

Between 1999 and 2002 I headed the newly created office for press and public relations at BaKred. The objective of the new unit was to achieve greater transparency about the way supervision is done in Germany. My main responsibility was to develop and implement a public relations strategy and explain the rules and procedures of banking supervision to journalists and other interested parties.

In May 2002 the Federal Financial Supervisory Authority (BaFin) was founded by merging the three authorities for insurance, banking and securities trading supervision. I was asked to assume responsibility for internal and external communication. As head of this department, I developed and implemented a new public relations strategy, a policy for internal communication for the transition and the “steady state” period at BaFin. As leading press officer, I was the main contact for journalists reporting on insurance, securities trading and banking supervision.

Between 2005 and the beginning of 2008 I headed the department supervising large, complex banking groups in Germany. Additionally, I was in charge of developing standards on risk management and qualitative banking supervision. During this time the transition and implementation of the concept of Basel II and the supervisory review and evaluation process into national prudential supervision were as much the focus of supervision as the difficult competitive environment for banks in Germany. International cooperation between prudential supervisors intensified as banks’ interconnectedness increased; I participated in several different international groups, such as the Accord Implementation Group of the Basel Committee on Banking Supervision and the Senior Supervisor Group.

From April 2008 to May 2011 I was in charge of the supervision of the German banking system, being the chief executive officer for banking supervision and a member of the board at BaFin. During 2008 and some months of 2009, crisis management and some short-term changes in supervision were the key aspects of my duties. Intense work on the concept of

restructuring large, complex banks as well as the implementation of a new supervisory approach following major changes in the underlying Banking Act and the improvement of micro-prudential supervision by incorporating macroeconomic knowledge were some of the main topics in 2010 and 2011. In 2008 I became a member of the Basel Committee on Banking Supervision and participated in developing regulatory and supervisory answers to the financial crisis, i.e. Basel II.5 and Basel III. From January 2011 until May 2011 I was a member of the Board of Supervisors and a member of the Management Board of the newly founded European Banking Authority.

In June 2011 the Federal President of Germany appointed me Deputy President of the Deutsche Bundesbank. From then on I was in charge of prudential banking supervision and internal audit at the Bundesbank. During this time I focused on the transition of many regulatory concepts into European or German law, the implementation of a more strongly risk-oriented supervision, and on improving the link between macroeconomic oversight and micro-prudential supervision. When the German Financial Stability Board was established in 2012, I became a member of this board.

*2. Please highlight the main aspects of your European and international professional experience.*

During my professional experience in financial supervision, I have enjoyed three different types of work and cooperation at the European and/or international level. As a home and a host supervisor of internationally active banks, I worked together intensively with several European, US and Asian supervisors. The range of cooperation encompassed information exchange, joint risk assessment, joint examinations and regular workshops on specific topics concerning individual banks.

As head of department for systemically important banks, I joined international groups of prudential supervisors which worked on a common understanding of specific topics such as stress testing, hedge fund counterparty risk management and confirmation backlog in OTC derivatives. Horizontal reviews at the most global players were the main instruments we used to gain more knowledge and understanding about practices and standards used in these areas of banking. I was a founding member of the Senior Supervisor Group in 2007 and was involved in producing the first published paper entitled "Risk Management lessons learnt".

From 2005 onwards I became a member in several international regulatory and supervisory working groups or committees. In 2008 I joined the Basel Committee on Banking Supervision and participated in all of its regulatory answers to the lessons learnt from the crisis, such as Basel II.5, Basel III and many new standards for governance and risk management. In 2011 and 2012 I co-chaired the Task Force on the Basel Core Principles on banking supervision. In September 2012 the review of the Core Principles was finalised and the new set of Principles was published. When the European Banking Authority took up its work, I became a member of the Board of Supervisors and was elected a member of the Management Board. I had to resign from both positions when I was appointed Deputy President of the Deutsche Bundesbank.

During the last year I was, as a member of the German delegation, heavily involved in the preparatory work for the SSM.

