

EBA Chairperson Written Statement;  
Annual hearing of the Committee on  
Economic and Monetary Affairs (ECON)  
of the European Parliament

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12 October 2020

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## Introductory statement by the EBA Chairperson José Manuel Campa

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

Honourable Chair, dear Members of the Parliament,

After having presented the work of the Joint Committee, please allow me now to share some of the EBA's key activities and achievements over the last twelve months.

The change in leadership together with the implementation of the ESAs' Review was a period of transition for the EBA, which has come to an end. I would like to thank you, Members of European Parliament, sincerely for your support as well as your critical input throughout this period.

### COVID-19 measures and financial stability

EU banks have entered the outbreak of the pandemic on a relatively strong footing. The average CET1 ratio was at 15.1% in Q4 2019 and remained relatively stable in the first half of 2020. Liquidity buffers were also high and banks' funding mix more balanced and stable, with a steady increase of the share of customer deposits since the Great Financial Crisis.

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The **strong capitalisation and liquidity profile** of the banks, coupled with the decisive response of the regulators and supervisors to support the banking sector, have enabled European banks to cope with the immediate impact of the crisis, while supporting their customers.

The EBA reacted swiftly, and in coordination with other European institutions, by **promoting flexibility and frontloading some policy measures**. For example, we provided immediate operational relief by postponing our stress-test exercise, reducing reporting requirements and by drafting guidelines on moratoria.<sup>1</sup> We urged that any temporary capital relief should be used to help the economy and not for dividend distribution and share buybacks.

The EU banking sector has been resilient so far but there are challenges ahead. Notwithstanding unparalleled support measures, the economic crisis will hit the sector hard. Second waves of contagion and a delayed economic recovery could further weaken the banking sector. Pre-existing elements of weakness in the banking sector can be exacerbated by the crisis. Deteriorating asset quality and the 'lower for longer' interest rate environment are expected to weigh on an already subdued profitability. The urge for technological transformation in the industry has accelerated. Banks with lower capital levels, poor business models and riskier exposures may face challenges.

We are not over the hump yet and we continue our monitoring efforts. The need to address overcapacity, review business models and advance with banking sector consolidation will become ever more important. Weaknesses in individual institutions may arise and we need to be ready to address the likely large increase in nonperforming loans. We need to ensure that banks remain robust and continue to support the economy throughout the recovery. The **EBA's EU-wide 2021 bank stress test** will play an important role in this regard.

Meanwhile, preparation for **Brexit** continues. We have a level of confidence that financial stability risks are mitigated and banks are generally prepared even if we continue to encourage supervisors and banks to make every effort to ensure operations run smoothly next year.<sup>2</sup> Monitoring continues and we are paying particular attention to the importance of access to payments service for EU citizens. It is imperative that payments institutions will be authorised in the EU27 so that they are able to continue providing payment services.

## Completion of the Single Rulebook and payment services

COVID-19 has underlined the **importance of the Single Rulebook** as our common regulatory framework. The EBA has progressed on the delivery of its more than hundred mandates stemming mainly from the Risk Reduction Package. We have also adapted the work programme to the changing situation. For example, we have put utmost efforts in the finalisation of the EBA

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<sup>1</sup> EBA response to Coronavirus (COVID-19) listing all statements and products available here: <https://eba.europa.eu/coronavirus> (accessed 18 September 2020).

<sup>2</sup> Last EBA Communication on the end of the transitional arrangements between the EU and the UK of 29 July 2020: <https://europa.eu/!GN78KD> (accessed on 18 September 2020).

Regulatory Technical Standard (RTS) on the prudential treatment of software so that we can submit to the European Commission in mid-October. We are also **updating the quantitative assessment on the impact of Basel 3** to provide advice to the Commission on the preparation of its legislative package.

Upholding the Single Market and level playing field remains key in times of crisis and that is why the EBA has issued guidelines in order to provide for a more harmonised framework for payment moratoria and public guarantee schemes adopted at national level.

