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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

PUBLIC HEARING WITH ANDREA ENRIA, CHAIR OF THE SUPERVISORY BOARD OF THE EUROPEAN CENTRAL BANK

BRUSSELS
WEDNESDAY, 28 JUNE 2023

1-002-0000

IN THE CHAIR: IRENE TINAGLI
Chair of the Committee on Economic and Monetary Affairs

(The hearing opened at 14.37)

1-003-0000

Chair. – Good afternoon everyone, let's get started. Let's resume our committee meeting and proceed with our public hearing with the Chair of the Supervisory Board of the ECB, Andrea Enria. Welcome, Andrea.

Today's hearing will be dedicated to the following topics: outlook of the banking sector; state of Euro area banking sector; key trends, main risks and related supervisory activities; need for strong supervision; taking stock of the recent external review reports; and the need for a strong regulatory framework; the CMDI proposal; remaining gaps in the resolution framework.

The meeting will be organised as follows: there will be an introductory statement by Mr Enria, followed by a question-and-answer session that will be structured with a first round of questions, one per political group, one and a half minutes for the initial question, three minutes for the answer, with the possibility of a follow-up of a half a minute and one minute for the answer. And then a second round of questions on a more traditional format – one minute for the question and two minutes for the answer. If time allows, of course, there could be a catch-the-eye at the end.

Mr Enria, you now have the floor for an introductory statement.

1-004-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Good afternoon, Madam Chair. This year got off to a tumultuous start, but the European banking sector has shown remarkable resilience. This is a testimony of the progress made by our banks and also of the effectiveness of the enhanced regulatory and supervisory reforms implemented in the last 10 years. But this resilience should not be a cause for complacency. Rather, it should remind us that there is an ever-changing risk landscape and we should remain alert.

If we look at the first quarter of this year, the Common Equity Tier 1 (CET1) ratio of the European banks under our supervision is increased further, by 50 basis points to 15.5%. Asset quality developments showed a mixed picture: the non-performing loans ratio and the stage 2 loans ratio decreased further, but arrears have increased across the board.

The increase in arrears is not unexpected in the current policy monetary policy tightening cycle. The rapid increase in interest rates has helped to boost the interest margins and the overall

profitability of our banks, but this effect is expected to fade away as the highest interest rates are passed through to depositors and some downside risks – mainly credit, valuation and liquidity risks – start to materialise.

We have been starting to look at the interest rate and credit spread risks in the banks' books since late 2021, when we started seeing the increase in interest rates coming. We have done several off-site and on-site activities and we have identified a number of weaknesses in banks' risk management of these risks and asked for prompt remediation. The stress test that we are running right now with the European Banking Authority also assesses banks' vulnerabilities to very harsh macroeconomic scenarios, including further steepening in the interest rate levels.

Following the turmoil in the US, we also sharpened our scrutiny of unrealised losses. The significant banks that we supervise have around EUR 70 billion of unrealised losses, net of hedging, on all the debt securities that they have at amortised cost. This is not material in aggregate terms if you compare it, for instance, with the US, where they have USD 620 billion of unrealised losses, but these losses can be problematic at individual banks if they are combined with weaknesses in asset and liability management. However, let's say extreme business models such as Silicon Valley Bank, with extreme exposure to interest rate risk or predominant reliance on an uninsured, concentrated deposit base, is not something that we see in our in our landscape.

With respect to funding and liquidity risks, we have been focusing on the banks' exit strategies from the TLTROs – the targeted longer-term refinancing operations. The reimbursements are coming and we have not identified major issues in this review, although some banks, of course, might face some challenges in a changed funding environment. We will continue doing this review of funding plans towards the end of the year.

We are also focusing a lot our supervisory activities on exposures by banks to those sectors which are particularly sensitive to interest rates, so commercial real estate in particular, but also residential real estate. And we have concluded with recommendations to banks also in this area.

