

Introductory statement of the Chairperson  
of the European Banking Authority (EBA),  
Committee on Economic and Monetary  
Affairs (ECON) of the European Parliament

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# Introductory statement by Andrea Enria, Chairperson of the EBA

## Updating CRR, CRD, BRRD and SRMR: the new banking legislation package

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Honourable Chair and Members of this Committee,

The European Banking Authority (EBA) welcomes the proposals of the European Commission to amend the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD), the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR). These proposals are implementing key elements of the international standards set by the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) in the EU regulatory framework. The EBA contributed to the proposals with a series of reports – on the leverage ratio, the net stable funding ratio, the fundamental review of the trading book, the minimum requirements of eligible liabilities. We conducted thorough analyses of the effects of the implementation of international standards on European banking markets, assessing the impact on banks of different size and business model, as well as on lending to small and medium enterprises and to the European economy as a whole. Our recommendation was to align the EU regulatory framework with international standards, with a few minor adjustments. We are pleased that the Commission's proposals have broadly accepted our conclusions. There are a few areas in which the Commission's proposals depart from the international standards and from the EBA's recommendations, relaxing the requirements for some transactions or specific institutions. If these proposals are maintained in the final legislative text, it would be important to introduce mandates for the EBA to monitor the effects and to ensure a consistent, conservative application of the exemptions across the Single Market.

One of the objectives of this package is to make the rules of the Capital Requirements Directive and Regulation (CRD/CRR) more proportionate and less burdensome for small and less complex institutions. Several responses to the Commission's call for evidence on the EU regulatory framework for financial services, published in November 2016, focused on the compliance burden for smaller banks with a simple business model, focused on traditional activities. The granularity and cost of supervisory reporting, including requests in addition to the common European

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reporting framework, was often mentioned as an area of concern. This confirms and supports our view that proportionality in banking regulation has evolved beyond a call for less requirements, or for a repatriation of requirements for local banks at the national level. Rather, the issue at stake is the proportionate application of the common rules and how to balance uniform rules and a differentiated compliance process, reflecting the complexity and risk of the banking business. Thus the aim should be to enhance proportionality via a simplified application of the Single Rulebook and reduce undue regulatory burdens, without compromising prudential objectives.

Another sensitive issue faced since the entry into force of CRD4 is the treatment of Pillar 2. The amendments to the CRD suggested in the Commission proposal are very much welcome since current implementation of Pillar 2 requirements remains very diverse across the EU. Also in this case, they reflect to a large extent the points raised in an EBA's opinion. First, they clarify the nature and form of Pillar 2 requirements as additional binding requirements, which should be imposed in a legally binding way. The functioning of the rule on maximum distributable amount (MDA) is also clarified. Secondly, the proposal includes a particular tool, capital guidance, to communicate supervisory expectations on capital related to potential losses under stressed conditions. This is very much welcome as we have observed that current use of stress testing in competent authorities' supervisory review and evaluation process (SREP) is not consistent. Some authorities are already using the outcome of stress testing to set a capital buffer or guidance above the combined buffer requirement while others are using the outcome of stress tests to impose Pillar 2 requirements or supervisory benchmarks for Pillar 2. Finally, the proposal clarifies the micro-prudential nature of SREP and Pillar 2, which should contribute into achieving more convergence in supervisory practices in the EU.

We also welcome the resolution aspects of the Commission proposals. The proposals on the minimum requirement of eligible liabilities (MREL) and total loss absorbing capacity (TLAC) are largely in line with our report of December 2016. They are fully in line with the FSB's TLAC requirements for global systemically important banks (GSIBs), and also improve our own EU framework, for example by introducing a specific framework for internal MREL.

The EBA strongly supports the approach of the BRRD to crisis management, which moves away from bail-out with taxpayers' money in favour of internalisation of losses, via bail-in of private investors. This approach is embodied, among others, in the provision that an institution in need of State aid is one circumstance in which that institution should be assessed as failing or likely to fail (FOLTF). As an exception to this rule, precautionary recapitalisation with public money is allowed as an exceptional measure, once a strict and comprehensive set of conditions are met. I recently put forward a proposal to use the concept of precautionary recapitalisation to deal promptly and decisively with the significant legacy of asset quality problems in the European banking sector, which remains a drag on the EU economy.

I proposed setting up a European asset management company (AMC) or developing a European blueprint for national AMCs to overcome market failures and ensure a speedy resolution to the NPL problem. The proposal has been framed to fully respect the BRRD requirements and bring some Single Market coherence to its application. Urgent action is needed and we have the tools

to take action, under close European scrutiny, whilst ensuring that the crisis management regime set out by the BRRD maintains its effectiveness and credibility.

Thank you very much for your attention.

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