For two and a half years I accompanied Jens Weidman, the President of the Deutsche Bundesbank, at the Governing Council of the European Central Bank. I attend the Governing Council's meetings on a regular basis.

*3. What are the most important decisions to which you have been part in your professional life?*

When the Federal Financial Supervisory Authority was founded, many change management actions were required to form one single supervisory system out of the former authorities for insurance, banking and securities trading supervision. As head of internal and external communication, I took part in several decisions, e.g. concerning the mission statement of the single supervision system, the development of a joint supervisory approach, the structural and process organisation as well as the information flow between the different pillars of supervision.

With the implementation of Basel II the large, complex banking groups applied for supervisory approval of their internal models. As head of the department, I decided that all of the off-site supervisors of the department should take part in the on-site inspections of different banks to gain horizontal knowledge and experience. This was the basis of a different supervisory approach which focuses much more on the quality of banks' internal risk management and governance as well as on knowledge gained from horizontal reviews.

In the aftermath of the banking crisis I decided to change one relevant part of the German concept of the Supervisory Review and Evaluation Process by deducting all unrealised losses in the economic capital of banks irrespective of accounting rules, thereby putting pressure on large German banks to strengthen their capital base.

In 2009 and 2010, I institutionalised the insourcing of macroeconomic knowledge into micro-prudential supervision by installing a risk committee at BaFin and inviting the Deutsche Bundesbank to join. The committee meets regularly and discusses not only macroeconomic and infrastructural trends and their consequences for German banks but also concrete supervisory actions needed to identify and mitigate possible emerging risks. Supervisory strategy and planning for the coming year have been very much influenced by the results of this committee.

In 2011 and 2012, after joining the Deutsche Bundesbank, I continued to work on linking micro-prudential supervision with macro-prudential oversight by adjusting the Bundesbank's supervisory approach and changing processes and organisational settings in supervision. The objective is to ensure, on the one hand, that information about macroeconomic trends is sufficiently considered in the risk profile of banks and, on the other hand, that information about emerging trends in individual banks is aggregated and circulated to functions dealing with financial stability. The results of the risk committee that was set up are regularly incorporated in supervisory strategy and planning.

*4. Do you have any business or financial holdings or any other commitments which might conflict with your prospective duties, and are there any other relevant personal or other factors that need to be taken account of by the Parliament when considering your nomination?*

No.

**B. Supervizjoni finanzjarja**

*5. What would be the guiding objectives you will pursue during your five-year mandate as Vice-Chair of the Supervisory Board? How do you see the relationship with the Chair of the Supervisory Board?*

My guiding objective will be to establish a strong European Single Supervisory Mechanism (SSM) by bringing together existing national know-how and the ECB's experience with centralised decision-making. To strengthen supervision the SSM needs to have qualified staff, clear processes and a common supervisory approach. Identifying risks coming from banks as early as possible, having instruments readily available to mitigate these risks and strengthen best practices in banks' risk management, as well as linking micro-prudential supervision with macro-prudential supervision, whilst underpinning both with macroeconomic knowledge, will be the driving success factors of the SSM.

At the same time, clearly separating banking supervision from monetary policy will safeguard the credibility of the ECB.

In order to build up a European supervision mechanism and to successfully organise the decentralised and centralised elements of the SSM, the Chair and Vice-Chair need to work together as a close team: they should cooperate not only with respect to the preparation of the decisions to be taken, but also use their different experience in banking supervision to find the best solution in supervisory approaches, striving for the correct balance between the need for a level playing field with European banks and taking into account justified national specificities.

As Vice-Chair, I will assist the Chair to the best of my ability in her external representation, as well as in her management of internal ECB/SSM matters (including as regards relations with departments that do not deal directly with the SSM).