Profitability – in the first quarter of 2023 for the first time since the interest rates started increasing we saw for the first time that the increase in funding costs exceeds the increase in interest income. So we see that now the impact of the increasing rates is visible also on the liability side. We also have in our priorities a lot of focus on business models, vulnerabilities and governance, especially in the moment in which banks are shifting their long-term direction of travel due to climate-related and environmental risks and digital transformation. This is a scenario where we have identified a number of shortcomings on which we are following up with banks in a very focused manner.

Looking at the lessons from the cases in the US, it's clear that we should always be open to reviewing and adjusting our regulatory framework on the basis of the experience that we have gained, but I think that it would be inefficient, if not plainly wrong, to constantly seek to amend the rules to capture those risks created by bank-specific weaknesses and outlier business models. No, we cannot tailor the international standards to banks which have a very extreme business model like SVB in the US. So these weaknesses need to be addressed by effective, intrusive and risk-based supervision, and supervisors should be and feel empowered and be willing to step up pressure on banks to ensure that they promptly remedy their shortcomings. This, I think, is the most important lesson from the report published by the Fed.

We have been looking into ways to enhance the effectiveness of our supervision ahead of the current turmoil actually. Already in 2022 we tasked a high-level group of international supervisors to review our supervisory processes and they published their report in April 2023. At the same time, more or less, we also received reports from the European Commission and

the European Court of Auditors, and we are now taking the recommendations of these reports very seriously and are working hard to implement them as soon as possible. Several of these recommendations refer to weaknesses that we had already identified and we are already addressing, in particular the efforts to strengthen the effectiveness of our supervisory process, make it more risk-focused and defining clear escalation ladders. If you look at the SVB one, the points that the Fed mentioned is that they identified weaknesses, but they took too long to escalate to enforcement and remedial measures. That's something that, to be honest, we also have to look into in our house and improve. Further efforts are under way to enhance our efficiency, transparency, predictability along the lines of the suggestions. With due respect to the consideration for the observations made by the European Court of Auditors, we remain convinced that our approach to non-performing loans was comprehensive and proportionate and probably the best course of action available to significantly decrease non-performing loans along the lines of what happened in the last years.

Looking at the regulatory agenda, we strongly support the Commission proposals on crisis management and deposit insurance. I think it draws on recent experience and addresses practical issues that complicate the authorities' effort to ensure that failing banks can smoothly exit the market. So we support extending the use of resolution tools to broaden the spectrum of banks that go under resolution. This requires also realistic solutions to facilitate access to funding in resolution and therefore the Commission proposal to allow deposit guarantee schemes to contribute more in resolution, which requires in turn a harmonised least cost test and single-tier depositor preference. This is to a large extent a package, so it has a very strong internal coherence and would be important to keep it and ideally to finalise the proposals within the current legislative cycle.

Congratulations to the negotiating team for the finalisation of the Basel III reform of the banking package. We were very focused on having timely implementation. We are very glad that we are now moving towards implementation on 1 January 2025. So we welcome the agreement. Of course we need to look into the technical details, but we are happy that this package has been completed, and of course we will remain vigilant in those areas where there could be pockets of risk that maybe are not addressed by the implementation of the package, but we are very positive on the result.

We are very positive, especially, on the CRD changes in the area of environmental, social and governance activities, harmonisation of the fit and proper framework and the minimum requirements applicable for branches of third-country banks, which were points that were indeed high priorities for us. So thank you very much. I will leave it here.

1-005-0000

Luděk Niedermayer (PPE). – First, Mr Chair, it's great to have you here again. I'm very grateful that your optimism that you expressed last time seems to not be the wrong one. And it seems that that situation is really quite good given the circumstances in European banking.

I would like to ask a first question – I have two questions, I would like to start with this first one: going back to the situation of the banks, I guess there are certain risk factors, you mentioned high interest rates. It's good to see that you have unrealised losses somehow under control. But it's possible that we will stay with high interest rates for a longer period of time. So this is one risk. The second is that we see that at least in some major EU economies the growth outlook is less positive than one would expect. So it seems to me that economic activity can be subdued in a few at least quarters or years to come. And the third, and we talked about it at the beginning, is sometimes a really high volatility of the market that is triggered by certain factors like a confidence crisis that can last for very short time if managed properly, but sometimes can last for longer. So which of these risks do you think can be the most dangerous for European banks and are there ways how to reduce these risks?

