



Speech by Jose Manuel Campa,  
Chairperson of the European Banking  
Authority (EBA)

---

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

---

4 November 2019

---

## Introductory statement by the EBA Chairperson Jose Manuel Campa

---

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

Dear Madam Chair,

Honourable Members of the Economic and Monetary Affairs Committee,

Ladies and Gentlemen,

Thank you very much for the invitation. I am very honoured to represent the European Banking Authority (EBA) at my first Annual ECON Hearing. Last year was a year of multiple changes for the EBA. First and most prominently, our whole organisation moved from London to Paris.

Second, the selection of the new EBA Chairperson earlier in the year. And finally, we have just started the process for recruiting a new Executive Director.

---



Throughout this period, the EBA has, nonetheless, progressed on its work. Let me take the opportunity to elaborate further on three areas which have been of critical importance to stakeholders and the public and which will continue to define the EBA's mission in the upcoming period.

### **State of the Banking Sector and need for action**

The European Union (EU) banking sector strengthened further, a precondition for robust economic growth. The repair of balance sheets has progressed across the Union. Capital ratios are higher and dispersion narrowed, with banks on the lower end of the distribution further improving their capitalisation.

Asset quality has also improved sustainably. The ratio of non-performing loans (NPLs) has declined further; it has halved since 2015. However, legacy assets of NPLs remain material in some countries, especially those more affected by the crisis. While we should acknowledge banks' great effort in reducing the stock of NPLs – particularly in the last two years – there is no room for complacency, not least in light of a more uncertain macroeconomic outlook. The EBA guidelines on NPL management and on loan origination will contribute to strengthen banks' risk management.

Profitability remains a key challenge across the Union, with lower margins on traditional banking activities, elevated costs and the potential increase of impairments in light of the slow-down of the economy in several countries. In an environment of low, for long, interest rates, the effort for further cost reductions, enhancing efficiency, restructuring and consolidation should be a priority for banks. At the same time, banks need to continue enhancing their investments in risk management and technological transformation as part of the transition to more sustainable business models.

We are finalising the preparation of the 2020 EU-wide stress test, which will assess banks' ability to withstand adverse shocks, as well as informing supervisors' assessment of capital adequacy. In parallel, we have started a reflection on possible improvements to the stress test in the longer run, so as to strengthen its informative value while reducing the burden on banks and supervisors.

Let me now turn to the EBA's key priorities.

### **Basel 3 implementation and mandates from the Risk Reduction Package**

I will start with our advice to the European Commission's for the implementation in the EU of the final Basel 3 agreement. Our view is that the proposed changes address many of the remaining weaknesses in the existing prudential framework and preserve adequate risk sensitivity. Thus, we advocate for a loyal translation of the global standards into EU regulations. Unwarranted deviations from the Basel rules could imply costs to the international credibility of the EU regulatory framework and the overall trust in EU banks.

Our assessment shows that the impact in minimum capital requirements, while material, is mostly driven by large and internationally active banks and can be largely absorbed during the long phase-in period. The impact on medium and small banks is much smaller.



Also, we will soon publish the macroeconomic impact assessment and the results show that the long-term benefits in terms of output growth and stability largely outweigh the short-term costs.

The EBA strives to deliver thoroughly on all mandates emanating from the recently adopted Risk Reduction Measures Package and the other legislative dossiers. We will shortly publish roadmaps on several areas – governance and remuneration, Pillar 2, large exposures, reporting and disclosure, resolution – in order to be fully transparent and accountable. We seek to deliver as quickly as possible. Moreover, the EBA will continue its efforts to create a reporting framework that is fit for purpose, proportionate and comprehensive. In parallel, the EBA will assess – in close coordination with the ECB and other EU and national institutions – the feasibility of creating a consistent and integrated system for collecting statistical, resolution, and prudential data. The ambition is to develop a system that makes the compliance with reporting and disclosure obligations easier and more efficient for banks.

Sustainable finance and the incorporation of ESG factors will also be a core part of the EBA's work going forward, as already shown in our current draft guidelines on loan origination. We will focus first on the identification of key metrics, which can facilitate banks' work on strategy, governance and risk management. Later, we will assess the prudential treatment of these exposures.

### **Financial Technology**

I now turn to the topic of financial innovation, which is an area requiring more, and potentially accelerated, changes. Financial products, services and business models, as well as the structure of the financial sector in general, are evolving fast. We need to ensure that the EU framework enables the adoption of new technologies that will bring potential for efficiency gains and new forms of competition, whilst at the same time effectively mitigating risks to consumers, the integrity of the banking system and, ultimately, financial stability.

To date, the EBA has provided guidelines to banks to strengthen governance and mitigate risks in the areas of outsourcing to the cloud and ICT risk. We have also advised the European Commission on cyber security and the applicability and suitability of EU law to crypto-assets recommending a holistic approach.

To ensure technological neutrality is in place, by drawing on knowledge and experience from across the EU in dealing with new technologies, we established the EBA's FinTech Knowledge Hub and, along with the other ESAs, the European Forum for Innovation Facilitators (EFIF), which we are currently hosting. The EFIF provides a platform for supervisors to meet regularly, and interact with firms through innovation facilitators, to share technological expertise, and to reach common views on the regulatory treatment of innovative products.

### **ESA Review and its implementation**

Additional change for the EBA is stemming from the review of the ESA's founding regulation, which we are currently implementing within the organisation. Cognisant of the need to respect diversity of banking structures and to ensure proportionality, we will set up an Advisory Committee on Proportionality (article 1(6) EBA Regulation). Other implementation efforts are in the field of



consumer protection, enhanced transparency, accountability and governance, particularly in the areas of conflict of interest and the transition to a gender-balanced Management Board.

The fight against money laundering and the financing of terrorism remains a challenge in Europe as evidenced by recent high profile cases. The new EBA founding regulation in the field of AML gives the EBA some limited new powers and tasks allowing us to lead policy development, coordinate and monitor the efforts of national supervisors to strengthen AML/CFT practices across the Single Market. Our new tasks include establishing an EU-wide AML/CFT information database, performing risk assessments on National Competent Authorities (NCAs), and, when required, asking authorities to investigate and consider taking action on individual financial sector actors. Moreover, we will establish an AML standing committee with representation at the highest level of AML authorities from all member states to ensure coordinated action, where needed, and stand ready to support any future changes to strengthen AML/CFT supervision across the EU.

I would like to thank you for this opportunity to exchange views and your ongoing support to the EBA and I remain at your disposal for questions during this meeting and beyond.

Thank you very much for your attention.