

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

Chairperson of the European Banking Authority

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

Dear Madame Chair, Honourable Members of this Committee,

The process of repair of EU banks' balance sheets is steadily progressing. Last year, the recapitalisation exercise launched by the EBA led to strengthening the capital position of major EU banks by more than EUR 200 bn. All indicators of capital adequacy point to a significant improvement: the Common Equity Tier 1 (CET1) ratio for the largest banks is now well above 11%; and the leverage ratio, if computed with comparable accounting standards, is only slightly below that of the major US banks. Nonetheless, the prevailing price-to-book ratios still signal a lack of confidence in the quality of European banks' balance sheets and in their ability to produce profits going forward.

The EBA has agreed on a recommendation to all competent authorities to carry out asset quality reviews, which - along with our work on the consistency of risk-weighted assets - should dispel the remaining uncertainties and provide a more reliable picture of the loss absorbency capacity of EU banks. The EBA has developed also common definitions of non-performing loans and forbearance, which are essential to enhance the comparability of data and the effectiveness of the asset quality review. The EBA is also planning its 2014 stress test exercise, which will

make sure that banks are capable of remaining on the trajectory of capital strengthening dictated by the new rules contained in the Capital Requirements legislative framework (CRD/CRR), including under stressed market conditions.

Our work in this area is undertaken in close coordination with the ECB, which will soon start its comprehensive balance sheet assessment of the banks envisaged in the Council Regulation establishing the Single Supervisory Mechanism (SSM). We have to be clear: there will be one asset quality review only, conducted by the competent authorities – which for the banks falling under the remit of the SSM will be the ECB – and only one stress test, which the EBA will closely coordinate with the ECB and other national competent authorities. These exercises will be the first litmus test on the functioning of the new institutional arrangements.

The crisis has seriously impaired the functioning of the Single Market in banking. The Banking Union goes a long way in addressing the shortcomings of the institutional arrangements for the single currency, but more is needed to re-establish the integrity of the Single Market, as most large EU banking groups have establishments both within and outside the euro area. The EBA is engaged in a not so- visible, but very essential work that is aimed at rebuilding trust and cooperation amongst national supervisors in the EU. We are using all the tools at our disposal: we launched three investigations into potential breaches of EU law and have performed non-binding mediation between EU banking supervisors, formally and informally, with good success in a number of cases. However, the task is daunting, and it would be helpful if some ambiguities on the legal basis for binding mediation could be clarified to support our efforts.

The Single Rulebook in banking is becoming even more important. It is essential for the effective functioning of the SSM, as the ECB will have to apply national laws and it would be seriously hampered in the performance of its tasks by a large amount of national discretions. Moreover, it is essential for the integrity of the Single Market, as differences in basic rules can maintain segmentation across national borders, especially between the SSM and non-SSM jurisdictions. In the context of the Single Rulebook, we are working hard to design, develop and finalise, with appropriate public consultations and impact assessments, the huge number of technical standards and guidelines assigned to the EBA. We have also intensified our efforts in the area of consumer protection, issuing a warning on contracts for difference and two opinions with good practices on mortgage lending.

I would like to bring to your attention four issues, which I consider of paramount importance in developing the Single Rulebook:

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- i. *some form of involvement of the EBA staff in the technical discussions on primary banking legislation would be very beneficial*, especially in defining the scope and timelines for mandates to the EBA;
 - ii. *the degree of national flexibility in key legislative provisions can be very detrimental to the achievements of the objectives assigned to the EBA*; for instance, it is very difficult for us to perform mediation in the area of recovery and resolution, if national discretion is not constrained within a European framework of resolution planning and coordination among authorities: e.g. in case of carving out certain creditors from bail-in;
 - iii. *a stronger legal basis would better support our efforts in the area of consumer protection*: we are developing important work in the area of responsible lending, complaints handling, product oversight and governance, and the distribution of structured funding products, but for this work we are relying mostly on provisions on corporate governance and internal controls in prudential Directives as a legal basis, as no Directive on consumer protection has so far been brought into the EBA's scope of action in Article 1 of our founding Regulation, and we have so far been assigned only one technical standard;
 - iv. *resource constraints are becoming increasingly biting*; our ability to deliver is increasingly dependent on the support of staff from national competent authorities, now subject to further strain, with the establishment of the SSM. An independent budget line, accompanied by a more adequate allocation of resources is crucial to keep up with our challenging tasks.

Thank you for your attention.