1-006-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you for your difficult question. I would say that the move to a higher interest rate environment has been so far a net positive for banks. But indeed, there will be, let's say, a deterioration of the asset quality. This is expected. At the moment the models still envisage that for this year and the beginning of next year the positive effect on interest margins will to some extent compensate for the potential deterioration of asset quality. We need to maintain also some caution on the reliability of our models that of course look to a past set of data in which default rates were very low, so we need to maintain a little bit of scepticism also on our own and the banks' models. The growth outlook also is expected to be less positive.

Of the three, the thing that concerns me the most is the sudden shift in market sentiment – like we've seen in March – that can immediately move from a balance-sheet view on the banks, in which markets look at the same indicators we look at, so capital ratios, liquidity ratios and the like, to moments in which the markets look at mark-to-market valuations and frontload any low profitability issue into a sort of existential challenge for the banks. These types of turns in the market sentiment can be very destructive. There are these loops that we can see developing between prices in CDS markets, which are very shallow and illiquid equity markets, and withdrawals of deposits that can be very destructive. So that's, in my view, something that we should keep under watch and that's what we are doing and that's what we invite the banks, of course, to do as well.

1-007-0000

Luděk Niedermayer (PPE). – Thank you, if I can follow up: as you know, we are starting to work on the CMDI proposal, and it seems to me that that the perception is 'yes, but...'. There will be a lot of 'buts' coming from different constituencies. So what, in your view, is the strongest kind of point that would advocate really to go forward and overcome the difficulties? Is it, in your view, saving of taxpayers' money or creating a more level playing field at the market, or creating more predictability? So what would be for you the main argument how to ask people to overcome the differences and try to reach agreement relatively quickly, providing that, I guess, you share my view that it's important to get it through because it's quite a well-thought and well prepared proposal.

1-008-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – First of all, let me say that this package should not imply any change in the rather strong stance that the co-legislators have already taken in terms of avoiding the use of taxpayers' money to bail out banks. So the issue here is how to make the framework that we have available work at its best. And if you look at it from a distance, we have an amount of funds that are paid by the banks themselves, in the Single Resolution Fund and in national deposit guarantee schemes, which is quite material. I can't remember the precise figures, but I think in the region of EUR 150 billion, which is in the same ballpark as – actually now probably even higher than – our colleagues in the US. The point is that the framework we have now doesn't enable the authorities to really activate the use on a least-cost basis of this funding to ensure the smoothest possible solution for the exit of the banks from the markets.

So the three proposals of the Commission, in my view, are really interconnected. So more resolution, more harmonisation in the way in which DGSs can intervene also to bridge for accessing the resolution fund and harmonise least-cost tests. These three would enable to use these funds in a more effective way to ensure a smooth exit from the market via, let's say, sale of business, for instance, bridge banks, in a way, as in the US, in which the users, the customers of banks – depositors and borrowers – would not even notice that something has happened with their banks, and the taxpayer would not have any bill to foot. So that's the three proposals in the package, and I would invite you to consider them jointly.

1-009-0000

Jonás Fernández (S&D). – Good afternoon and welcome, Mr Enria. I have two questions.

This morning we learned about the Commission's proposal on the digital euro. The pilot project has been running for a number of months – Fabio Panetta has been explaining the process to us – and today we have been hearing about the legislative proposal.

My first question is, to what extent has the Single Supervisory Mechanism been involved in the preparatory work in advance of the launch of the digital euro? Because that undoubtedly presents challenges – or may do so – in terms of financial stability. I would like to know to what extent financial stability has featured in the approach taken to the design of the proposal.

My second question concerns the ability of central banks – not banks in general – to make profits. In recent weeks we have seen the central banks reporting losses after various monetary expansion policies have been in place for years, and following recent rapid rises in interest rates. To what extent can any losses suffered by central banks lead to financial stability or banking stability problems, irrespective of whether supervision of the commercial banks is going reasonably well?