With regard to payments in the EU, our focus continues to be on the revised Payment Services Directive (PSD2) and that EU citizens benefit from its competition objective. In June, we published our Opinion monitoring compliance of banks with **access to Third Party Providers**.<sup>3</sup> We are also monitoring the progress in the industry's readiness for implementing **strong customer authentication (SCA)** by the end of the year.

## The ESAs' Review implementation: anti-money laundering, proportionality and transparency

After the implementation of the ESAs' Review, the EBA is now responsible for leading, coordinating and monitoring the EU financial **sector's fight against money laundering (ML) and terrorist financing (TF)**. 57 AML/CFT supervisors come together in the newly established AML Standing Committee. We continued implementation reviews of competent authorities' approaches to AML/CFT supervision and published our first thematic report in February this year<sup>4</sup>, which found that supervisors have increased their efforts, but significant challenges remain, including operationalising the risk based approach, which our forthcoming guidelines should help with. This year, we joined forces with the Council of Europe to exploit synergies in assessing these reviews.

We launched a call for input on de-risking to address concerns that groups of customers lose access to banking facilities because of higher ML/TF risk characteristics, such as geography.<sup>5</sup> We provided detailed technical input to the European Commission's recent AML/CFT consultation, where we underlined the need for a truly Single Rulebook and indicated elements, which would benefit from being put into a Regulation.<sup>6</sup> We also recommended a hub and spoke approach for supervision, that would build on national AML/CFT authorities' expertise complemented with effective EU-level oversight. For that, we can refer the existing EU infrastructure such as the IT, data and coordination

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<sup>3</sup> EBA Opinion on obstacles under article 32(3) of the RTS on SCA and CSC (EBA/Op/2020/10) of 4 June 2020: <https://europa.eu/!mG63rX> (accessed on 18 September 2020).

<sup>4</sup> EBA Report on competent authorities' approaches to the anti-money laundering and countering the financing of terrorism supervision of banks (EBA/Rep/2020/06) of 5 February 2020: <https://europa.eu/!CW78Wr> (accessed on 18 September 2020).

<sup>5</sup> EBA Call for input on 'de-risking' and its impact on access to financial services: <https://europa.eu/!hj73nK> (accessed on 18 September 2020).

<sup>6</sup> EBA Response to the European Commission's public consultation on an AML/CFT action plan and the establishment of an EU-level AML/CFT supervisor: <https://europa.eu/!dC63dU> (accessed on 18 September 2020).

mechanisms that the EBA is developing now. We are also in the process of implementing our action plan resulting from our investigation on the “Cum-ex” files and following-up on “Luanda leaks” as requested by the European Parliament.

As further mandated by co-legislators, the EBA has strengthened its focus on **proportionality** supported by the newly established Advisory Proportionality Committee.<sup>7</sup> As part of our drive for more proportionate supervisory requirements, this new Committee is working on a methodology to assess proportionality. Moreover, the EBA is pushing ahead with the **study of the cost of compliance** with supervisory reporting requirements. In close exchange with our stakeholders, we are identifying ways to make the reporting framework more effective and efficient in order to reduce reporting costs especially for smaller and less complex banks. The report should be published by the end of the first quarter next year.

Proportionality was also key in our **COVID-19 related reporting**.<sup>8</sup> Our Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis offer discretion to decide on the reporting frequency, waive a number of reporting templates, waive the application of reporting requirements at the individual level, and extend the disclosure to institutions at the highest level of consolidation within a Member State.

Beyond that, the EBA is taking a wider look at its processes for **handling conflicts of interest and post-employment notifications** to ensure a consistent and streamlined process. We have updated our policies for dealing with post-employment occupational activity by setting clear guidance on how we apply restrictions, including prohibitions for senior staff and implemented a swift procedure for handling confidentiality issues with staff leaving the EBA.