*6. How will you manage to effectively distinguish between your role as member of the ECB Executive Board and your role as Vice-Chair of the Supervisory Board?*

Being the Vice-Chair of the Supervisory Board and Member of the Executive Board of the ECB means taking responsibility for both the SSM as well as the current management of the ECB. Such involvement, which is an exception to the mandates given to the members of the Supervisory Board and also to the members of the Executive Board, will allow for interaction between the two bodies and, ultimately, with the Governing Council. I am perfectly aware of the responsibilities which are related to the respective positions and I will devote a lot of attention to respecting the rules and procedures which are currently in force at the ECB. They will define the quality and amount of information that may be exchanged between the policy areas.

In other words, I intend to fulfil my responsibilities as regards both supervision and monetary policy, while ensuring that the whole of the ECB/SSM is greater than the sum of its parts. My previous experience at both a supervisory authority and a national central bank will be helpful in fulfilling these roles.



*7. How can the competitive disturbances that have developed following the crisis and rescue measures taken by the governments and central banks of the Member States be eliminated?*

During the crisis it became evident that some banks are considered too big to fail. This forced governments and central banks alike to take extensive crisis measures to safeguard financial stability. To eliminate competitive disturbances resulting from the idea of too big to fail, international policy reforms are focusing on improving both the resilience and the resolvability of banks.

To enhance the resilience of banks, important measures have been agreed upon. The transposition of Basel III to the CRD IV/CRR will represent a significant enhancement in the level and quality of capital buffers that banks must hold. The forthcoming introduction of liquidity and leverage ratios as part of the prudential toolkit is also an important development in this respect. Furthermore, systemically important banks will be subject to intensified supervision and required to both maintain higher capital levels and ensure adequate recovery and resolution plans.

In the euro area specifically, governments and central banks have taken many measures to stem the financial fragmentation which has threatened financial stability. The SSM should help to reverse this fragmentation and bring about true European supervision with no room for national bias.

To enhance resolvability, resolution authorities will be required to draw up resolution plans that set out the strategy for the application of resolution measures and to identify what impediments specific to the institution concerned must be removed in order to make efficient resolution possible. Banks that are either failing or are likely to fail will be subject to the resolution regime of the Bank Recovery and Resolution Directive (BRRD) and resolved by the Single Resolution Mechanism (SRM). Together, these policy measures will ensure that the future framework prioritises bail-in and resolvability rather than bail-out.

*8. How can financial institutions be forced/ incentivised to reduce their risk appetite?*

Regulators have several instruments at their disposal to enforce or incentivise changes in the institutions' risk appetite. For example, regulators define the risk weights assigned to certain business activities and define the overall level of capital requirements. The latter has a direct impact on the overall level of risk that institutions can take, whereas the former affects the allocation of institutions' resources among various business activities.

National supervisors, and in future the SSM, are also in a position to take action if they believe that institutions are showing inadequate risk appetite. Risk-taking is part of a bank's business model, as are decisions on the allocation of resources to different business lines and risks. It is the supervisors' responsibility to continuously monitor whether institutions' risk appetite remains in line with their internal capital adequacy and management capabilities and to take appropriate measures if this is not the case. If risk appetite exceeds an institution's internal capital adequacy, the competent authorities may require increased capital for risky business fields or may, as a last resort, prohibit specific business activities.

*9. What do you think of the financial supervisory draft legislative proposals currently debated in the European Parliament and the Council on the banking union and the single rulebook,*

*namely the Single Resolution Mechanism, the Bank Recovery and Resolution Directive (BRRD), and the revision of the Deposit Guarantee Schemes Directive?*

The recent agreements on the BRRD and the Deposit Guarantee Schemes Directive are milestones for the completion of the banking union. I broadly welcome the agreements reached on these directives, which will substantially improve and harmonise bank resolution and depositor protection in the EU. The new regulatory framework will minimise the costs of future banking crises for taxpayers. These directives are prerequisites for the SRM, which is a necessary complement to the SSM.

I welcome the general principle of the BRRD in terms of the allocation of losses. The BRRD involves shareholders, creditors and the banking sector as a whole in covering bank losses. All in all, the BRRD strikes a sound balance between the conflicting objectives of harmonisation and flexible rule-making. A high degree of harmonisation is needed to ensure both predictability and a level playing field. However, a certain degree of flexibility is necessary in order to tailor resolution measures to the specific crisis situation.

