



EBA's 5th Anniversary Conference - London, 5 February 2016

Opening remarks

Andrea Enria, Chairperson of the European Banking Authority (EBA)

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

Thank you, Lord Mayor, for your remarks and for the kind hospitality the City of London has extended to the EBA – not only today, but since our very establishment five years ago. I would also like to welcome all the participants to this conference. You represent a broad range of stakeholders, with a strong interest in the work of the EBA. And it is thanks to the fruitful and positive engagement with you during these first years of life of the Authority that we managed to achieve huge progress in the regulatory reforms and in the balance-sheet repair of the European banking sector. The support of the European Commission, Parliament and Council have been of paramount importance to drive forward our agenda; the pressure from and dialogue with international organisations has helped us take difficult decisions in the darkest moments of the financial crisis; the spirit that we have developed within the Board of Supervisors has been essential to take clear decisions and achieve progress also in presence of significant disagreements between national interests; the extensive dialogue with the industry, as well as with representatives of consumers of banking services, has been important to enhance the technical quality of our work and to contain the risk that the reforms lead to unintended consequences.

But this notwithstanding, let me say that it has been a very challenging start. We have often felt alone in the face of a huge workload, with scarce resources and sometimes weak legal basis to do what needed to be done. Hence, let me take this opportunity to thank especially the EBA staff, who are well represented in the room today: if we have done something good in these years it is especially thanks to this group of young, motivated, talented professionals from 26 European countries, who have worked so hard to make this possible.

Reviewing our achievements



I would like to spare you the list of accomplishments in these five years – it would be boring and I would surely forget something important. I'll try instead to focus on a few memories, which in my view contain a distilled essence of what we have built and need to bring forward in our next steps.

Not surprisingly, my first memory refers to 2011, during the first months of the EBA's existence, when the most difficult financial crisis ever experienced in the European Union reached its zenith. The EBA stress test and recapitalisation exercise have been widely criticised, but I believe we managed to take three very important policy decisions that shaped the response to the crisis and have been essential in restoring confidence in European banks.

First, we decided to apply a very rigorous definition of capital, in line with international standards and with Committee of European Banking Supervisors (CEBS) guidelines not yet applied in all Member States; and we enforced this definition in a strict, uncompromising way. Second, when the sovereign debt crisis entered its most critical phase, we agreed to ask banks to significantly enhance their capital position, also by building buffers reflecting the significant drop in the market valuations of their sovereign exposures. Third, we agreed to give extensive disclosure of banks' data, in order to dispel those concerns arising out of the opaqueness of banks' balance sheets and differences in practices across European countries. In the following years, we built on each of these decisions by designing strong regulatory standards for a truly uniform definition of capital and monitoring new capital instruments, by adopting common definitions of asset quality within uniform reporting requirements, by constantly testing banks' resilience against the risks *du jour*. But the most important legacy of these decisions for the EBA has been our **capacity to act and take responsibility by shaping coordinated, EU-wide policy responses**. This was not to be taken for granted. Our decisions were very controversial at the time, also within our Board; they attracted extensive criticism from parts of the banking industry – in all cases there were reports of credit institutions and banking associations considering legal challenges against the EBA. The ability to identify the common European interest and to move forward, also in presence of disagreements, has been a distinctive feature of our policy response to the crisis.

The second set of memories I would like to share relates to events that enhanced our awareness of the relevance, and fragility, of the Single Rulebook project and the need for us to be ambitious in our efforts. First, thanks to the data collected by the EBA, we could determine for the first time how important the impact of differing interpretations and application of common EU rules across Member States was for the level playing field. For instance, we quantified the impact of options and national discretions included in the Capital Requirements Directive/Capital Requirements Regulation (CRDIV/CRR), and we discovered that Basel 1 floors were calculated according to two methodological approaches, all with materially different outcomes for banks competing in the same



markets. When the crisis deepened, we became aware that the common rules, still under minimum harmonisation principles, were sometimes bent to support ring fencing and constrain the functioning of the Single Market. This demonstrates the importance of our mandate to bring the Single Rulebook to life. And we have delivered on this mandate, producing over 150 standards and guidelines on time and to a high quality, notwithstanding severe resource constraints.

But we realised that this was not enough. We identified areas in which the degree of harmonisation achieved was not sufficient - for instance, in the framework for covered bonds – or was not working as intended – as in the rules for securitisation. We developed advice to the Commission, recommending action to restore a true level playing field, foster best practices, and an appropriate degree of conservatism in the common regulatory framework. Also, we realised that the single standards had to be complemented with tools to ensure consistency in their practical implementation: we now have a centralised and integrated Q&A system, which provides common answers to practical questions from supervisors and institutions. Finally, we initiated a number of investigations on potential breaches of European law and cases of mediation, with a view to ensure that the Single Rulebook was not circumvented by actions taken purely in the national interest. By acting as *guardian of the Single Rulebook*, the EBA laid the foundations for a better functioning and truly integrated Single Market.

