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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

PUBLIC HEARING WITH CLAUDIA BUCH, CHAIR OF THE SUPERVISORY BOARD OF THE EUROPEAN CENTRAL BANK

BRUSSELS MONDAY, 18 NOVEMBER 2024

1-0002-0000

IN THE CHAIR: ĽUDOVÍT ÓDOR

Vice-chair of the Committee on Economic and Monetary Affairs

1-0003-0000

(The public hearing opened at 15:05)

1-0004-0000

Chair. – Dear colleagues, let's start our ECON meeting.

First, allow me to say two sentences in my mother language.

I would like to welcome you to another meeting of the Committee on Economic and Monetary Affairs. Yesterday, the citizens of Slovakia and the Czech Republic commemorated together the 35th anniversary of the Velvet Revolution. 17 November 1989 is remembered as a very important holiday in the struggle for freedom and democracy. And these are precisely the events that brought us here, to the European Union. These are the events that made it possible for us to be present here and now to discuss common themes for Europe.

Colleagues, let us start the public hearing with Claudia Buch, Chair of the Supervisory Board of the ECB. I would like to warmly welcome Ms Buch at this hearing at the ECON Committee.

During the past two weeks, the Parliament conducted the confirmation hearings of the Commissioners-designate, and these have been quite intensive weeks. In her political guidelines, Commission President von der Leyen already outlined in July before the Parliament that the completion of the banking union is a political priority for the incoming Commission. This policy priority is also reflected in the mission letter of the Commissioner-designate for Financial Services and the Savings and Investments Union.

In addition, the Letta report, but in particular the Draghi report, assess how the financing capacity of the banking sector could be increased. The Parliament and the Council, as co-legislators, already started to further shape the regulatory framework for the banking sector and financial services.

We also exchange views on the shape of the future regulatory landscape with our major international partners. At the end of October, an ECON delegation travelled to Washington DC, and at this occasion MEPs discussed with their US counterparts the implementation of the finalised Basel III standards. Thereby, they emphasised the importance of implementing the banking rules agreed under the finalised Basel III framework. An international alignment of capital requirements will ensure the resilience of the banking system in these times of economic uncertainty. We are therefore highly interested to hear from you more on these topics, the outlook for the European banking sector, strengthening supervision and regulatory framework.

Before we start, colleagues, let me also recall the procedural set-up of this meeting. In line with the agreed practices, the following procedure will be applied. Ms Buch will make a brief introductory statement of five minutes, followed by a question-and-answer session of 10 slots. For the first 8 slots, 1.5 minutes for the initial questions and 3 minutes for the answer, with the possibility of a quick follow-up question if time allows. For the last two slots, one minute for the question and two minutes for the answer. If time so allows, additional two-minutes slots will be allocated on a catch-the-eye basis, taking due account of the weightings of each of the political groups. Concluding remarks of two minutes by Ms Buch will follow.

Ms Buch, you have now the floor for an introductory statement on your behalf.

1-0007-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you very much, Chair, and thank you very much to you, as members of the ECON Committee for this opportunity to exchange views. I would like to talk about three things: one is the risk outlook and the potential vulnerabilities of banks to this outlook; also, of course, the resilience of the banks, our supervisory efforts to ensure that banks remain resilient; and then the legislative measures that are needed to further strengthen our ability to respond to future challenges.

Let me start with the risk outlook. European banks are operating in a macroeconomic environment characterised by moderate growth and considerable uncertainty. So we are seeing a gradual recovery in economic activity and expectations of further monetary policy easing. So that has led to a relatively benign risk pricing in financial markets, with the risk of a sudden shift in market sentiment.

Protectionist tendencies could disrupt essential global supply chains with negative impact on firms' financial resilience and thereby also credit risk. And these cyclical developments are amplified by long-lasting structural challenges related to demographics and weak growth and innovation dynamics in Europe.

Against this background, the European banking sector is well capitalised. The volume of credit available to the real economy has remained stable, while growth of lending has declined, reflecting banks' higher perceptions of risk and lower risk tolerance, but also demand-side factors related to higher interest rates, low investment and weaker consumer confidence.