The new Deposit Guarantee Schemes Directive will provide for EU-wide streamlining of deposit insurance and will thus contribute to the creation of a level playing field as well as to financial stability. The newly established arrangements for financing deposit guarantee schemes by introducing a target level and the general use of ex ante funds are most important. I do not feel comfortable allowing any deviations from the general target level, as this could upset the level playing field. It is important to introduce risk-based measures to determine regular contributions by banks. These should reflect the degree of risk taken by an institution vis-à-vis the deposit guarantee schemes, thus both ensuring that contributions are risk-based and encouraging less risk-taking by institutions. This should also minimise the risk of moral hazard for institutions.

I also took note of the respective internal agreements on the draft Regulation establishing a Single Resolution Mechanism in the Council and the Parliament. The objective of the trilogue should be to establish an effective SRM and a credible Single Resolution Fund (SRF) as swiftly as possible.

*10. In particular, what are your views about the introduction of the bail-in provisions in the BRRD?*

I am pleased that the entry into force of the bail-in provisions in the BRRD has been brought forward to 1 January 2016. It is important that the resolution authorities in the EU and the SRM have this essential tool in their toolbox sooner rather than later, as it will further protect European taxpayers by shifting the resolution costs foremost to shareholders and unsecured creditors when banks fail.

The BRRD contains a valuable proposal for the design of the bail-in instrument and provides a transparent hierarchy, which supports the principle that shareholders and creditors should be the first to absorb losses. The directive manages to strike a sound balance between the need for flexibility and the necessity of ensuring clarity and transparency. Another essential building block of the bail-in instrument is the minimum requirement for eligible liabilities to ensure that sufficient bail-in able debt is available when necessary.

*11. What are your views about the proposal for a Single Resolution Mechanism, in particular in terms of scope, decision-making structure, composition and voting modalities of the Single Resolution Board, establishment and financing of a Single Resolution Fund, establishment of a backstop for the Fund, trigger for resolution?*

I very much welcome the fact that in December both the European Parliament and the Council reached internal agreements on the SRM proposal and that the triologue process has begun. Key issues still need to be resolved. The remaining gaps have to be closed soon for the banking union to operate effectively. Indeed, it is important that the SRM Regulation is adopted before the end of the current legislative cycle, as the SRM is a crucial component of banking union. A European supervisory structure needs a European restructuring and resolution regime. Centralised decision-making on resolution matters will strengthen the stability of EMU.

On the scope of the SRM, I think it should include all credit institutions supervised directly or indirectly under the SSM. The fact that both the European Parliament and the Council advocate such a broad scope is welcome.

In terms of decision-making, it is important to avoid lengthy and complicated procedures. The final SRM Regulation should ensure that a bank can be resolved in an orderly fashion over a weekend. On the composition and voting modalities of the Single Resolution Board, I share the view that the ECB should participate in the Single Resolution Board only as an observer, i.e. without voting rights. That said, the composition of the Board – similar to the SSM Supervisory Board – should foresee a strong European element to ensure that the European perspective is duly taken into account, whilst at the same time building on the national expertise of the national resolution authorities. The procedures on decision-making should allow for a swift and effective process, which in particular should mean that no member should have a veto power and the voice of the European representatives is adequately heard.

It is key that the appropriate parties, i.e. those who invested in the failed bank in the first place and are the first to profit, are also the first in line to bear the losses of a bank failure. This will establish the right incentive system.

On resolution financing, the Single Resolution Board should have access to a Single Resolution Fund. This Fund should be financed by ex-ante risk-based contributions from all banks subject to the SRM and be complemented by ex post contributions where necessary. The recourse to an intergovernmental agreement IGA on the SRF should only be seen as a temporary solution. If possible, the period of ten years for moving towards an SRF should be shortened. The SRF should also be supported by a temporary and fiscally neutral backstop from the start, by being able to borrow temporarily from the market backed by government guarantees or from the European Stability Mechanism (ESM).

