EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Feedback on the input provided by the European Parliament as part of its "Resolution on Banking Union – Annual Report 2019"

ECB Banking Supervision appreciates the feedback provided by the European Parliament in its "Resolution on Banking Union – Annual Report 2019"[1] (hereafter "the Resolution") of 19 June 2020. In line with the standard practice established for the European Parliament's annual resolutions on banking union, this document comprises ECB Banking Supervision's reply to the comments and suggestions provided by the European Parliament, underscoring ECB Banking Supervision's strong commitment to accountability.

1. Risks in the financial system

1.1 Low profitability

The Resolution (paragraph 6) welcomes the overall increased resilience of the European banking system. The ECB agrees that overall, the euro area banking sector has so far remained resilient. This reflects that bank solvency and liquidity ratios at the onset of the pandemic in Q1 2020 were solid. The common equity tier 1 ratio of euro area banks was around 14%, while the liquidity coverage ratio was comfortably above 100%, with an average of around 160%.

The Resolution also stresses (paragraph 7) that profitability levels remain low and the macroeconomic environment is deteriorating. While it notes (paragraph 9) that bank profitability has increased steadily since 2012, with return on equity (ROE) surpassing 6% since 2017, this evolution falls short of the estimated cost of capital for most banks. It also underlines that the low risk and low interest rate environment has resulted in lower costs for provisions and losses. The ECB would complement that view in observing that euro area banking sector profitability has already shown first signs of deterioration since Q1 2019 – and the COVID-19 pandemic has brought down profitability significantly. Q1 2020 annualized banking sector return on equity was well below 1%, compared to around 5.8% one year ago. Return on equity was most heavily affected by an increase in loan loss provisions related to an increase in corporate sector default risk. While loan loss provisions increased significantly at many euro area banks, further provisioning needs could pose additional challenges for bank profitability going forward. Nonetheless, the ECB's COVID-19 vulnerability analysis shows that, thanks to banks' significant capital headroom, the deterioration of asset quality expected under the central scenario would not impair the aggregate resilience of the banking sector and its ability to continue supporting the real economy. Still, under a plausible severe scenario, several banks would need to take action to continue respecting capital requirements, but the overall shortfall would remain contained.[2]

[1] European Parliament resolution of 19 June 2020 on Banking Union – annual report 2019 (2019/2130(INI)).

[2] See the ECB COVID-19 Vulnerability Analysis, July 2020.

Regarding market expectations for the full year 2020, market analysts expect the largest euro area listed significant institutions to earn a ROE of 2.0% (with 50% of banks expected to earn a ROE of between 0.1% and 4.3%), while for 2021 the median ROE is expected to be 3.9% (with 50% of banks expected to earn a ROE of between 1.8% and 5.5%).

Furthermore, euro area bank valuations, which fell to historic lows at the height of the COVID-19 market turmoil in March, remain depressed, with price-to-book ratios of around 0.4 on aggregate. These valuations are much lower and have also recovered less since their recent trough, compared to those of US and Nordic peers. Low valuations also reflect market participants' concerns about a deteriorating profitability outlook.

Low bank valuations are also reflected in a disconnect between regulatory and market-based measures of bank capitalisation. The market-based leverage ratio (the ratio of equity to total assets) recently hit historical lows. Other market-based measures of bank risk, such as market-based default probabilities, marginal expected shortfall and the systemic risk contribution of financial firms (SRISK), also indicate increased vulnerabilities – although these measures generally remained below the peaks reached in previous crisis episodes.

1.2 Money laundering and terrorist financing

The Resolution (paragraph 40) highlights that prudential and anti-money laundering (AML) supervision need to be better aligned. The ECB agrees with the importance of ensuring effective coordination between prudential supervisory authorities and the authorities responsible for supervision in the area of AML and countering the financing of terrorism (CFT), particularly as the input of the AML/CFT supervisory authorities is important for the exercise of some prudential supervisory tasks. While the AML/CFT and prudential supervisory authorities need to cooperate closely, it is important to acknowledge that their respective supervisory mandates are different. Monitoring and enforcing compliance of credit institutions with AML/CFT requirements is the exclusive task of the national AML/CFT supervisory authorities; the ECB contributes to the prevention of the use of the financial system for money laundering and terrorism financing through the exercise of its prudential supervisory tasks, within the boundaries of its mandate under the SSM Regulation and Article 127(6) of the Treaty on the Functioning of the European Union.