My third and last memory goes to the first confirmation hearing at the Committee on Economic and Monetary Affairs of the European Parliament. There, MEPs rightly sought to ensure that the EBA and its senior management were transparent in their dealings with the industry and accountable to European institutions. My colleagues at the EBA and I embraced the concept of an open and transparent authority and made it a pillar of this new organisation. All meetings with industry representatives are reported in our website. We aim at an early and open dialogue with all stakeholders, always providing feedback to the comments received and clear roadmaps of future work in order to ensure predictability of our actions. Our goal has always been to clearly explain what we are doing and why we are doing it.

The choice of the European legislators has been to move to a setting in which the costs associated with the failure of an institution are internalised and hence first borne by its equity and debt-holders. Bail-outs of failing banks with taxpayers' money will always be preceded and in most cases substituted by bail-ins of their private investors. This is a relevant shift in focus of public policies. In this new world, supervisors need to be much more transparent and accountable than in the past. I believe we firmly rooted the EBA as an *open, transparent and accountable organisation* and stand ready to further improve our record in this area.



Looking forward to our new challenges

1. Monitoring the functioning of the Single Rulebook and enhancing proportionality

Looking forward, I would like, first of all, to reassure the industry participants today that it is not the EBA's intention to launch any new regulatory grand plan. As a matter of fact, we are as keen as you are, and probably even more, to reduce the intensity of regulatory production and shift our attention to make the reform package work in practice. During 2016 we should be closing the implementation of the G20 reforms. Our focus will be on the calibration of the leverage ratio and on improving the consistency and reliability of risk-weighted assets calculated with banks' internal models. The EBA has just issued a roadmap and has been receptive of the industry's request to have longer implementation timelines.

One of the key tasks for us will be to better understand the effects the reforms are having on bank structures, business models and risk taking. I am not convinced by the arguments that the reforms, and especially the new capital and liquidity requirements, are excessively harsh and hampering the recovery of the EU economy. However, I would acknowledge that the regulatory framework has become fiendishly complex, especially for banks with very simple business models. Regulators have a duty to assess whether the increase in the compliance burden is always warranted, or there could be simpler ways to achieve the same prudential outcomes. The EBA made its best efforts to incorporate the principle of proportionality in its own regulatory products. But we should devote some serious thoughts to a modular approach to rule-making, in which the complexity of the rules aims at matching the complexity of the business models of the banks, in a consistent way across the Single Market.

An important question lingering upon us is whether the Single Rulebook is fit for purpose in the new institutional set up created by the Banking Union. The Single Supervisory Mechanism (SSM) of the European Central Bank (ECB) has expressed its concerns that in a number of areas rules differ within the eurozone, hindering the smooth conduct of supervision. At the same time, the proposals for a new settlement of the UK within the EU suggest that this need for greater uniformity of rules might not be suitable for Member States not participating in the Banking Union, which may need a different set of Union rules. I am convinced that common rules and convergence in supervisory practices are essential to preserve the integrity of the EU-28 Single Market. If a multi-layered Single Rulebook is to be introduced to achieve this in practice, then it has to be managed in an integrated fashion, to avoid that regulatory differences generate barriers and uneven competitive conditions in the cross-border business between "ins" and "outs". The EBA stands ready to contribute to this delicate process.



2. Completing the adjustment in banks' balance sheets

The adjustment of EU banks' balance sheets is well advanced, but not yet completed. On average, European banks have achieved a satisfactory capital position, similar to that of their competitors in the US. Asset quality is also improving, but the heavy legacy of non-performing loans is a drag on profitability and traps capital that should be used to support lending to corporates and households. Supervisors will have to maintain pressure on banks to actively manage non-performing assets and restore lending capacity.

Banks are also adapting their liability structure to the new requirements of the Bank Recovery and Resolution Directive (BRRD). The determination of bank-specific Minimum Requirements for own funds and Eligible Liabilities (MREL) – i.e. the amount of liabilities that should be available to absorb losses in case of a crisis - by resolution authorities will be a key element driving the adjustment. It will be essential that all relevant parties – resolution authorities, prudential and conduct supervisors, banks, investors – have a common understanding of the requirements and of the quality and amount of liabilities that in each case could be written down or converted into equity in resolution. The distribution of risky, sometimes complex, instruments to captive retail customers remains an area of concern, that we have started addressing early on, jointly with ESMA and EIOPA.ⁱ

3. Digital banking and consumer protection

Finally, we will have to confront the challenges of financial and technological innovation. Digital banking has the potential to disrupt current business models and raise challenges also for the protection of consumers of financial services. The EBA has already worked on virtual currencies and crowd funding. The mandates contained in the second Payment Services Directive (PSD2) will allow us to focus even more in this area.

I am sure the discussions today will help us shape our future agenda. Let me thank you all for your participation in and contribution to this event.

i 'Placement of financial instruments with depositors, retail investors and policy holders ('Self placement')', <http://www.eba.europa.eu/documents/10180/15736/JC+2014+062+%28Self+placement+-+Reminder+to+financial+institutions+FINAL%29.pdf/19cf31fb-57ca-463a-be21-92ad59ad8561>