1-010-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you very much for your question. On the digital euro, indeed, our colleagues in the SSM-ECB supervision have been involved – of course we are not in the driving seat: this is a project that is run by our colleagues on the central banking side of the European Central Bank, but we have had experts – so Fabio Panetta as well – coming to our supervisory board, informing us on the development of the project. And we have had opportunities through our experts to provide input in the process and will continue to do so, because the ECB is still in the phase of design that will be completed with the decision by the Governing Council in autumn this year.

Our angle on this debate is exactly, as you say, a stability angle. So the main concern which has also been raised by the banks is what happens if you have a situation of stress in the markets and citizens, depositors, therefore have a flight to safety by moving their commercial bank deposits into central bank digital currency, and could the CBDC therefore by its own existence be a destabilising factor. I think that there has been a lot of attention paid by our colleagues on the central banking side to tailor the design features of the digital euro in such a way to reduce and almost eliminate these risks. And these features are mainly the quantitative limits that are calibrated in such a way that you are basically targeting the cash available in the market right now. So you want to actually provide a tool that can follow the digital preferences of citizens in payments and to provide a sort of legal tender that has a digital nature and which can be used throughout the euro area.

The remuneration features will also be very important, because of course these would be another important incentive. And the other is of course keeping the banks involved in the distribution. So the ECB will not have the front-end of distribution of this product, but this will be left to the banks, which will have the main interface with the customers. So I'm convinced that these features will address in a relevant way, however, I think that the ECB also plans to communicate on these aspects and on the impact assessments that have been conducted when finalising the design phase for the digital euro.

1-011-0000

Jonás Fernández (S&D). – Yes, I had another question about the losses that the central banks are expected to have.

1-012-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Well, indeed, it's clear that once you have a significant change in the interest rate environment, central banks

which have invested in securities during their purchasing programmes might experience losses. This is not directly impacting financial stability, that's at least my reading. Of course, I'm not a central banker – I'm paid by the central bank and I work in the central bank, but I'm not looking at the central banks' budgets – but indeed, losses from the central banks are not directly implying any effect on the banks' facilities or on the access to liquidity by the commercial banks. So in terms of the impact on the banking sector, I don't see any repercussions.

1-013-0000

Eva Maria Poptcheva (Renew). – Thank you very much, Mr Enria, for being here with us today. I wanted to ask you about the issue of market interest rates being passed on to bank interest rates with reference to Spain in particular.

According to a recent study by the Bank of Spain, in the euro area as a whole the average cost of new housing loans for families rose by around two percentage points between January 2022 and April of this year. The figure for Spain is similar.

However, while the interest on new term deposits in the euro area as a whole has also increased by more than two percentage points, it has risen by only 1.36 percentage points in Spain, that is 73 basis points less than in the rest of the euro area. Of the four largest EU countries, Spain has actually seen the smallest increase in interest rates on savings.

With that in mind, Mr Enria, I'd like to ask you why Spanish banks are acting so slowly in passing on the interest rate increase to the rates paid on savings, and why mortgage loan interest rates are rising more than the savings rates.

1-014-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you for your question.

Let me start with the general picture. When you have a situation in which the interest rates were going down and also into negative territory, we have had, of course, a very significant compression of the margins of banks and significant challenges to the profitability, also because the banks were not passing on the negative interest rates, in most cases. Only in the last months there has been this development to their own customers.

Now that the interest rates are going up, of course, there is a more automatic adjustment on the asset side, in which many contracts are sometimes at floating rate, so there is no most automatic adjustment. Meanwhile, on the deposit side, the banks can to some extent use their relationship with depositors and also their market power in some cases to postpone the adjustment of interest rates. In any case, the expectation is that this effect of widening of margins would be reabsorbed, will fade away after a certain period of time, as depositors look for more remunerative forms of investment outside the commercial bank deposits, and also banks start offering higher competing and offering higher interest rates to their customers to retain them. So this is the process we are seeing.