This resilience of banks, including during periods of stress, is due to several factors. Better regulation and supervision: we have a lot of evidence showing that better capitalised banks are better able to lend also during crises, but banks have also benefited indirectly from policy measures. Loan losses have remained muted over the past years, against the background of also insolvencies declining during, for example, the COVID-19 pandemic. However, going forward, public policy may be more constrained, putting larger demands on the financial sector's own resilience.

Heightened geopolitical risks increased the likelihood of tail events materialising. The problem with these tail events, and the high uncertainty around geopolitical events, is that traditional risk models don't capture these uncertainties well, and this may lead to a delay in identifying emerging risks. So this is why Supervision has defined a framework to assess geopolitical risk, which is really affecting the banks through the traditional risk channels. Supply-side disruptions can increase credit risk. Financial market volatility can trigger asset price corrections. Financial sanctions or cyberattacks can exacerbate risks.

And therefore, the management bodies of banks should ensure that banks are sufficiently resilient, both financially and operationally, that the risk models and the risk assessment frameworks banks are using capture adverse scenarios relevant for each bank, and that vulnerabilities are reduced through provisioning practices, capital planning measures to enhance cyber resilience, and also to carefully monitor outsourcing arrangements. But the new environment, and I've said this here before, not only has implications for banks but also for supervisors.

So ECB Banking Supervision is adjusting to the new environment to better identify and address emerging risks. We are in the process of implementing a comprehensive reform of the Supervisory Review and Evaluation Process (SREP) in order to make supervision more efficient, more effective, but also more intrusive. This reform facilitates more focused risk assessments, enhances communication with banks to give more clarity where we expect banks to remediate findings, but then also move to ensure that banks remediate supervisory findings more quickly.

So we always use moral suasion and recommendations first, but we then use increasingly binding tools, including periodic penalty payments, to ensure that remediation happens. And as a final point of this supervisory reform package, we will soon communicate a simplified methodology for calculating Pillar 2 capital requirements.

In addition, the SSM guides the banks on risk data aggregation and governance, and these guides should clarify supervisory expectations in these areas. So let me explain why risk data and aggregation is so important. Management of the banks needs accurate and timely information to take the right decisions. However, banks have been slow in enhancing their internal risk data aggregation and reporting capabilities. About one third of all banks, in their own assessment, use data governance frameworks that are only partial, which means they can't provide the relevant information in a sufficiently timely manner.

Let me stress – and this is also related to the supervisory reform process that we are currently implementing – we are very mindful of the need to avoid unnecessary complexity of regulation and supervision. We make supervision more effective and efficient to ensure sufficient resilience of banks. We, at the same time, fully committed to further simplifying supervisory procedures and to reducing costs of regulatory reporting, including by supporting the integrated reporting framework at the European level.

Talking about the policy measures that are needed to enhance our ability to respond to future shocks, instead of relaxing banking rules or delaying the implementation of Basel III, completing the banking union and the capital markets union would contribute to financial stability and growth. The current regulatory framework gives us a clear mandate ensuring European banks remain safe and sound, thereby protecting depositors.

So if you want to use an analogy to traffic, our role is similar to that of the transport police. So legislators set traffic rules; the police enforce these rules. Banking regulations ensure that banks don't take excessive risks because laxer rules and safety requirements increase the risk of accidents. Banking regulation codifies how much risk, how many accidents society is willing to tolerate in the financial sector, and this in turn is the basis for supervisors to act and to enforce the relevant rules. We very much hope that the European Parliament will continue with its important work to sustain banks' resilience and foster integration. So the first element that I see here is that the crisis management and deposit insurance framework aims to strengthen and broaden the toolkit available to deal with failing banks. We think that the Council's position would not ensure adequate resolution funding, particularly for medium-sized banks, which may mean that they would be dealt with under national rules. This would, in our view, reduce the credibility of common resolution and could increase risks to financial stability.

Second, a European Deposit Insurance Scheme (EDIS) would ensure the same depositor protection across countries, so we really welcome the progress that was made here by the Parliament. EDIS would promote the integration of banking markets. It would prevent the re-emergence of the sovereign-bank nexus, because we know that national schemes might need taxpayers' money in the event of large shocks. A European scheme, in turn, would benefit from diversification and pooling of resources. With common supervision and a significant reduction in legacy assets, two preconditions for EDIS have been met in the meantime.