The Resolution (paragraph 39) welcomes the agreement on the exchange of information between the ECB and the authorities responsible for AML/CFT supervision (the AML Agreement), and the setting-up of a dedicated anti-money laundering unit within the SSM (paragraph 41). Under the coordination of this dedicated SSM AML/CFT function, the ECB is implementing the AML Agreement and is actively engaged in exchanging information on AML/CFT with a number of AML/CFT supervisory authorities across the European Economic Area. Under the AML Agreement, the ECB has already shared information with 24 AML/CFT authorities in 188 cases[3] and has set up a regular (yearly) exchange of information with the AML/CFT supervisors of significant institutions.

In addition to signing and implementing the AML Agreement and setting up its dedicated SSM AML/CFT coordination function, the ECB has further stepped up its efforts to contribute to the

[3] As at 6 August 2020.

prevention of the use of the financial system for money laundering and terrorism financing by enhancing and further developing its internal methodologies to ensure that AML/CFT-related concerns are systematically factored into its prudential assessments. Moreover, the ECB contributes to the EBA's work on guidelines, technical standards and other regulatory products aimed at ensuring supervisory convergence and cooperation between AML/CFT and prudential supervisors.

Furthermore, the Resolution (paragraph 41) encourages the integration of "fit and proper" requirements into the Capital Requirements Regulation (CRR). The ECB is responsible for conducting fit and proper assessments of board members and key function holders of the SSM significant supervised entities. In this context, it looks at AML/CFT-related concerns that can affect the suitability of such individuals. Divergences in the transposition of the Capital Requirements Directive (CRD) in the SSM Member States have led to increased complexity of the fit and proper assessments and do not contribute to a level playing field across the banking union. The ECB is therefore strongly in favour of integrating the fit and proper requirements into the CRR to ensure direct application throughout the SSM.

Lastly, the Resolution refers to the Commission's communication on an Action Plan for a comprehensive Union policy on preventing money laundering and terrorism financing risks (paragraph 42). The ECB has taken note of this communication. Most notably, the proposals to establish a single EU rulebook for AML/CFT and to confer AML/CFT supervisory tasks on an EU authority or body can be mutually reinforcing and contribute to addressing the current regulatory and supervisory fragmentation. The ECB stands ready to provide advice and support in its areas of competence.

1.3 Brexit

The Resolution (paragraph 17) stresses the importance of preparedness on the part of banking supervisors for all possible outcomes of Brexit. Since the Brexit referendum in 2016, the ECB has been closely monitoring financial sector risks stemming from the UK departure under all possible scenarios. A degree of uncertainty around the terms of the future relationship and the magnitude of risks likely to materialise at the end of the transition period still remains. Technical preparations have largely been made by the public and private sector, particularly in view of the initial "hard Brexit" deadlines in 2019. The effect of these preparations continues to remain valid, but the ECB has recently reassessed that, in certain cases, further action is still required ahead of the end of the transition period. Past ECB analyses[4] have noted that in many areas of the financial system (for example, the continuity of derivatives contracts), the private sector has a range of means at its disposal to mitigate risks. Therefore, the ECB has recurrently stressed, and continues to underline both publicly and in the bilateral interactions with the supervised banks, that it remains crucial for euro area banks and other market participants, including smaller clients, to keep preparing, with a view to being fully ready for the new relationship after the transition period ends.

Jointly with the national competent authorities, the ECB has identified issues that banks are facing in terms of their contingency planning and has defined its policy stances to help banks tackle them. These supervisory expectations were – and are – continuously communicated to banks, both publicly

[4] See the ECB Financial Stability Review, November 2019.

and bilaterally. The ECB has also discussed with banks the implementation periods for reaching their post-Brexit target operating models and continues to closely monitor the progress made by banks in this regard, taking into account its published supervisory expectations.

In this respect, ensuring that banks are prepared for the end of the transition period remains an SSM supervisory priority. After providing some targeted operational relief to banks for dealing with the consequences of the COVID-19 outbreak, the ECB has recently re-intensified the supervisory dialogue around Brexit preparations with the supervised banks (including institutions which are headquartered in the euro area and those with a presence in the United Kingdom) – "outgoing institutions" – as well as those which are headquartered in the United Kingdom and have relocated to the euro area on account of Brexit – "incoming institutions". For a number of incoming institutions, dedicated and legally binding decisions have been prepared and will be issued, notably with a view to ensuring the consistency of the content, deadlines and legal enforceability of the Brexit-related supervisory measures imposed on the supervised banks. For other banks, the respective supervisory qualitative requirements have already been covered in the Supervisory Review and Evaluation Process (SREP) decisions of previous years.

With respect to the relocation of assets and activities to the euro area, the ECB continues to be concerned that an extensive use of national regimes that allow the provision of services on a cross-border basis from a third country on a temporary or permanent basis, while useful for mitigating possible short-term risks, may give rise to level playing field or regulatory arbitrage issues and hinder the integrity of supervision in the medium term.