Finally, regarding the trigger, I think that for the banks of Member States participating in the SSM the supervisor is best-placed to assess whether a bank is “failing” or “likely to fail”.

*12. What do you see as the most pressing issues in financial services legislation which remain to be completed?*

There are several on-going regulatory initiatives, each of which addresses specific

shortcomings of financial services legislation revealed by the financial crisis. It is therefore difficult to single out certain measures, because they can collectively enhance the resilience of the financial system. Let me nevertheless highlight three areas of particular importance:

First, in order for the banking union to be operational and effective, the SRM is clearly a key element of financial services legislation which needs to be completed.

The second issue is the legislative proposal on bank structure reforms, based on the Liikanen Report. Some EU Member States, such as the UK, France and Germany, are implementing, or have already implemented, such structural reforms. However, from a single market perspective, a consistent approach should be developed. With this in mind, the European Commission has just put forward a proposal for a regulation on the separation of certain trading activities from credit institutions and their EU parents.

Another key file is the Benchmark Regulation, which has an important bearing on the indices that are important for monetary policy-makers (such as EURIBOR).

Apart from these three issues, the focus should be on the proper implementation of the huge amount of financial services legislation which has been passed during the current legislative cycle, including adopting the delegated acts and regulatory and implementing technical standards provided for by Level 1 legislation, such as the Capital Requirements Directive and Regulation and the EMIR Regulation.

### *13. X'tirakkomanda biex jissahħu r-rabtiet bejn is-superviżjoni makro u mikro?*

There are several strong arguments in support of enhancing cooperation between micro-prudential and macro-prudential supervision. Information about emerging macroeconomic trends can be of major importance to banking supervisors as well as institutions in charge of macro-prudential oversight. The implementation of micro-prudential measures may have adverse systemic consequences yet may, at the same time, also address systemic risks (if properly designed and calibrated). However, much of the macro-prudential toolkit is so far rather untested, and the transmission mechanism of macro-prudential instruments must be further explored.

First, one needs to make sure that the insourcing of macroeconomic knowledge into micro-prudential supervision forms a regular part of the new supervisory approach, while respecting the separation principle between the supervision and monetary policy functions. While information about macroeconomic trends should be adequately included in banks' risk profile, information about emerging trends in individual banks should be aggregated and circulated to functions dealing with financial stability. The outcome of this information flow ultimately has to be incorporated into the supervisory strategy and planning for the coming year.

At European level, the ESRB offers a good platform to gather views on systemic risks and vulnerabilities. At national level, supervisory authorities contribute to this discussion. The fact that the ESRB itself is in close contact with all ESAs should ensure the preservation of the ESRB's cross-sector view. At the same time, the relevant European bodies should be closely involved in international discussions taking place in global fora to enrich them with a European perspective.

### C. Setting up and institutional architecture of the SSM

*14. How will you ensure that monetary and supervisory policies are strictly separated, in particular in terms of staff, reporting lines and career paths in the ECB? What concrete measures will you take in this regard?*

A clear separation of bank supervisory decisions and monetary policy is essential in order to deal with possible conflicts of interest. The SSM Regulation introduces a separate Supervisory Board and the non-objection procedure as concrete means to fulfil the separation principle. Additionally, the supervisory departments in the ECB will be organisationally and physically separated from the departments dealing with monetary policy issues: supervisory work will only be done in these departments, which will have separate reporting lines. Internal rules will separate functions related to the supervisory work from those in charge of monetary policy and other ESCB tasks, also at working level, drawing on the ECB's documents and records management systems and the ECB's confidentiality regime.

The SSM Regulation does not require separate career paths and we do not need them to ensure an effective separation of monetary policy and supervisory functions. On the contrary, internal mobility is a success factor for every organisation as it helps to further qualify staff by broadening knowledge and experience and supports the development of a common corporate culture. Confidentiality and ethics rules at the ECB, as well as separate reporting lines, will ensure that the flow of information will be organised in a way so as to support the separation principle.