There are differences across Member States, indeed, and sometimes these reflect also the different environment that we still have in retail markets in the euro area. We have countries like France, for instance, where you have all long-term fixed-rate mortgages, contracts, and on the deposit side, you have the direct impact of the *Livret A*, so of administrative interest rates decided by public authorities, and this squeezes very much the possibility for banks to gain from this widening of margins. You have other countries in which you have much more reliance on floating-rate mortgages and maybe more, you know, concentration in the market or power for the banks to delay the pass-through to depositors. So that's an effect of the structure that we have in the markets.

Of course, our colleagues in the Central Bank are keen that the interest-rate effect of monetary policy is passed through to depositors and to borrowers fast and effectively in the same way. For me, as a supervisor, having a more integrated European market in which, you know, you have more homogeneity in the type of contracts and also more competition between banks also across Member States is a target, but we are not there yet.

1-015-0000

Eva Maria Poptcheva (Renew). – I have a second quick question on wage increases. We can see quite clearly that inflation is being brought under control: it's already down from 10.2% to 6.1% in the euro area – it's as low as 3.2% in Spain – but we have not yet achieved our target of 2% inflation.

We can also clearly see how wages in the euro area are losing purchasing power, but just yesterday President Lagarde warned that a general wage increase after this year of inflation could basically send us into an inflationary spiral. So I wanted to ask if you think wages should be raised across the board, or whether that is risky and it would be better to consider increasing the wages of those who are most vulnerable.

1-016-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you for your question.

Well, of course, let's say I look at the issue from the narrow perspective of a supervisor, if you allow me. So the increase in inflation and possibly the lagged increase or slower increase in wages, of course, from the point of view of banks, is an issue of asset quality. Disposable income of households is compressed and there could be, therefore, an impact on the ability of borrowers to repay their loans, so there is an asset-quality effect.

The same, of course, happens, maybe turning upside down the argument now, for corporates or SMEs. If you have a significant increase in costs of raw materials and wages which are not, you know, translated into profits, you could have an impact there into prices, you can have an impact there as well. So there is an issue of how inflation can affect the ability of customers to repay their loans. The increase in interest rates, of course, which is a tool to fight inflation, is also affecting the potential repayment capability of households and corporates. So that's the main entry point.

Looking, then, into the banks' balance sheets, of course, banks themselves might see an increase in their cost basis because of increasing wages. And, here, unfortunately we don't move from a very positive point because the cost to income of European banks is already pretty high. We already have an average 62% or 63%, which is high. So if we have an increase in the in the in the cost structure, that could impact the ability of banks to generate profits.

So these are the main angles on which, let's say, from a point of view of supervision, the banks could be adversely affected by the inflationary developments and their impacts on wages.

1-017-0000

Michiel Hoogeveen (ECR). – Thank you, Chair, and thank you, Mr Enria, for being here.

I would like to follow up on what my colleague of the S&D asked you, because last week we saw that Germany's federal audit office warned that the Bundesbank may even need a bailout to cover the losses arising from the ECB's bond-buying scheme, so because the ECB pumped trillions of euros of cheap money into our financial system for the last decade to keep the euro area economy afloat. To put this into perspective, the ECB purchased vast amounts of bonds to lower borrowing costs, known as the QE policy. This became the root cause of inflation, and in the end, the ECB presses the panic button to raise interest rates in record time. Now, having raised these interest rates to fight the runaway inflation, the national central banks must make

huge interest payments to commercial banks on deposits the institutions themselves created via massive bond purchases and cheap loans.

So, ironically, the central banks of the fiscally more prudent countries, Netherlands, my country, or Germany, they will probably be hit the hardest because they carry a large share of these deposits and the bonds which were bought on behalf of the ECB, with yields of zero or less. And next to the Bundesbank, the Dutch Central Bank also said that openly – I think it was in March – that they are expecting dramatic years and historic losses.