And finally, of course, further progress on the capital markets union would complement the important role of banks. Better access to equity capital is needed to finance long-term, risky investment projects and improve private sector risk sharing. Banks would benefit from the removal of national characteristics legislation that limits cross-border activities.

We stand ready to further engage with you and contribute our expertise where needed. Thank you very much.

1-0008-0000

Chair. – Thank you very much for this very interesting introduction. Now there is time for the Q&A session. I would like to kindly remind you that the intervention should be not more than 1.5 minutes, and there will be 3 minutes for the answer.

1-0009-0000

Fernando Navarrete Rojas (PPE). – Ms Buch, as you well know, the Draghi, Letta and Noyer reports all acknowledge the key contributions of financial stability and a global level playing field to address the EU competitiveness challenge. However, it is also true that they all point out to the prudential regulatory framework and its supervisory implementation, as you mentioned, as a potential obstacle for EU competitiveness. Similar claims have been made as to its impact on housing affordability due to tighter funding conditions to home developers limiting home supply. In this regard, I would like to know your opinion about some specific proposals contained in said reports.

First, the idea of having all significant institutions under a so-called fully harmonised 28th regime encompassing not only supervision activities, but also crisis management and deposit insurance as a way to increase market integration.

Second, the idea of establishing a pan-European securitisation platform that will help to transfer banks' long-term mortgage risks, thus creating more room for new mortgage and corporate lending origination.

Additionally, I would like to know what role do you see for cross-border consolidation as a means to increase banks' competitiveness and shock-absorption capacity?

And finally, if I may, how much would, in your opinion, the completion of the banking union contribute to a reduction of the compliance and regulatory burden for banks, especially those competing globally?

1-0010-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you very much for a large set of questions! I will try to answer them in turn and hopefully in sufficient detail.

So first of all, I think the reports that you've mentioned are crucially important to highlight the issues that there are in Europe related to productivity, growth, innovation and also explain what policy measures can be taken. My answers just focus on the supervisory part because this is what we are responsible for.

So first of all, I think that the progress that we've made over the past 10 years and maybe a little bit longer after the global financial crisis in terms of strengthening regulation, strengthening supervision, strengthening financial stability – so the macroprudential framework – is also very important. These provide basically the precondition for growth and innovation in an economy. So if the financial system is not working, if there are instabilities, if there's a lot of uncertainty, I think this has very negative implications for the real economy, and we've now lived through a phase where the financial system has been resilient to external shocks, also for the reasons that I mentioned earlier. I think we shouldn't forget how important it is to have a stable and reliable financial system.

On the concrete measures that you've mentioned, the first is to have a special regime for significant institutions. I think we actually, to some extent with the SSM and with all the regulations that we have in place, we do take account of the fact that we have significant and less significant institutions – that's the terminology we're using. We also treat them differently.

So one major regulatory reform after the global financial crisis was to acknowledge systemic risk and to also have different regulations around large and systemically important banks. So I think my preference would be to work within the framework to close the gaps that we have when it comes to resolution, when it comes to EDIS, so that cross-border activity for all banks is easier, that all depositors are treated alike rather than creating an entirely different regime, which may actually – it would depend on how exactly it's being implemented – make the system even more complex than less complex.

But I think this needs to be discussed in more detail – what the proposals mean. And so my concern would be that we end up with a more complex system where we have additional rules for some institutions. I would rather work within the framework that we have and close the gaps that we have.

As regards securitisation, and of course I know that this is also a big element of the capital markets union proposal, although I think there are also many other elements under capital markets union that are very important and that would also support the banking sector, the integration of the banking sector. So I think CMU shouldn't be just focused on securitisation.