The ECB has been monitoring the progress made on the repapering of uncleared derivatives contracts and relocation of assets and activities by a sample of large incoming institutions with a view to assessing their degree of preparedness in servicing EU clients at the end of the transition period and the extent to which banks plan to rely on national regimes for the cross-border provisions of services from the United Kingdom without establishment. The ECB is continually communicating with the supervised banks in order to ensure that they make progress on the implementation of their Brexit plans within the timelines previously agreed with their supervisors and in order to be in a position to identify possible practices raising supervisory concerns in a timely fashion.

Against this background, the ECB maintains that building a unified EU-level framework or increasing harmonisation of national third-country regimes to access the EU market will be necessary to enhance the EU's supervisory framework within the banking union. In the absence of a unified EU-level framework, the current patchwork of national frameworks for the cross-border provision of services gives rise to regulatory arbitrage, as firms circumvent host supervision and EU regulatory requirements. In this context, the authorisation and supervision of third-country branches could be further harmonised at the EU level.

1.4 Non-performing loans, level 2 and level 3 assets

The Resolution (paragraph 23) notes that the ratio of non-performing loans (NPLs) held by significant institutions fell by more than half from the start of ECB banking supervision. The NPL ratio of significant institutions stood at 3.4% at the end of September 2019 and fell to 3.1% at the end of March 2020 (the volume of NPLs amounted to €501 billion). Overall, in recent years significant institutions have made material progress in reducing their legacy NPLs. Although some entities still hold high levels of NPLs, with the implementation of their NPL reduction strategies, these banks have also made good progress in reducing their stocks of legacy NPLs.

The COVID-19 pandemic and its adverse impact on the economy will negatively affect the asset quality of banks. Therefore, NPL management and ultimately reduction is, and will continue to be, one of the ECB’s key priorities.

In response to the COVID-19 outbreak, the ECB also provided some flexibility in the context of NPLs, aiming to achieve the right balance between helping banks absorb the impact of the current downturn on the one hand and maintaining the correct risk identification practices and risk management incentives on the other, as well as ensuring that only sustainable solutions for viable distressed debtors are deployed.

It remains crucial in times of distress to continue identifying and reporting asset quality deterioration and the build-up of NPLs in accordance with the existing rules, so as to maintain a clear and accurate picture of risks in the banking sector. At the same time, flexibility should be deployed to help banks absorb the impact of credit risk developments and mitigate the procyclicality of that impact.

More precisely, the preferential treatment foreseen for NPLs guaranteed or insured by Official Export Credit Agencies is extended to non-performing exposures that benefit from guarantees granted by national governments or other public entities. This ensures alignment with the treatment provided in Regulation (EU) 2020/873 (the “CRR Quick Fix”). Concretely, this means that banks would face a 0% minimum coverage expectation for the first seven years of the NPE vintage count.

The ECB also extends flexibility to the NPL classification of exposures covered by qualifying legislative and non-legislative moratoria, following the issuance by the EBA of its Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis. More precisely, the ECB complies with the abovementioned EBA Guidelines.

The stock of NPLs accumulated prior to the outbreak is not the focus of our current mitigation measures. However, the ECB is fully aware that current market conditions may make the agreed reduction targets difficult to attain and somewhat unrealistic. In this vein, the Joint Supervisory Teams (JSTs) will be fully flexible when discussing the implementation of NPL strategies on a case-by-case basis.

Regarding the submission of updated NPL strategies, the ECB has decided to postpone the deadline for submission by another six months, to the end of March 2021, to provide banks with additional time to better estimate the impact of the COVID-19 pandemic on asset quality, which should enable more accurate planning.

Banks are nonetheless still expected to continue with the active management of their NPLs and any foreclosed assets.

With a view to providing support to viable distressed borrowers, banks need to ensure that they have effective risk management practices and sufficient operational capacity in place. Therefore, the ECB provided a number of high-level supervisory expectations along with more specific operational elements that banks are expected to follow in a letter to all banks under its direct supervision. The JSTs will engage with banks in the coming months in order to discuss their risk management practices in the light of these expectations.

The Resolution (paragraph 10) emphasises that the provision of credit and liquidity by banks plays a decisive role in mitigating the most severe economic consequences of the COVID-19 outbreak on people in the EU. The ECB agrees that the banking sector plays a key role as liquidity and credit provider for the real economy and that this is of paramount importance during the current crisis; banks play a decisive role in mitigating the most severe economic consequences of the COVID-19 crisis on the EU economy and citizens.

