

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

Public hearing on

“Banking Supervision and Resolution: Next Steps?”

Initial Statement of Andrea Enria

Chairperson of the European Banking Authority

Dear Madame Chair, Honourable Members of this Committee,

The decision in 2008 to leave to national governments the exclusive responsibility for bank bail-outs contributed to the perverse link between banks and their sovereign, which is still adversely affecting bank funding and the financing of the real economy in the euro area. This link has to be severed, bringing the safety net at the European level. The European Parliament was right two years ago to point in this direction, in the reports coordinated by José García-Margallo y Marfil and by Elisa Ferreira. The decisions taken at the euro area Summit in June vindicate that institutional repair is now urgently needed to restore the orderly functioning of markets.

Speed is not necessarily conflicting with quality. The Commission has made an outstanding work in setting out the proposals for the Single Supervisory Mechanism. The proposals are far reaching, and rightly so. The ECB needs to have responsibility for fully fledged prudential supervisory tasks and powers, with a remit on all banks chartered in the euro area. The operational conduct of day-to-day supervisory oversight could be to some extent delegated back to national authorities, especially for banks active predominantly in local markets.

Following the finalisation of this important component of the safety net, attention will have to focus on the European mechanisms for resolution and deposit insurance. But efforts for an effective restructuring and resolution of banks should be given priority right now: in the European management of the financial crisis we put a lot of emphasis on boosting capital levels, but in-depth asset quality reviews and bank restructuring have been lagging behind.

The introduction of the Single Supervisory Mechanism is raising the contentious issue of voting mechanisms in the Board of Supervisors of the EBA. Non euro area Member States have expressed their concerns as to the weight coordinated voting by euro area representatives would carry in EBA decisions. While I understand these concerns, I am very worried that the solution could simply raise the required votes for approving a proposal, coming very close to a unanimity principle. Our ability to decide could be seriously hampered. I would suggest that new mechanisms for decision making be considered, which are less based on country representation and country weights. After all, the EBA is requested to make technical decisions that work for the Single Market, not to craft compromises amongst representatives from Member States. The mechanisms of independent panels and reverse majority voting proposed by the Commission for decisions on cases of breach of law and mediation could possibly be adapted and applied also in our standard setting function.

The Banking Union will be implemented in a still rather diverse regulatory and supervisory framework. Notwithstanding the great progress made with the text of the draft Capital Requirements Regulation and with the draft technical standards prepared by the EBA, there is still a fairly wide scope for national discretions in the legislative texts. This hampers the objective of a true Single Rulebook in key areas of banking regulation, such as the definition of capital.

Our experience in colleges of supervisors also testifies of a wide variety of supervisory methodologies and approaches, so that even with the same rules supervisory outcomes could significantly differ. The application of Pillar 2, the supervisory review process, is a case in point.

The Banking Union represents a unique window of opportunity also to cater for these shortcomings.

For the smooth conduct of its tasks, there will be a need to promote a much greater uniformity in the euro area regulatory framework and a single manual for examiners overseeing euro area banks. At the same time, national supervisors outside the euro area are also reviewing their supervisory approaches in light of the lessons of the crisis. More ambition on the Single Rulebook and the development of a Single Supervisory Handbook across the whole Union could realise a step change towards consistent and higher quality supervision and effective oversight of cross-border groups in colleges of supervisors.

Let me spend a few words on the Single Supervisory Handbook. In my view, it should not be an extensive manual, focused on procedures and checklists. On the contrary, it should go to the core of the methodologies to identify and measure risks

at banks, the framework to assess the banks' policies to contain those risks, and the criteria to define possible corrective supervisory actions. In a nutshell, it should provide a framework for line supervisors to exercise their judgement, thus ensuring consistency of outcomes. This could then be checked through effective peer review processes. I don't view the Single Supervisory Handbook as a technical standard, as it needs to remain flexible and adjust to changing business practices and market structures. It would be sufficient to have a legal requirement for the examiners of the competent authorities to adhere to the Handbook and ensure that any divergence from such benchmark would be considered as an important element in the assessment of malpractices or breaches of European laws.

Thank you for your attention.