

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

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Introductory statement by Andrea Enria, Chairperson of the EBA

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

Honourable Chair and Members of this Committee,

I will move now to banking issues, where **further progress has been achieved in the repair of EU banks' balance sheets**. Capital positions have strengthened, driven recently by a decrease in risk weighted assets, with the CET1 ratio reaching 14.3% in June 2017. The quality of loan portfolios continued improving: the non-performing loans (NPLs) ratio decreased by 90 basis points since June 2016, to 4.5%. This positive development was mainly driven by a few high impact actions. The NPLs stock remains at around EUR 900 bn in the EU, with a NPLs ratio above 10% in eight Member States. It is important that further progress is achieved while market liquidity is high, investors are searching for yield and interest rates are at record low levels. The roadmap agreed by the Council allows a sharper focus and coordination in policy actions. The EBA is working to a number of projects to enhance the efficiency of secondary markets for impaired assets. We are developing standardised templates for NPLs, as part of a common data infrastructure, which might include common platforms; we are contributing to the preparation of blueprints for national asset management companies, under the leadership of the Commission. Also, we are starting work on guidelines to strengthen bank NPLs management, building on the good work done by the ECB, as well as on loan origination, monitoring and internal governance. The **introduction of IFRS 9** at the beginning of next year will also drive significant and positive changes in provisioning, contributing to a more forward looking approach in the accounting recognition of

loan losses. The EBA published two reports to estimate the impact of the new framework and assess the degree of preparedness of EU banks. While the average impact on loan loss provisions and on capital positions seems to be manageable, we invited banks, especially the smaller ones, to accelerate the preparation to the new standards.

The EBA is also monitoring progress in building up loss-absorbing capacity and compliance with the ***minimum requirements on own funds and eligible liabilities (MREL)***. The average ratio of eligible liabilities to risk weighted assets reached 38% (end 2016 data for a sample of over 100 banks representing approximately 60% of the EU banks' assets). European global systemically relevant banks (G-SIBs) already comply or are close to comply with the international standards on total loss absorbing capacity (TLAC) entering into force in 2019. However, the dispersion across banks is extremely high and until the end of 2016, the reduction in funding needs has been mainly driven by the drop in risk weighted assets. Although we noticed some positive increase in the level of subordination, the stock of eligible liabilities has not moved significantly. In order to support the necessary changes in the banks' liability structures and enhance their resolvability, it is important that the proposed revisions to the Bank Recovery and Resolution Directive (BRRD) are finalised and that resolution authorities provide clear indications on individual MREL targets and, where appropriate, finalise joint decisions. Banks should not hesitate in exploiting the positive market environment and accelerating the issuance of eligible liabilities. Stabilisation of the rules, clarity and consistency in the practices of supervisory and resolution authorities, transparency for investors are key ingredients in achieving predictability in the functioning of the new framework and allowing for a correct pricing of bank liabilities. This is a pre-condition for a successful move from bail-outs with taxpayers' money to bail-in of private investors.

The construction of the Single Rulebook in banking is making steadfast progress. The EBA contributed to the ***review of the Capital Requirements Directive and Regulation (CRD/CRR)*** with a number of reports, often including in-depth assessments of the expected impact of the proposed reforms on the banking sector as a whole, on different types of banks and on lending business, especially towards small and medium enterprises. I trust you will find useful information for your work on these legislative proposals in our reports on the leverage ratio, on the net stable funding ratio (NSFR), on the fundamental review of the trading book, and on MREL. Debates in other jurisdictions on some of these international standards should not distract us from our objective of implementing G20 reforms that will have a positive effect on the stability of our banks.

The Basel Committee's work on ***international capital standards is also drawing to a close*** and European legislators will need to consider the implementation in the EU. The Committee's proposals aim at addressing excessive variability in risk weights calculated by banks; they complement the EBA's bottom-up repair of internal models, which is also being concluded. The EBA has been actively involved in the discussions at the Basel Committee and has worked as a platform to develop common European positions. We stand ready to assist in the assessment of the potential impact of the new standards on the European banking sector.

The EBA recently finalised its guidelines on **internal governance** and, jointly with ESMA, on the **suitability of management body members and key function holders**. This has proved to be a difficult package, in light of the wide divergence in national approaches and the concerns raised by small banks with simple business models. Weaknesses in corporate governance and in the qualification of the management body have been a key factor leading to the crisis. I believe we managed to move to a more robust, common framework with guidelines that are very mindful of differences across business models and legal forms. More generally, we are considering steps to increase the **proportionality** of our standards and guidelines with a view to reduce the compliance burden in a number of areas – reporting, Pillar 2, Pillar 3 –, without adverse effects on the level playing field across institutions.

The imminent entry into force of the revised **Payments Services Directive (PSD2)** was also a top priority in our work. The draft regulatory technical standards (RTS) on strong customer authentication and secure communication proved to be one of the most controversial pieces of work mandated to the EBA. We received a record number of submissions in our public consultation and a wide array of divergent comments from banks, third party providers, e-commerce players, card schemes and consumers' associations. I believe we found a delicate balance between competition and security objectives and have flagged our concerns on the Commission's proposal to amend the RTS in some key aspects.

The introduction of new technologies in the provision of traditional banking services is gaining prominence in our work programme. Following the reports published on crowdfunding, virtual currencies and big data, the EBA recently issued a broad ranging report on financial technologies (**FinTech**), presenting the results of a mapping exercise on innovative firms and their lines of activities and suggesting further work in a number of areas, from authorisation and sandboxing regimes, to prudential risks and consumer protection issues. We also issued guidelines on **IT risk supervision**, reflecting heightened concerns with cyber-attacks to financial institutions and have just consulted on a recommendation regarding outsourcing to the cloud.

The EBA is also contributing to the objectives of the **capital markets union** (CMU). Following up on our input to the legislative package on securitisation, we stand ready to contribute to the technical work that will be mandated to us. We expect that a similar process will unfold as a result of our advice to the Commission on covered bonds, as a legislative proposal has been announced for the first half of 2018. The other contribution to the CMU project is the recent EBA's opinion on a new prudential framework for investment firms. The opinion includes a series of recommendations aiming to develop a single and harmonised set of requirements that are reasonably simple, proportionate and relevant to the nature of investment firms authorised to provide MiFID services and activities.

Finally, in light of the decision of the UK to withdraw from the EU (**Brexit**) the EBA has identified a series of areas that need common regulatory and supervisory approaches across the other 27 Member States of the EU, to support a smooth relocation process and avoid regulatory competition. These include authorisations, approval of internal models, treatment of outsourcing,

back-to-back operations and risk transfers, matters related to resolution and deposit guarantee schemes. An opinion on these subjects is going to be finalised in the coming days.

As you can imagine, the relocation of the EBA is putting our organisation under strain. I would like to commend the strong work ethic and commitment of our staff, which has allowed continuing to deliver high quality technical work in a period of great uncertainty, for them and their families. Since the start of the summer we have experienced higher numbers of resignations, motivated by the relocation out of the UK. It is important that a decision is taken soon, according to the scheduled timeline, and that we are given sufficient time to plan the move to the new headquarters. The coincidence of the relocation with the ambitious review of our founding regulation, and especially the proposals to review our governance structure towards more EU-oriented decision making in some areas, could provide us with an opportunity to refocus our mission, restructure our organisation and continue serving the interests of the EU at the best of our capacities.

Thank you very much for your attention.