*15. How do you want to strengthen the policies of the ECB to avoid potential conflicts of interest between the ECB as a supervisor and the supervised banks? Which measures do you support in order to make less likely that revolving doors between ECB supervisors and the respective private sector occur?*

The risk of conflict of interest is addressed in the applicable legal framework. For example, the Code of Conduct for Governing Council members imposes a one-year period during which former members must continue to avoid any conflicts of interest that could arise from any new private or professional activities. Moreover, in implementing Article 31(3) of the SSM Regulation, the Supervisory Board will consider adopting a Code of Conduct in which measures to prevent conflicts of interest are to be foreseen, including the duty to inform about an intention to engage in occupational activities which applies for two years following the end of their duties as Supervisory Board members. Finally, the ECB will ensure that all professional staff involved in supervisory matters are subject to strict ethical rules ensuring, inter alia, their independence and impartiality, including appropriate post-employment restrictions.

*16. How would you ensure that the planned asset quality review covers the whole part of the banking system under the supervisory responsibility of the SSM and not only the 130 institutions cited in the note regarding the comprehensive assessment? What arrangements, including the framework as foreseen in Article 6 of the ECB regulation, could be made to guarantee the coherence with the exercises carried out by the EBA and other supervisory authorities in the EU?*

Taking into account the time available ahead of the assumption of its supervisory tasks, the

comprehensive assessment focuses on 128 banking groups in the euro area covering around 85% of total banking assets. With these 128 banking groups, the comprehensive assessment covers at least the significant credit institutions as requested in Article 33(4) of the SSM Regulation. Obviously, this does not prevent national competent authorities from also undertaking assessments of their less significant institutions.

The ECB is working closely together with the EBA regarding the asset quality review (AQR) as well the stress test. The EBA issued a recommendation to all EU competent authorities on the conduct of asset quality reviews in October 2013. There are common definitions, as well as the coordination of time schedules to ensure a joint exercise. In addition, the ECB is engaging directly with all EU Member States. A workshop on 28 January 2014 was held with all non-SSM EU Member States in which the key aspects of the methodology for the AQR and the terms of reference for information-sharing in the context of the AQR were presented. Additionally, starting in February, the ECB participants in the EBA Board of Supervisors will be ready to spend time, back-to-back with the Board of Supervisors meeting, on discussing the arrangements on home-host cooperation (or other issues) with the European non-SSM countries. Thus we are working closely with the EBA on the outreach to non-SSM EU Member States.

As regards the stress test, the EBA is about to announce the key parameters of the forthcoming European Union-wide stress test exercise. For the stress test component of the comprehensive assessment, the ECB is cooperating closely with the EBA, and will apply the methodology and parameters agreed, thereby ensuring coherence in the exercise.

*17. In the absence of common backstop mechanisms and in order to ensure a smooth transition to a full-fledged Banking Union, do you have any views regarding the measures to be taken in the case that potential needs for capital arise from the asset quality review?*

The credibility of the comprehensive assessment is fundamental for its success. It will benefit from the thorough and robust methodology that will be used. Moreover, it is crucial that credible backstop commitments are in place before the ECB concludes the comprehensive assessment to ensure that market participants are fully confident in the outcome of the exercise.

In the eventuality that the comprehensive assessment reveals a capital shortfall, and in line with the November ECOFIN statement, first private sources, then national and euro area/EU instruments should be used:

In the first instance, banks should raise capital in the market, retain profits, undertake capital accretive sales and restructuring, engage in liability management exercises as appropriate and/or raise capital from other private sources.

If this is revealed not to be sufficient or in the absence of access to sources of market financing, Member States should mobilise all appropriate arrangements for recapitalising banks, if needed, including through the provision of public backstops where appropriate. This also implies that all Member States need to have a legal framework in place which allows for the write-down and conversion of share capital and junior debt.