I think everything that we can do in order to ease securitisation for a given risk transfer, I think this is always extremely important because we know that securitisation products can have risks embedded in them, and I think we have a good regulatory framework around this. But everything that we can do for a given risk transfer to improve securitisation – we are also working with the industry to make sure that what we can do from a supervisory perspective to speed up the process, I think that would be certainly useful.
But I think one also needs to look very carefully at how to balance what we have achieved in terms of resilience of the system, also with regard to securitisation and the different proposals that have been tabled. So I think this is a very important balancing act that we also have to take in this field. So in other words, I wouldn't loosen the regulation around it, or if any proposals are being made, if anything discuss them at the Basel table.

On cross-border integration, I think this was related to what strategies of the banks we at the SSM see or prefer. Let me say very clearly: we don't really have a view on – if consolidation in the sector happens – whether we prefer cross-border consolidation versus domestic consolidation. So we have a very clear role on what we what we look at. But certainly there are many elements where we would see more cross-border activities of banks that would lead to better risk-sharing and better diversification. But we also know that cross-border activities entail risks, so we always have to look at this, and I think we do this in a very balanced and neutral way.

Could closing the remaining elements on the banking union reduce compliance costs? This is for you, the co-legislators to decide, but every measure that is taken should always have an eye on what the regulatory costs are that are associated with it. So this really depends on the specification of these files, on how it's being implemented, but of course we have a good purpose with certain regulations, but they should always be balanced in terms of the cost and benefits.

1-0011-0000

Jonás Fernández (S&D). – Good afternoon, first of all, I would like to thank you for being here today. I have two questions.

The first relates to the news report today in the *Financial Times* about the existence of a report prepared by the European Central Bank on the impact, or the potential impact, of applying the current US prudential regulatory standards to large European banks, under which minimum capital requirements would increase by a double-digit percentage. I would like to know whether the existence of this report can be confirmed and whether it will be made public, and whether we will be able to examine it, because I believe it is important to clarify the regulatory frameworks of the different jurisdictions and their potential impacts.

My second question relates to the exercise you prepared before the summer on the effects on banking stability of potential cybersecurity crises. I believe the exercise took place – if I am not mistaken – in June or before the summer. I would like to know if there are any conclusions from this report, whether they will be made public and whether we will be able to follow it up.

1-0012-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you very much for these questions. So to the first question, what work do we do on impact assessments and comparisons of capital requirements in the US versus Europe. So I think I've also reported here that we do have some work where very simply we compare. It's a kind of a hypothetical scenario, and this is taking the current capital requirements as they are in place in Europe versus the US, where we take this into account and we say, 'What if hypothetically, the European globally systemically important institutions – the GSIBs – were under the US capital requirements?'

And for the GSIBs, for the large institutions, we find that, if anything, the US requirements, the current requirements would be higher than under the current European rules, and that has to do with the less important role of internal models in the US with the so-called Collins Amendment. So that is driving that result.

It looks a little bit different for the domestically systemically important institutions, so here the European requirements, capital requirements would be somewhat higher. I think this is also beneficial in terms of the stability of the mid-sized banks, the small and mid-sized banks that we've seen, for example, in March 2023, when there was some turmoil on US banking markets.

So we are currently in the process because these numbers – we've spoken about them earlier – are currently being updated, so we're looking at this and we also plan to publish something on this because this is I think part of our transparency. But we need to of course carefully do it, and we're just in the process of updating.

I think the second issue that you alluded to, that is also the impact assessments that are regularly being done, so this is the forward-looking part. I think this was also in your question, and here the European Banking Authority (EBA) does this type of work, and we also look at our own data. And I think these numbers are roughly in the ballpark of the full implementation of Basel III – this is now the forward-looking part – would have been roughly 18 % increase in capital requirements.

Now, both our work and the work by EBA, so don't look at the very exact numbers. I would have to look that up. But it's roughly in the range of 8 to 9 % that capital requirements would increase under what is currently being agreed upon under the banking package CRR III.

Sorry for being a bit technical: this is assuming a static balance sheet, so assuming that banks don't adjust to this to this change in the requirements. If anything – and what we also know from previous experience and also from the conversations with the banks – the actual impact would be lower because, of course, the banks would be adjusting. And, of course, you all know that the phase in would be until 2032. But this is basically what you also find in the EBA impact assessment.