So my question to you is, why should the Dutch Central Bank, or the Bundesbank in this case, as a result of the increased interest rates that the ECB pays on the commercial banks, be covered, potentially, by the taxpayer?

And isn't there another possibility that the ECB chooses to cancel or lower the interest rates on part or of the central bank reserves?

1-018-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Well, I mean, outside this room, I would be very keen to engage with you in discussion on this and express my personal views. But of course, you know, being in my role as head of the supervisory arm of the ECB is very difficult for me to comment on topics that do not fall under my remit.

The only thing I can say – to some extent, repeat – is that, let's say, luckily enough, I'm not responsible for the solvency of central banks and I'm only responsible for the solvency of commercial banks. But again, I mean, I think that, in any case, what I can say is that this assessment needs to be done in a sort of through-the-cycle perspective, also looking at the profits which have been generated through time by central banks for national budgets, through distribution of profits, and looking at the appropriateness of the single monetary policy stance. These two are the metrics against which I think that the Central Bank's behaviour should be assessed.

And again, it's not my task, unfortunately, to elaborate on that.

1-019-0000

Chris MacManus (The Left). – Thank you, Chair, and thank you, Mr Enria, for your open comments and your replies today.

As we all know, rising interest rates aren't just a theoretical issue. They are, I'm sure, as the ECB knows, a very real issue for the economy and indeed wider society, and those who are feeling the impact most sharply are, of course, mortgage holders.

In my country, there's a group of mortgage holders who are feeling it more than most. These mortgage holders, they effectively find themselves held prisoners by vulture funds, who are increasing the rates above and beyond what the mainstream banks are. There's an injustice here, and nobody seems to be stepping up and taking responsibility in that regard. I think, in my opinion, it's due in no small part to the ECB, who have said in the past that protecting banks trumps protecting mortgage holders or citizens or workers and consumers. So, we could be facing a further wave of mortgage failures if interest rates keep rising.

So, my question is, will the ECB again prioritise reduction of the so-called non-performing loans above all other considerations?

1-020-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Let's say, I would challenge a bit your reading of the ECB policy. It is true that, in the last cycle, where the piling up of non-performing loans was, let's remind this, done before the ECB had any

responsibility for supervision. The ECB had to address an issue that was there and which was damaging for everybody. It was damaging for the mortgage borrowers that were unable to repay loans and were already non-performing. It was damaging because the banks had their balance sheet clogged with non-performing loans and were unable to make new loans and to support the recovery after the crisis. And the whole thing was extremely damaging for all citizens.

So, the approach of the ECB has been, yes, to push banks to clean their balance sheets. And I'm glad and proud to some extent that this was successful, but also to build a framework within which you would not go anymore there, so that you have banks which are forced to engage with customers very early on when they see signs of deterioration. The worst thing that happens is when banks are not proactively addressing asset-quality problems, are not contacting the customers when they see signs of delays in payment, of difficulties in payment and are not offering the mortgage borrowers solutions in terms of rescheduling the loan, you know, restructuring the facility and enabling the customer to basically maintain both the flat and the ability to pay. So this is very much what we have designed as a policy.

Parliament itself and then the Council as well – because it has become legislation – has introduced specific rules that request banks to provision proactively when loans become non-performing, exactly to avoid a new, let's say, explosion of non-performing loans. So, the more we manage to proactively manage deterioration of asset quality and offer solutions for the customers, the more we help the customers and the mortgage borrowers and the less we create the backlog of non-performing loans that clogs our economy. So, I think that our policy is moving in a direction which should enable us to have a much better transition in a future recession than was the case in the past.

1-021-0000

Chris MacManus (The Left). – Thank you for that. I take from the tone of what Mr Enria has been saying is that the ECB will still continue to prioritise commercial considerations over other considerations.

I find that very much, where I come from, it leaves us with a very twisted situation where, because the Irish banks collapsed, people lost jobs because they lost their jobs, they fell behind in their mortgage payments, because they fell behind, the banks sold their mortgages to vulture funds. Now they're caught in this trap and they can't escape because the vultures' interest rates keep on going up and up.