In the case of recourse to public backstops the following framework will apply:

L-ewwel nett, jġu attivati l-oqfsa nazzjonali. In line with the June European Council conclusions, Member States should have the necessary arrangements in place at the national level, including resolution mechanisms and public backstops, enabling them to respond promptly if needed to any vulnerability identified by the exercise.

European public backstops will be available as a last resort. The November ECOFIN statement foresees that ESM instruments may be used, according to their agreed rules and requirements. The direct recap instrument could also be used, once adopted, following the establishment of the SSM.

*18. Would you consider that the taking up of the supervisory tasks by the ECB could be delayed depending on the outcome of the asset quality review?*

Up to now the ECB is on schedule with its preparatory work. The ultimate objective is to deliver on the supervisory responsibilities one year after the ECB has been tasked with its new supervisory competencies.

*19. How do you see the relation and balance of powers with national supervisors? In particular, how will you ensure full access to information that is collected at national level, both when dealing with banks directly supervised by the ECB and when overseeing supervision carried out by the national authorities?*

National supervisors and the ECB together form the SSM, with the ECB acting as the central authority. Following the SSM Regulation, significant banks will fall under the direct supervision of the ECB and less significant banks will fall under the indirect supervision of the ECB. The ECB will be exclusively responsible for key tasks concerning the prudential supervision of credit institutions, will conduct day-to-day supervision of significant banks and will oversee the functioning of the system. The main preparatory and executing activities of the ECB related to supervision will be carried out by the Supervisory Board, which consists of ECB representatives and representatives of national competent authorities or national central banks (in the case where the central bank is not the national competent authority).

National supervisory authorities have an important and long-established expertise in the supervision of credit institutions within their territories and have established a large body of dedicated and highly qualified staff for this purpose. In many cases, national supervisors, even for the tasks conferred on the ECB, are best placed to carry out specific activities owing to their knowledge of national, regional and local banking markets, their existing resources as well as locational and language considerations. For this reason the ECB will rely on national authorities to a significant extent. At the same time, the SSM Regulation imposes on national supervisors the obligation to assist the ECB, cooperate in good faith with it and exchange all necessary information. The Framework Regulation, developed by the ECB in consultation with the national competent authorities on the basis of the SSM Regulation, lays down rules and procedures governing cooperation between the ECB and the national competent authorities for ensuring a good functioning of the SSM.

When overseeing supervision of the “less significant” banks, the ECB will rely on the national competent authorities for the day-to-day decisions. The SSM is, however, a single supervisory mechanism. To ensure the “singleness” of the SSM, the ECB has the following important

powers as regards the supervision of less significant banks. First, the ECB will have access to data concerning all credit institutions. Second, national supervisory authorities will have to abide by ECB regulations, guidelines and general instructions. Third, to ensure the consistent application of supervisory standards, the ECB may decide at any time to exercise direct supervision over less relevant credit institutions, upon its own initiative after consulting with national authorities or at the request of the national supervisory authority.

*20. How do you see the role of the EBA in the SSM architecture? How will you ensure good cooperation with them?*

The SSM will cooperate closely with the European System of Financial Supervision and the European supervisory authorities, as stipulated by the SSM Regulation. In fact, the ECB is already cooperating closely with the EBA on the design/methodology and timing of the upcoming stress test and the development of the single rulebook and the supervisory handbook. Moreover, the SSM will not alter the role of the EBA in terms of regulation.

*21. How do you see the cooperation between the EBA and the ECB in international fora?*

The creation of the SSM will not alter the existing role of the EBA, which retains its responsibilities within the internal market. As such, the SSM will not change the role of the EBA in the development of regulatory policy or in international fora. The ECB intends to work closely with the EBA on the development of supervisory policies, in particular to ensure good cooperation with non-SSM EU Member States.