Your second question about this, the cyber resilience, so this was – just to recall – a hypothetical desktop exercise asking: What if a significant cyberattack has affected the bank so that some systems are not running, consumers cannot access their accounts? What would be the response? How prepared are the banks to respond to this? How quickly how long does it take to get their systems up to running? What communication would they make?

And we, by and large, found that the banks are prepared, but we also found weaknesses, and we now follow up with the banks specifically on these weaknesses to again ensure remediation in case we have issues that we found. The findings, of course, have also been shared with the banks, allowing them to do benchmarking. But this is, of course… We published a press release and we have some standard publications. But this is, of course, also confidential information when it comes to bank-specific information, so that's also a balance we have to strike here.

We do have a regular cyber incidents reporting, so this is publicly available on our homepage. So this is also… It's different from this exercise because this was, as I said, a stress test exercise, forward-looking or hypothetical exercise, but this has the actual cyber incidents, and you can find them on our website.

1-0013-0000

Enikő Győri (PfE). – Ms Buch, sorry for missing the previous meeting with you, but economic security is one thing and aviation insecurity is another thing, so sorry about it.
I have three questions to you. In the context of trying to boost competitiveness we know that for that we would need a strong European capital market supported by a competitive banking sector. So my first question is another aspect of the capital requirement issue – we know the situation very well, that most probably in the US they will not follow. How do you conceive this, how the ECB would balance the need for financial stability with the urgency of boosting a globally competitive European banking sector? So what to do if the situation remains as it is at the moment?

My second question concerning financial stability is on the home/host banking issue, which for someone coming from Central Europe is a vital issue. In Member States where big foreign banks are present through the subsidiaries, in light of future reforms, do you support that home banks should ensure stability of their affiliates, even in host countries, by holding a sufficient level of capital and liquidity in the subsidiaries, because we have very bad experiences with that.

And my last question would be on the EDIS: we know that risk-mutualisation can encourage fiscal irresponsibility in certain Member States. What kind of guarantees can the ECB provide to ensure that the EDIS will not burden taxpayers in some countries because of the wrongdoing of others?

1-0014-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – I'm afraid I need to answer very briefly, so hopefully I'm not too brief!

On the potential legislative regulatory action taken in the US, I don't want to speculate about this. So I think actually implementing Basel III is relevant for Europe in its own right. So if you see what the key elements are of the banking package that has been negotiated, this is about limiting the use of internal models or the output floor. I think this was very well deliberated upon, and I think it's useful to strengthen the system. It's better at addressing operational risk. So I think this is useful to strengthen the resilience of the European banks and I have commented a bit on the implications for banks to compete. I think better-capitalised banks are actually better able to compete also on international markets. So I think this serves as well, both in terms of resilience and also ability to compete.

On the home/host, I mean, as an SSM, I can take for the banks that are active within the banking union, I can really fully take the integrated home/host perspective, and so we do this in our everyday work. So we can basically internalise these tensions that might be there between home and host. I would certainly hope that we come to a more integrated system. You know that liquidity waivers cross-border are available and are currently not being used. Capital waivers are not available in the legislation, they are for the domestic activities, but we clearly take an integrated perspective.

On EDIS, as I said, I think the preconditions we apply the same supervisory standards to all banks, risks have been reduced significantly. The proposals that I've seen for EDIS and that are being discussed also make sure that there are risk-based contributions. I think the large benefit, apart from the integration of market, is that it would weaken the bank's sovereign nexus, and I think this should also reassure taxpayers.

1-0015-0000

Fernand Kartheiser (ECR). – Thank you very much, Ms Buch, I'm really deeply impressed by your explanations: I'm new here, so I'm listening very carefully and I try to understand what you are telling us, but I have the feeling that we are perhaps not living in exactly the same world. I listen to the banks and I hear a lot of complaints: too much, too many regulations, too much compliance; a lot of complaints also that the banks' efficiency has decreased. I think the European Central Bank has said the same.

