EUROPEAN BANKING AUTHORITY

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

26/09/2016

Introductory statement by Andrea Enria, Chairperson of the EBA

Brussels, 26 September 2016

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

Honourable Chair and Members of this Committee,

The process of repair of EU banks' balance sheets has made further progress. The 2016 EBA stress test exercise and associated transparency are showing our efforts to improve the resilience in the sector are paying dividends. But we have further to go. Individual results are being followed up in the supervisory assessments by competent authorities, to tackle remaining pockets of vulnerabilities. More importantly, while capital strengthening has generated the conditions for cleansing banks' balance sheets, progress in improving bank asset quality remains slow and uneven. The average ratio of non-performing loans (NPLs) to total loans in the EU is at 5.7%, three times higher than in other major jurisdictions. In ten Member States the ratio is higher than 12%. High NPLs are a drag on already weak bank profitability, have an adverse impact on the availability of new lending for households and corporates, and may eventually generate detriment to distressed borrowers. In a recent report, the EBA suggested policy action along three lines: (i) stepping up supervisory pressure to tackle NPLs, also via qualitative and quantitative targets; (ii) addressing structural issues in judicial procedures, accounting and tax regimes; and (iii) improving the functioning of secondary markets to facilitate NPL disposals.

Bank balance sheets and corporate structures are also adjusting to the new requirements of the Bank Recovery and Resolution Directive (BRRD). Resolution authorities are increasing their efforts to finalise resolution plans, resolvability assessments and decisions on minimum required eligible liabilities (MREL), at least for the largest players. The EBA has delivered more than three quarters of the mandated standards and guidelines in this area. We are also in the process of finalising our report on the implementation and design of the MREL framework, which will provide extensive qualitative and quantitative information on the impact of the new requirements and support the legislative process to implement the international standards on total loss absorbing capacity (TLAC) issued by the Financial Stability Board (FSB).

We are also closely following the discussions at the Basel Committee on Banking Supervision (BCBS) to refine the capital requirements and reduce the unwarranted variability of risk-weighted assets. The EBA's analyses confirm that the regulatory framework needs to be adjusted to enhance the reliability and comparability of the outcomes of bank internal models. But it is essential that the proposed changes do not excessively reduce the risk sensitivity of the regulatory framework and do not generate unjustified increases in capital requirements. The EBA is making efforts to support a coordinated position of European representatives at the international tables.

Following a series of workshops on the issue and input from our Banking Stakeholder Group (BSG), the EBA is also working to identify possible avenues to increase proportionality in banking regulation. Although we are convinced that the Single Rulebook already incorporates the principle of proportionality, we have to acknowledge that the regulatory framework has become very complex. We have a duty to assess whether the compliance burden on banks with simple business models is really warranted. The EBA will soon issue a discussion paper on this topic.

The EBA is intensifying its efforts to confront the challenges of financial and technological innovation. Digital banking has the potential to disrupt current business models and raises challenges also for the protection of consumers of financial services. We have already published our views on virtual currencies, crowd funding, automated advice and the use of consumer data, either as Opinions addressed to the EU co-legislators or as Discussion Papers. Some of the mandates contained in the revised Payment Services Directive (PSD2) will allow us to focus even more in this area.

Our annual report on supervisory convergence has documented the significant progress made in this area, notwithstanding the lack of resources forced us to postpone and scale down some important projects. I noticed some concerns expressed by Members of this Committee on the use of "questions and answers" facilities (Q&As) and own initiative guidelines by the ESAs. Let me stress how important these tools are for supervisory convergence. Far from stepping into areas that should be left to Level 1 legislation, they coordinate and make transparent supervisory guidance that in the absence of any EBA's initiative would have to be taken by competent authorities in a uncoordinated fashion. When issues of interpretation of Level 1 texts are raised, the matter is passed to the Commission. Hence, these tools represent the only way to achieve consistency across the Single Market and give transparency to the decisions of supervisors.

Finally, let me flag to your attention that the result of the UK referendum on the participation in the EU raised significant concerns amongst the staff of the EBA. In order to contain the uncertainty as to the future location of the Authority and to ensure a smooth transition for the staff and their families, it would be important that a decision is taken within a relatively short time frame, while leaving sufficient time for the final movement.

Thank you very much for your attention.