## New challenges: sustainability, digital finance and data

The EBA is committed to promoting its priorities of sustainability, digitalisation and structural transformation in the COVID-19 recovery phase. We are progressing on our Sustainable Finance Roadmap<sup>9</sup> published last December. Our sequencing remains in place focusing first on identifying key risk metrics and ensuring they are used for transparency and risk management purposes, with a longer period for gathering evidence about potential adjustments to the prudential treatment. Later this year, the EBA will release a report on risk management in the field of sustainable finance, setting expectations about the disclosure of key metrics by banks including a green asset ratio. We are also undertaking a pilot scenario analysis exercise to assess climate risk with a group of volunteer banks.

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<sup>7</sup> EBA Press Release: EBA Advisory Committee on Proportionality held its first meeting of 19 May 2020: <https://europa.eu/!nM38dj> (accessed on 18 September 2020).

<sup>8</sup> EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) of 2 June 2020: <https://europa.eu/!dC49gt> (accessed on 18 September 2020).

<sup>9</sup> EBA Action Plan on sustainable finance of 6 December 2020: <https://europa.eu/!hq34cR> (accessed on 18 September 2020).

**Increased digitalisation** of the banking sector is an opportunity coming out of the COVID-19 crisis. The EBA is committed to securing technological neutrality in regulatory and supervisory approaches and strongly supports the European Commission's new Digital Finance Strategy, which will facilitate the scaling of innovative technology cross-border whilst ensuring high standards of consumer protection and financial sector resilience. Our information from the EBA FinTech Knowledge Hub has allowed us to provide input to the European Commission's Digital Finance Strategy.

The European Commission's legislative proposals on **crypto-assets and digital operational resilience** addresses uncovered risks that the EBA has been highlighting since 2013. The creation of a common scheme of regulation will help addressing the challenges of scaling up distributed ledger technologies (DLT) and crypto-asset applications. Of course, we also stand ready to fulfil the supervisory functions regarding the authorisation and supervision of issuers of significant tokens as outlined in the proposal. In terms of ICT security, the European Commission's upcoming legislative proposal on digital operational resilience builds on the ESAs Joint Advices on ICT risk management and cybersecurity and the EBA Guidelines on ICT and security risk management.<sup>10</sup> Here, the EBA underlined the importance to ensure a consistent and robust approach on the mitigation and management of ICT and security risks across the Single Market.

## Future cooperation, budget and resources

Throughout the COVID-19 lockdown, the EBA has proven to be an agile organisation as we managed to switch to remote working arrangements swiftly overnight. This not only shows how agile we are as an organisation but also highlights the commitment of EBA staff.

This period has been quite challenging also for our **budget management**. In 2018 and 2019, we had the relocation from London to Paris, with all of the associated uncertainties, and the ESAs' review, and now we have COVID-19. The EBA is currently in the process of returning to the European Commission unused 2020 appropriations arising from the adjustment in our work program, so that they can be used where they are needed. For 2021, I hope you will support the funds, which are being proposed for the EBA in the Draft Budget, as these would be sufficient for our needs. In recent years, the EBA's activities have been made more difficult by a lack of staff. As a policy-making Agency, the EBA relies heavily on the expertise of its own staff – they are the experts in their fields, and the EBA's output could be further enhanced had we some more of them. I would ask for your support in this area, in the current and future draft budgets, and in upcoming legislative financial statements.

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<sup>10</sup> ESAs Joint Advice on the need for legislative improvements relating to ICT risk management requirements in the EU financial sector (JC 2019 26) and on the costs and benefits of developing a coherent cyber resilience testing framework for significant market participants and infrastructures within the whole EU financial sector (JC 2019 25) of 10 April 2020: <https://europa.eu/!KD77Tm> and the EBA Guidelines on ICT and security risk management (EBA/GL/2019/04) of 28 November 2019: <https://europa.eu/!xG49jr> (accessed on 18 September 2020).



Together we are facing this unprecedented health crisis, which is also affecting the banking sector. There are many uncertainties going forward and we will need cooperation more than ever going forward.

The EBA staff and I always appreciate our discussions, which help the European agenda move forward and we stand ready to continue those exchanges in the future.

Thank you for your attention and I am looking forward to your questions now or in written after this hearing.