*22. How do you see the relation with non-participating Member States and their involvement in the process?*

For the success of the SSM it will be essential to collaborate closely with non-participating Member States. The procedures for cooperation within the SSM and with authorities outside of the SSM will be described in the SSM Framework Regulation, which is currently being developed together with the relevant national competent authorities. The ECB will build on the present arrangements, such as colleges of supervisors, Crisis Management Groups and Memoranda of Understanding for cooperation with non-EU supervisory authorities or supervisory authorities from non-participating Member States.

23. What do you see as the most important risks and challenges facing the SSM?

Among the risks and challenges, I would like to elaborate on the following in particular.

First, before assuming supervisory responsibilities, all the preparatory work needs to be ready in time. There can be no delay. This is a huge logistical challenge, with little room for manoeuvre.

As regards the challenges, one key challenge will be to complete the construction of adequate public backstops before the ECB concludes the comprehensive assessment. As I mentioned earlier, it falls upon the private sector, first and foremost, to follow up on recommendations resulting from the comprehensive assessment. Given the improvement in market conditions, market-based solutions should be more feasible than in the recent past. Such solutions may include recapitalisation through profit retention or equity issuance in the private market.



However, if private sector solutions cannot be achieved in a timely and realistic manner, there is also a responsibility for the public sector. To ensure the credibility of the exercise, we need solid and well-defined public backstops at the national and, as a last resort, European levels. They must be in place as soon as possible and before the ECB concludes its comprehensive assessment and assumes supervisory responsibilities.

#### **D. Democratic accountability and transparency of the SSM**

*24. How do you see the European Parliament (EP) oversight over the ECB acting as supervisor?*

The SSM Regulation provides a clear and robust basis for the exercise of democratic accountability of the supervisory tasks of the ECB vis-à-vis the European Parliament. The practical aspects of the accountability provisions vis-à-vis the European Parliament are clarified in the Interinstitutional Agreement (IIA) between the European Parliament and the ECB. I am fully committed to enforcing this framework, which is key for the transparency and legitimacy of supervisory decisions, while at the same time allowing the SSM to perform its duties efficiently and effectively.

*25. How do you intend to implement the Interinstitutional agreement concluded between the ECB and the EP? In particular, what do you think about the regular hearings, including with ECB senior staff, the confidential meetings, the information about the meetings of the supervisory board, and the cooperation in case of investigations?*

The IIA provides for strong accountability vis-à-vis the European Parliament and I consider it of utmost importance to ensure a trustful relationship between our two institutions. To fulfil this objective, it is important to fully implement the provisions of the IIA, which notably cover channels of accountability, access to information and investigations. In particular, I believe regular hearings can and will be the backbone of our common and close relationship in the future. I am also strongly attached to keeping you duly informed about relevant proceedings at the SSM. I trust this will form the basis of fruitful and open exchanges to the benefit of European citizens.

*26. Can you confirm that you, as Vice-Chair of the Supervisory Board, will do your utmost to ensure that the Supervisory Board does answer completely and accurately each question addressed to it?*

It is my understanding that the ECB has always had a good relationship with the European Parliament and in that context has always responded to the Parliament's questions. I trust that this good cooperation will continue in relation to the questions addressed to the Chair of the Supervisory Board, in line with the IIA which I consider crucial for the legitimacy, transparency and independence of the SSM.

## RIŻULTAT TAL-VOTAZZJONI FINALI FIL-KUMITAT

<b>Data tal-adozzjoni</b>	3.2.2014
<b>Riżultat tal-votazzjoni finali</b>	+: 19 -: 0 0: 0
<b>Membri preżenti għall-votazzjoni finali</b>	Marino Baldini, Burkhard Balz, Elena Băsescu, Sharon Bowles, Udo Bullmann, Derk Jan Eppink, Sven Giegold, Sylvie Goulard, Liem Hoang Ngoc, Rodi Kratsa-Tsagaropoulou, Philippe Lamberts, Werner Langen, Astrid Lulling, Ivari Padar, Olle Schmidt, Ivo Strejček, Ramon Tremosa i Balcells, Corien Wortmann-Kool
<b>Sostitut(i) preżenti għall-votazzjoni finali</b>	Jean-Pierre Audy