Unprecedented supervisory flexibility measures and distribution restriction recommendations were announced at the onset of the COVID-19 crisis and in response to the resulting economic shock. The mitigation measures put in place by ECB Banking Supervision have aimed at allowing banks to keep providing financial support to viable households, small businesses and corporates hardest hit by the current economic fallout. Likewise, the ECB’s Recommendation on dividend distributions during the COVID-19 pandemic introduces restrictions intended to keep precious capital resources within the banking system in these difficult times in order to enhance its capacity to lend to the real economy and support other financial sectors as they come under stress.

In addition to its work on credit risk, the ECB has also focused on trading risk and asset valuations, which were identified as an SSM Supervisory Priority for 2019 and have again been confirmed as an SSM Supervisory Priority for 2020. ECB Banking Supervision will continue its supervisory dialogue with significant institutions to gauge their state of preparation for the envisaged fundamental review of the trading book rules. This dialogue will seek to ensure that banks prepare their systems appropriately to comply with the new market risk framework. JSTs may conduct deep dives at selected banks upfront in order to tailor the scope of the on-site missions to relevant risk areas.

With respect to asset valuation, the ECB has devoted considerable resources to the supervisory assessment of complex instruments measured at fair value, carrying out a series of coordinated initiatives, both off-site and on-site (some of which are still ongoing). In this context, it performed an advanced data gathering exercise on valuation risk in 2019 and started a dedicated on-site inspections campaign – still ongoing – that targeted several significant institutions. This is a set of inspections with an aligned scope, which are executed with a view to ensuring consistency in the approach and fostering a level playing field. The inspections focus on both accounting and prudent valuation risk, as well as, among other things, asset levelling and day one profit. In this regard, level 2 and level 3 instruments, complex and illiquid financial instruments, including derivatives, have been – and will increasingly continue to be – targeted by ECB Banking Supervision.

1.5 Sustainable investment and climate-related risks

The ECB concurs with the points made in the Resolution on sustainable finance, notably on (1) the role of the banking sector in channelling funding to sustainable investments (paragraph 11), on (2) the calls for the revision of the Non-financial Reporting Directive in order to better reflect the environmental, social and governance-related reporting and disclosure obligations (paragraph 12); and (3) the call for all European banks to sign up to the UN-led Principles for Responsible Banking and, accordingly, to report annually on their efforts to implement sustainable financing and to reduce climate change-related risks in their balance sheets (paragraph 14).

The Eurosystem set out its stance and proposals in its reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive (NFRD), published in May 2020.[5] In its reply, the Eurosystem recognises the major challenge posed by climate change and the need for a timely mitigation of its impacts. In line with its mandate, the ECB supports the aims of the EU, including fostering a sustainable economy that ensures prosperity and secures citizens' long-term well-being against economic, social and ecological risks. Reflecting the importance of timely mitigating action, the EU has committed to increasingly ambitious climate-related and environmental targets. In this context, sustainable finance will be key to the transition to a carbon-neutral economy. In the published Eurosystem reply on the revision of the NFRD, the Eurosystem emphasised five key messages: (i) Transparency and disclosure are currently lacking: efforts to address the gaps are therefore welcome and fundamental to the Renewed Sustainable Finance Strategy; (ii) the financial sector can only play a supporting role alongside an overall policy framework setting the right long-term incentives; (iii) climate change and environment-related risks necessitate appropriate risk monitoring and risk management frameworks; (iv) sustainable finance has close links to other policy priorities, in particular capital markets union, and synergies should be exploited; and (v) sustainable finance is a global issue, requiring close international coordination to promote internationally consistent frameworks and prevent regulatory fragmentation. In particular, the Eurosystem advocates the improvement of the quality of sustainability and climate-related information in the areas of (i) data and ratings, where the lack of standardisation and comparability results primarily from the unavailability of granular information at the corporate level, (ii) taxonomy: the implementation of a sound and widely adopted EU Taxonomy would address this lack of common definitions and could be a major driver of further growth in sustainable finance; however, the Taxonomy framework remains incomplete and its finalisation should be a priority, (iii) auditing and verification: the limitations of the existing data sources and definitions are further amplified by the lack of an auditing or verification process to assess the validity/reliability of the reported data, (iv) improvement of the availability of corporate-level information, where the establishment of a public-good data infrastructure could build on already gained experience, and (v) development of an EU green bond standard, where a reliable, objectively verifiable and transparent EU green bond standard based on the EU Taxonomy would help significantly to enhance the credibility of this asset class.