So, my secondary question to ask Mr Enria is, what ways do you give to the social impact of the ECB actions designed – apparently – to protect the stability of the banks?

1-022-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you. It's clear that I have not been able to explain my position here.

My point is that, of course, if you find yourself with a trillion of non-performing loans that are clogging the lending to the economy, I mean, there are no options available. So the ECB did the only thing that was possible, which was to, you know, give all the possible prudential incentives to banks to clean their balance sheets and become functional again, to become able again to lend. And, of course, we were very supportive of national initiatives that have been taken by parliaments, consumer protection authorities to avoid as much as possible that these actions by the banks were creating undue harm to customers, especially customers with difficulties.

The point is, in future, is to design a policy that avoids us being there again. So, if you have a policy by means of which the bank contacts the customer as soon as the customer is showing signs of being unable to pay and is able to restructure the loan or to reschedule it or to change

the interest rate to make the customer able to pay again, then it is the customer which is better off. There is no vulture fund. There is no insolvency because you, by proactively reaching out to the customer, are able to cure the situation and address the problem at the root. So it is actually the delay of the banks. The banks are looking excessively to a financial perspective instead of proactively reaching out and restructuring the loans that is creating, in my view, the maximum harm to customers. And I think that the current environment that you have makes the banks more sensitive to this point than they were before.

Then, of course, we are a prudential authority, so we cannot intervene specifically on clauses of contracts which might be harmful to customers. And we cannot intervene if the sale of these assets is done with counterparts which are more predatory or less attentive to the conditions of the customers. But I think there should be elements in the legislation or in the tools deployed by consumer protection authorities in this area to protect the customers.

1-023-0000

Danuta Maria Hübner (PPE). – I understand I have one minute and one question, so I would just like to take you to UK and ask this: recently we have heard that the British authorities have decided to add to the first objective that both for PRA and for FCA, also the second-level objective, which is growth and competitiveness. If you could just comment on it and if you could just also maybe use this opportunity to say something about your cooperation with the PRA today and, in general, the importance of the memorandum of understanding, which I understand we signed, what it means for you.

1-024-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you for the question.

My answer to the first point is that I'm personally comfortable with the situation in which I'm given a straight mandate on prudential supervision rather than having secondary mandates dealing with other issues because I think that, let's say, the predominant focus of a prudential supervisor should be on the stability of the banks. I think that if you want to, you know, improve the competitiveness, through industrial policy, let's say, it should be other authorities dealing with it. This is surely true at the European level, but in general, I think that the prudential supervisor is better focused to its own narrow mandate.

On the cooperation with the Bank of England, this is excellent, to be honest. We are always engaging with dialogue on the topic which was most difficult and controversial, which has been the relocation of banks post-Brexit to the euro area. We have completed now and we have sent to individual banks our final conclusions of this work, the so-called desk-mapping review. So, we have gone desk by desk, product by product, checking out risk management that was organised by these banks and we have given them clear instructions on how we expect them to organise their risk management, so in which cases products are material for the euro area, not for risks in our responsibility. And we want sufficient strategic and risk-management capabilities to be available in the euro area. This process has been managed in close transparency and cooperation with the Bank of England and the US Fed. I was very keen that the banks didn't find themselves in front of conflicting indications coming from us and from their authorities in London and in New York. We achieved a good agreement on that.

So, basically, the banks will receive consistent indications by all supervisors, and I'm happy with the situation we are in right now. The memorandum has been part of this because this has been, in a sense, enabling this close cooperation, this close exchange of information. We have done this even before the memorandum was underwritten at the political level. Of course, I welcome also the fact that the EU and the UK have now come to a cooperation agreement. This will enable a financial market dialogue, as we already have with the US, Canada, Japan and

other jurisdictions. That will intensify even further the policy dialogue between the two jurisdictions.

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Chair. – There are no further requests for the floor, so we can conclude our public hearing with Andrea Enria. Thank you very much, Andrea, for your availability and thank you to the MEPs that participated.

(The hearing closed at 15.25)