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Committee on Economic and Monetary Affairs (ECON) of the
European Parliament

Hearing of the Chairpersons of the European Supervisory Authorities

Initial Statement of Andrea Enria

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

Honourable Members, thank you for giving us the opportunity to introduce the European Banking Authority today before your Committee and to provide an update on the latest achievements and challenges of the Authority.

My hearing this year occurs at an important time for the EBA, not just because the EBA is now well into its 4th year of activities, but also because the final phases of the stress test in the EU banking sector are now approaching.

I would like to take the opportunity to discuss with you today the most salient points of our work, as well as some of the implications for the future development of the EBA. Your support to our work will be very important to us and we thank you for it.

1. The Joint Committee

This year I have the responsibility of Chairing the Joint Committee of the European Supervisory Authorities (ESAs), so I wish to start with some considerations on the common work of the three ESAs. The Joint Committee has increasingly focused its attention on two areas: (i) consumer protection issues; and (ii) assessment of risks to the stability of European financial markets and institutions. Indeed, our view is that the protection of consumers and the identification of key risks call for an overall perspective, cutting across the boundaries of individual financial sectors.

The common work in the field of consumer protection has focused around a major regulatory mandate on Packaged Retail Investment and Insurance-based products – PRIIPs, for which we expect the main deliverables to come to maturity in 2015, and on three major own initiative work streams: (i) the common Guidelines on complaints handling; (ii) the reminder to financial institutions regarding placements of own instruments with retail customers; and (iii) common principles on product oversight and governance.

I would also like to mention the actions we undertook to significantly strengthen the Euribor and benchmark rate-setting processes, which have a broad impact on the integrity of wholesale markets, as well as on retail contracts affecting a large number of consumers of financial services across the European Union. The Joint Consumer Protection Day we organise yearly has also become a regular appointment for an open dialogue with our stakeholders on all issues concerning consumers.

We feel and understand that our joint efforts on consumer issues are moving in the direction indicated by both the Parliament and the Commission in their contributions to the review of the European System of Financial Supervision (ESFS).

The joint assessment of risks in the EU financial system is also playing an increasingly essential role in driving the priorities for the supervisory work of the three ESAs. The key risks identified in our most recent reports – prolonged weak economic growth in an environment characterised by high indebtedness, intensified search for yield in a protracted low interest rate environment, and uncertainties in emerging market economies – are all captured in the stress test exercises currently under way for banks and insurance companies. Moreover, we also noticed that conduct of business risk and IT/cyber risks have gained substantial momentum and need to be further investigated.

Finally, I would like to call again for your continued attention to the concerns the three ESAs have expressed on budgetary constraints. These relate first of all to the budget for 2015, and I would like to express our appreciation for the opinion recently issued by this

Committee, supporting a growth in resources commensurate to the increased tasks. Going forward there is also an urgent need to identify a more robust, long term solution to the financing of the ESAs. We consider that the move to 100% financing from the General Budget of the European Union, with an independent budget line, would represent a major improvement.

2. Progress in the work of the EBA

The Single Rulebook

Moving now to the EBA, major progress has been made in delivering the Single Rulebook in banking. We have already finalised 76 technical standards, with 70 more to be delivered by the end of 2015. Banks now face a single framework for supervisory reporting throughout the entire EU. Key prudential definitions (e.g. regulatory capital, non-performing loans and forbearance) are now fully harmonised and are already being used in the asset quality review and stress test. Extensive work has been done to identify and address inconsistencies in the calculation of risk-weighted assets with banks' internal models. We provided important pieces of advice to the Commission for robust and consistent liquidity requirements. In connection to the work to support long term financing of the economy, we recently published a report on covered bonds, which identified many elements which warrant further harmonisation, and are currently finalising two reports on securitisation.

Our attention is now turning to the smooth and consistent implementation of the Bank Recovery and Resolution Directive: common criteria and effective cooperation in this area will be essential not only to revert the fragmentation of the Single Market, but also to allow the Single Resolution Mechanism (SRM) to work on the basis of consistent rules in all the jurisdictions it covers.

The mission is far from accomplished, though. We notice, through our "questions and answers" process, but also in the conduct of stress tests, that areas still exist in which common rules have a different application on the ground. We feel that in this regard, the EBA should develop a more structured role as the "guardian of the Single Rulebook". This would require an intensified dialogue with the Commission, the Parliament and the Council, also with a view to allow a better definition of content and timelines for the EBA work.

Supervisory convergence

The review of the ESFS is pointing to the need to intensify the efforts on supervisory convergence. I believe we already performed an essential role in coordinating the supervisory pressure to strengthen the capital position of banks and complete the

cleaning of their balance sheets. We are now close to the completion of the asset quality review process and the stress test. Once again EU banks have already taken significant actions – more than EUR 120bn of capital instruments have been issued by the 124 banks in the sample since July 2013, and EUR 120bn of additional provisions have been recognised in the same period. Meanwhile our ongoing efforts to provide comprehensive and consistent data on the banking sector continue to enhance market discipline.

The EBA has also developed common guidelines on the Supervisory Review and Evaluation Process (SREP), which provide a common framework for the work of supervisors in their assessment of risks to banks' business models, their solvency and liquidity. The involvement of the EBA staff in joint decision processes within supervisory colleges is also bearing fruits: in eight cases of mediation we managed to achieve agreements with satisfaction of all parties. We believe that progress in this area will be crucial to ensure that integrated supervision within the Banking Union is coupled with greater convergence for the whole Single Market, as most banking groups are established both within and outside the euro area.

The legal basis for our work on supervisory convergence could be sharpened and fine-tuned on the basis of the experience that we gathered so far, for instance in defining the EBA's role in stress tests, binding mediation and setting up a Single Supervisory Handbook.

Consumer protection and financial innovation

The EBA has also substantially stepped up efforts in the area of consumer protection and in monitoring financial innovation. We completed the first technical standard assigned to us by the Mortgage Credit Directive and we launched a public consultation on a technical advice under MiFIR on product intervention criteria for structured deposits. We are now working on the mandates in the Payment Accounts Directive, and will soon launch a consultation on draft guidelines on the comparability of payment account fees.

We also launched numerous additional own-initiative work streams. The EBA has been in the lead of global efforts to understand the risks posed by virtual currencies and proposing a way forward to shape appropriate regulatory policies. We are also developing guidelines on product oversight and governance, to make sure that products are designed, brought to market, and subsequently reviewed so that they meet the interests, objectives and characteristics of a certain type of consumers. The EBA is also finalising guidelines on the assessment of creditworthiness of mortgage borrowers and on forbearance measures in case of payment arrears - these are both important elements for an effective application of the provisions on responsible lending set out in the Mortgage Credit Directive.

I would like to note that the EBA's work on consumer protection and financial innovation continues to be hampered by flaws in its founding regulation: incoming new Directives fail to review the set of financial institutions listed in the EBA regulation, thus constraining the EBA's ability to address legal instruments to all relevant institutions.

International role

Finally, although the EBA's focus in this first phase of its life has been centred almost exclusively on EU matters, we have been working to develop a stronger international role. This is hampered by the arrangements in place at the global tables and the reluctance of national supervisory authorities to commit to common EU-wide stances.

Thank you for your attention.