Also the Draghi and Letta reports should be taken very seriously, I think, because they confirm that regulation can be a risk. So I wonder, do we really need even more layers of additional regulation? Do we really need to increase and to put additional costs and more bureaucracy on the shoulders of our banking system? I doubt it, and I wonder – and that would be my question, if we came to this quite perfect system that you are outlining, and you are perfectly in your right to try to achieve this, but I wonder what would be the practical results if we did that? What would be left, for instance, to national supervisors? And I wonder whether we really need more European supervision, because we don't have that, for instance, in the judicial system. There, of course, national courts act also as European courts in the application of European law. So do we need more European structures? And what would be then the advantage of additional layers of European supervision when we would have efficient national supervision functioning according to a common regulatory framework?

1-0016-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you for the for the question. So I would not see regulation and supervision as a risk but as a response to risk. And this is what we've seen in the global financial crisis: how costly it can be for the economy, for the society, if we have a financial system which is not sufficiently regulated and supervised. So we are responding to risks that are there, and I've described a few of them, rather than creating a risk of our own.

In terms of the performance of the European banks, I think what is important – and I also mentioned this in my introductory remarks – it's important that banks, also because they're under a lot of competitive pressure also from digital providers of financial services, that they have sound IT systems in place, information systems in place. So I think this is an important element of the sustainable future profitability of banks.

And the final point, what I said about completing the banking union and capital markets union was not a point about the first pillar of the banking union. So I think the supervisory framework is working well, and as I said, we are also reforming it to become more efficient, effective and intrusive. But we do have gaps, and I think it's important to close these gaps in order to be better prepared for potential future crises. So these were the points that I made.

1-0017-0000

Gilles Boyer (Renew). – Mr President, I would like to thank Ms Buch for being here with us this afternoon. Ms Buch, I share your analysis of the first ten years of the Single Supervisory Mechanism, which most agree represents significant progress towards European financial integration. I hope that this mechanism will remain a strong pillar of the banking union in the coming years.

One concern in particular that is often raised by the European banks is the complexity of the rules. They are calling for their simplification, and doing so does not necessarily mean you cannot have a fitting, well-designed framework. And I am not just thinking of competitiveness here. I think we need to help banks to focus on risk management in an effective way rather than having them waste energy on box-ticking.

I wanted to know how you deal with this issue in the Single Supervisory Mechanism? How will you strike a balance between judiciously regulating while avoiding excessive red tape for banks?

1-0018-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you very much for that question. Yes, standards and rules are complex, and I think it's important to really look at the reasons why this is the case. And I think one important element is, of course, modern banking is complex, so the rules that are there have also, of course, been created. And I think the co-legislators, you as the Parliament, know this well because we had a global financial crisis, we had the European crisis, and after that there was regulatory reform, and all the reforms that have been agreed upon were also consulted by industry. And also, industry sometimes has pointed to issues where more detail, more, you know, recognition of specific business models would be needed.

So I think in part the regulation that we have in place is also reflecting the complexity of modern banking. The framework in which we operate – and I also made this reference a bit in the context of the capital markets union – is, of course, one in which where we have the single rulebook, what we also have lots of national legal frameworks that we have to have to deal with, for example. And this is the same, of course, then also for the banks: take insolvency legislation, differences in mortgage market legislation, which differ across countries. And that, of course, also has implications for complexity, and I don't want to judge upon this. This is just descriptive.

And then, of course, we have a part of the complexity where we can at some point in time – and I'm always very much in favour of good policy evaluation and, you know, checking what we are doing – where we can consider whether this is complexity which is unnecessary, which does not help us to make the sector more resilient, but which is just creating additional work for all of us. So this is a discussion one can have, but I would really warn against reducing complexity, simplifying the system, and then give up in terms of the resilience that we have achieved.

So it's easy to talk about what others could do, what the co-legislators could do, but what do we do internally? We go exactly into the direction that you have indicated, namely, to be more focused in our supervisory work, to be more focused on the relevant risks. And I think if you talk to the banks, they would also acknowledge that very often we point to the difficulties that there are internally with regard to risk management. We also get these responses from the banks. But I think this is really what we need to do, to be more focused, clearer in our communication.

So this is what is really the important element of the SREP reforms or the reform of our supervisory process. But in the end, we also have to communicate clearly what we expect, where we see deficiencies, where we expect remediation, and then also use the supervisory tools that the legislator has given to us to address these deficiencies in the interest of keeping the system sound and safe.

