

Speech by Andrea Enria, Chairperson of
the European Banking Authority (EBA)

Committee on Economic and Monetary
Affairs (ECON) of the European Parliament
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Initial Statement of Andrea Enria

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Introduction

Honourable Chair and Members of this Committee,

The long process of repair of EU banks' balance sheets has made important progress in the last year. Common Equity Tier 1 (CET1) ratios stabilised around 14.5% since the second half of 2017, and these higher levels are now supporting growth in lending activity and risk-weighted assets. The comprehensive set of policy actions agreed within the Council roadmap on non-performing loans (NPLs) has contributed to a significant acceleration in the cleaning of bank balance sheets. The gross amount of NPLs declined by EUR 250bn in the last two years and the average NPL ratio is now at 3.6%, the lowest level since we introduced a harmonised definition at the EU level. Supervisors need to exercise high pressure to maintain and, where possible, accelerate the pace of adjustment, taking profit of positive macroeconomic outlook. The EBA is undertaking a major effort to facilitate this process by improving the functioning of the secondary market, for instance via NPL templates designed to overcome information asymmetries. We are also currently finalising the 2018 EU-wide stress test exercise that will help supervisors identify remaining pockets of vulnerability.



The post-crisis reform agenda is also getting closer to completion. The finalisation of the so-called “risk reduction package” will be an important step forward and we expect a number of mandates to be addressed to the EBA. I recently sent a letter highlighting a few technical points to your attention, concerning the swift implementation of the Fundamental Review of the Trading Book (FRTB), a truly integrated and proportionate framework for supervisory reporting and some concerns regarding the definition of own funds. More generally, I strongly believe that there is a need to focus all our efforts, from Level 1 legislation to the practical application of the Single Rulebook, to actual convergence in supervisory practices, to fight the segmentation in EU banking markets and promote private risk sharing, especially in the Banking Union. In order to contribute to the development of policies in this area, the EBA is preparing a paper on regulatory obstacles to cross-border consolidation.

Dealing with legacy assets and restoring the integration of banking market are two existential challenges for the Single Market and the Banking Union. It would be a collective failure of EU policy makers and authorities if the next crisis were to catch us still fighting on these two fronts.

In the coming months, a top priority for the EBA will be the response to the Call for Advice from the Commission concerning the implementation in the EU of the final Basel agreement of December 2017. We have already started a data collection with a wide sample of banks, covering institutions with different business models, size and geographic reach, to assess the impact of the new international standards and suggest the best and most proportionate way to implement them in our legal framework. I noticed that some proposals in the risk reduction package would entail frontloading elements of the new Basel agreement, thus pre-empting our analysis. As the final EBA report should be ready by end June 2019, I believe it would be important to await the results, so that decisions could be taken on the basis of a comprehensive assessment.

Availing of the full benefits of the Bank Recovery and Resolution Directive (BRRD) is within reach, but requires decisive action in a number of areas: fully operational recovery and resolution plans, steady progress in complying with the minimum requirements for own funds and eligible liabilities (MREL), agreements on critical functions, more harmonised framework for the public interest test and common legal arrangements for bank liquidation. These steps, together with progress on the European Deposit Guarantee Scheme (EDIS), are key for supporting the trust between authorities, which, in turn, is essential for the functioning of a fully integrated banking market.



While the post-crisis adjustment and reforms are being completed, the EBA is turning its attention to new areas, which are gaining ground in the policy debate.

The serious breaches of the legislation on anti-money laundering and combating the financing of terrorism (AML-CFT) call for a comprehensive response at the EU level. Besides the common work conducted under the aegis of the Joint Committee, the EBA has recently launched a comprehensive plan to review the effectiveness of AML-CFT supervision in all Member States. A mixed team of national experts and EBA staff will conduct these reviews relying on responses to a questionnaire, analyses of internal documents on national methodologies and practices, and on-site visits. The aim is to identify best practices to share with competent authorities, single out common implementation challenges that require and EBA response in either training or additional guidance, and provide bilateral feedback to competent authorities with a view to strengthen their AML-CFT approaches. But in order to really contribute to more effective EU-wide AML-CFT supervision, we urgently need more resources and some greater clarity and efficiency in the EBA's powers.

The implementation of the revised Payments Services Directive (PSD2) is a major challenge for competent authorities and firms alike, in light of its ambition to facilitate innovation, enhance competition, also by allowing new providers to access customers' payments accounts at incumbent banks in a secure and standardised way. The EBA has completed the work on all the 12 mandates addressed to us in PSD2 and has started work to ensure supervisory convergence in the application of the new regulatory framework. Payment services is one of the main areas, but not the only one, in which the use of new technologies is changing the landscape of our banking markets. We launched a general discussion on technological innovation in financial services (FinTech) through a discussion paper, followed by a comprehensive roadmap and the establishment of a knowledge hub. We focused our first efforts on the risks and opportunities from FinTech and the challenges for banks' business models. The next deliverables will focus on authorisation regimes, including the approach to regulatory sandboxes and innovation hubs. A review of the current approach to crypto-assets is also in the pipeline. Technological neutrality, enhanced protection of consumers in the new environment, and harmonised approaches enabling firms to scale up their activities at the Single Market level are the overarching principles guiding our work in this area.

The EBA is also actively contributing to the Capital Market Union (CMU) project. We received 28 regulatory mandates to support the new EU securitisation legislation, which was largely based on the recommendations of the EBA's report of July 2015. Similarly, the legislative initiatives on covered



bonds, the discussion on European Secured Notes (ESNs) and the proposal for a new regime for investment firms are benefiting from the input provided by the EBA. We expect that follow up work will be requested upon finalisation of the legislation, in order to ensure consistency in the practical application. Sustainable finance has also been at the centre of our Board's annual strategic discussion.

I would also like to report an increasing use of the mediation and breach of Union law tools, with very positive results. I remain convinced, though, that our toolbox for reviewing, and sometimes challenging, the supervisory and resolution practices of national authorities is not sufficiently strong. Peer reviews are seldom questioning existing practices, breach of Union law investigations are not the right tool to address weak supervisory practices. I think independent, staff-led reviews could be an important instrument to foster supervisory convergence, especially if they are put under new, more neutral governance arrangements. I am disappointed to see that the proposals of the Commission in this area are not gathering widespread support.

The withdrawal of the UK from the EU (Brexit) is and will remain for a while a top priority for the EBA. We issued two opinions urging the industry to accelerate preparations for the scenario in which no deal is reached between the UK and the EU and, therefore, no transitional arrangements are in place. We regularly monitor progress in contingency planning and relocation of business. It is important that we can soon start negotiating with our UK colleagues the arrangements for supervisory cooperation post-Brexit, as they might be tested soon in a no deal scenario.

Brexit is also putting great pressure on the EBA and its staff. The preparations for the relocation to Paris are proceeding well, but the delays in the finalisation of the seat legislation are causing a postponement in the execution of contracts. Only if an agreement between the co-legislators is found in October, will we be able to ensure a move to Paris at the end of April 2019. Needless to say that this uncertainty is projecting heavily on our staff, who need to make all the preparations for a difficult move with their families.

Thank you very much for your attention