1-0019-0000

Pasquale Tridico (The Left). – Ms Buch, concern is growing on the growth of private credit and equity markets, and on the growth of non-financial banking institutions doing this business and the lack of understanding on the risk emerging from the activity of the non-banking financial sector. I wonder whether we are aware of the growth of this activity, and what are the regulatory tools that you and your team are preparing in order to cope with this risk coming from the non-banking financial sector?

1-0020-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Indeed, the growth in financial activity through non-banks, private credit, this is something that we monitor very carefully because our role is to supervise the banks and to supervise – not to design – the regulation. You asked about our regulatory responses, and this is not for us to decide. Of course we are not the regulator, neither of the banks, nor the non-banks, but we supervise them.

But of course, risks in the non-bank financial intermediation space or regarding private credit, this can have implications for the banks, so this is why we need to monitor this very carefully. We've done a number of exercises to see how banks are exposed, for example, to providers of private credit. This is relatively contained in Europe, but still we pay very close attention.

Like everybody who's working on this, who's working on non-bank financial intermediation, everybody would tell you, well, we could even use better data on what is happening in the non-bank financial intermediation space. So this is why I think it's really important to support the work of the Financial Stability Board, because these are global markets, and it's important that we also have better reporting and better transparency of this market. This is again not for us to decide, but this clearly has implications for banks and banking supervision.

We also need to address systemic risk that's building up in this market, because this again can have implications for banks through liquidity risk, for example. We've seen some crisis episodes also where liquidity risk spillovers came from the NBFI – non-bank financial intermediation space. So it's important that this is also well understood and well regulated. Not all NBFIs are more risky than banks or other financial institutions, but we need to address the risks there in the right way, and also the regulation needs to be targeted to those risks.

1-0021-0000

Chair. – Now we are entering the second round of questions, with one minute for the question and two minutes for the answer.

1-0022-0000

Dirk Gotink (PPE). – I've tried to listen carefully about how you qualified what was in the Draghi and Letta reports about banking regulation and supervision. Several people already mentioned it, and I'm trying to get the finger behind, OK, am I listening to a European reading of the Draghi and Letta reports as opposed to the US way? Because that's what they're comparing with, so the role of banks in the US and the role of banks here. They said, well, we can reduce regulation, in a way, or we can expand bank finance or, where necessary, revisit prudential regulation. What do you think then Mr Draghi means with that, 'revisit prudential regulation'? And why is it that you seem to hold off on both these reports and the direction it is going into?

1-0023-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – First of all, comparison between the US and Europe always needs to take into account that the financial markets differ a lot. So even though we had growth in non-bank financial intermediation, banks are still way more important to financing the economy in Europe compared to the US. And my reading of the reports and of the discussion around this is also – and I said this, that we need more capital market finance, equity market finance to make sure that we can finance long-term investments, risky investments. So we need capital markets to complement bank finance. So I think a part of the regulatory implications of these reports is that we need to strengthen capital market finance.

The questions are addressed more to the authors of the report – it would maybe be better for you to ask them directly what exactly is meant with the regulatory implications. I think, from my point of view, it is important that we keep regulation in a way stable, that it's assuring the resilience of the banking system, because this is a major achievement we've had since the global financial crisis. So I would not give up on the resilience of the financial system and weaken regulation to the point that resilience would be at risk. But as I said earlier, we also have a complex regulatory regime, and I think it's certainly useful to see where there's unnecessary complexity that we don't really need to improve the resilience, and to maintain the resilience. I would make this differentiation, but again, I can't answer for the authors of the reports, unfortunately.

1-0024-0000

Matthias Ecke (S&D). – Yes, good afternoon, Professor Buch. It is good to have you here with us today for this exchange of views. I would like to go back to one point – after all, you had already mentioned this – namely what role the mechanism also played in relation to the stability of the banking system and the financial system. And so now, we have the debate on the Draghi report and whether supervision is perhaps too strict.

I am again more concerned with a sectoral point of view. First and foremost, we have a debate on the regulatory requirements of European banks, so to speak, in relation to high-tech investments and investments in forward-looking sectors, which have a slightly higher level of risk, that regulation may be a disadvantage here.

What do you make of the idea that it could be possible to make targeted adjustments to risk evaluation in these areas, for example to facilitate investment in artificial intelligence, quantum technologies and the like? Or do you think this would instead be problematic? How could something like this perhaps also be implemented in regulation, if desired?

1-0025-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you very much for that question on that facet. There's sometimes a discussion around should the prudential regime be used to favour or disfavour certain sectors. There was also a discussion around could it be used to improve sustainable finance. So I was always very sceptical, and we are very sceptical, in using the prudential framework for banks, which is just there to ensure, again, that banks are sound and safe, that risks are properly addressed, to use it for other policy purposes.

So I would also in that area, when it comes to the discussion of what are sectors that should be promoted, actually this is my main reading of the Draghi and the Letta report that we need more productive, innovative investment. I think there are clear policy areas that can achieve these objectives. Or again, one needs to do a good analysis of whether it's being achieved or not. But I would strongly urge not to use the prudential framework for banks to achieve other policy objectives.

1-0026-0000

Fabio De Masi (NI). – Ms Buch, two questions: first of all, the German government stumbled somehow into auctioning away Commerzbank shares to UniCredit. Have there been any discussions on the level of the Supervisory Board with either regulators from Germany, Italy or representatives of those two banks on systemic risk issues with regards to engagement of UniCredit at Commerzbank?

And my second question: as we were talking about non-bank financial intermediation – we all remember very well the Wirecard case in Germany – if I log into my PayPal account now I've been offered to pay in, let's say, 30 days, you know, like these common 'buy now, pay later' schemes which translate into a lot of consumer credit, which is by definition not productive investment. Which are the biggest players currently in the European markets, building up, like engaging in consumer credit from that field, and what risks do you see emanating from that?

1-0027-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Well, unfortunately, on the first question, I can't comment. I don't talk here about individual banks and discussions around them. Generally, the SSM has a very clear role here, and all what our role is, is publicly available. But I don't comment on this case.

As to the importance of payment system providers and consumer credit and what is the market, I must admit that I'm sure we have this data, but I can't give it to you out of my head. But this can be checked with clearly. I mean, for many of these institutions, we are not the direct supervisor. But of course, to the extent that it has effect on the banks, we also look at this, but I don't have the numbers here with me just out of my head.

1-0028-0000

Fabio De Masi (NI). – But could we be provided with the data afterwards, in writing?

1-0029-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – We can check what we have internally and what other supervisors have. So I would have to ask my expert teams. They would probably know where to get the data.

1-0030-0000

Luděk Niedermayer (PPE). – Thank you, Ms Buch, for your presentations. One of the purposes of the framework is to basically make the financial system resilient to different risks that can come from real economy. One of the risks that could be potentially in the pipeline is the major disruption of the global trade that, obviously, could have on EU firms and EU economies a substantial impact, as we are very strong exporters.

Do you think that this risk would need in a near future a kind of quantification through stress tests or different means to be more ready to see the potential impact if, unfortunately, the risk would materialise?

1-0031-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Yes, this is clearly one of the risks that's on our radar. So, as you know, we've strengthened our work on geopolitical risk this year and we are basically saying that geopolitical risk is affecting the banks through the traditional risk channels, and one clearly is the real economy, the trade channel.

So what we're asking the banks to do is in their own internal scenario planning – because this, of course, can have immediate implications and disruption of global value chains, higher tariffs, can have implications for corporate customers and thereby credit risk – so this is something that the banks need to take into account also in their internal credit risk assessment; they are much closer to the customers than we would be.

So this is the first line here, and then, of course, we work with the banks on these scenarios, on the frameworks that they are using. And, of course, also the EBA stress test – the last EBA stress test is also taking geopolitical risk scenarios into account, and this will also be a priority going forward. But this is still under discussion. The stress test will be performed next year. But this is something we monitor very, very closely.

1-0032-0000

Chair. – Thank you, colleagues, for the questions. I was a bit benevolent regulator today, but we are perfectly on time, and I would like to thank Claudia Buch for this interesting discussion. Hopefully we will see each other at the next public hearings. Thank you very much.

1-0033-0000

(The public hearing closed at 16:01)