In addition, in May 2020 the ECB launched a public consultation on the draft Guide on climate-related and environmental risks.[6] The Guide outlines the ECB's understanding of the safe and prudent management of climate-related and environmental risks under the current prudential framework. It

[5] Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive.

[6] Public consultation on the draft ECB Guide on climate-related and environmental risks.

also describes how the ECB expects banks to consider climate-related and environmental risks – as drivers of established categories of prudential risks – when formulating and implementing their business strategy, and governance and risk management frameworks. It further explains how the ECB expects institutions to become more transparent by enhancing their climate-related and environmental disclosures. The Guide is consistent with and leverages on the work of the Network on the Greening of the Financial System and of the Task Force on Climate-related Financial Disclosures.

Furthermore, the ECB and the ESRB, closely cooperating with the EBA, are actively working on developing a common methodology for measuring the intensity of the climate risks to which financial institutions are exposed. Finally, the ECB is also developing a climate-related stress test, the results of which are intended to be published in 2021.

1.6 Non-bank financial intermediation sector

The Resolution (paragraph 37) correctly highlights that systemic risk could arise from the interconnectedness between the non-bank financial intermediation sector and the “traditional” banking sector. The ECB strongly agrees with the Resolution (paragraph 38) that advocates for the establishment of a macroprudential toolkit and the further operationalisation of existing tools to counter threats to financial stability posed by the increasing role of the non-bank financial intermediation system.

The recent pandemic shock illustrated that the non-bank sector can amplify market volatility and price dislocation, particularly when market liquidity comes under pressure. The ECB noted that funds invested in less liquid assets were forced to sell assets to raise cash in order to meet the increased level of outflows. It is likely that these sales, carried out to meet unforeseen fund outflows, exacerbated market dynamics.

The ECB is aware of the risks from the increasingly influential non-bank sector and continues to monitor these closely. The ECB also supports the further development of a comprehensive macroprudential framework for non-banks. This would include the development of ex ante liquidity management tools and closer examination of the existing leverage measures.

1.7 Sovereign risk/creation of a European safe asset

The Resolution (paragraph 16) underlines the importance of a global level playing field by stressing that the EU regulatory framework on the prudential treatment of sovereign debt should be consistent with international standards and calls for further discussions on the creation of a European safe asset, starting from the work of the Commission on the sovereign bond-backed securities (SBBS) proposal to strengthen the international role of the euro and promote financial stability.

The ECB agrees that the Regulatory Treatment of Sovereign Exposures (RTSE) and the development of a common euro area safe asset can be two additional mutually supportive aspects of deepening Economic and Monetary Union, of which a fully fledged European Deposit Insurance Scheme (EDIS) should be part (see also paragraph 4 of this feedback letter). Work on a sound and prudent design of each concept should continue independently.

The introduction of RTSE needs to take into account financial stability considerations and strengthens the case for ensuring the sufficient availability of safe assets, for liquidity and risk management of financial institutions. At the same time, the creation of a common euro area safe asset, if so decided by the Council and the European Parliament, should be pursued in a way that does not undermine incentives for sound national fiscal policies. The common safe asset will also be conducive to the smooth conduct of monetary policy. Together with RTSE, it also contributes to the safety and soundness of banks and indirectly towards strengthening the international role of the euro.

2. Basel III standards

The Resolution (paragraph 28) notes that work on the implementation of the final Basel III standards has already started. The ECB supports the full, timely and consistent implementation of the final Basel III reforms in the EU in accordance with the revised timeline. Faithful transposition is essential for strengthening the resilience of the financial system and supporting an international level playing field. The implementation should adhere to the underlying objectives of the Single Rulebook by ensuring equal treatment of credit institutions and by fostering the unity and integrity of the Internal Market. The recent changes by the Basel Committee on Banking Supervision (BCBS) to the implementation timeline aim to provide additional flexibility from an operational perspective, without altering the main elements of the reform.

The ECB agrees that regulation that is proportionate and well aligned to the size and complexity of banks allows for a diverse and sound banking sector. At the same time, it is important that more tailored approaches for smaller banks do not compromise their safety or impede supervisors from receiving appropriate information from institutions, as their capacity to conduct forward-looking supervision must be preserved. It should also be noted that smaller banks, taken together, can pose large risks to the financial system and need to remain resilient during an economic downturn in order to continue to provide credit to the economy.

Furthermore, the reforms will foster the ability of the EU banking system to finance the economy, including SMEs. In particular, the final Basel III standards foresee lower risk weights for SME lending, that are comparable to current EU approaches.

The Resolution (paragraph 28) underlines that the ability of the EU banking sector to finance the economy should not be harmed. The ECB fully supports the idea to assess the capacity of banking regulation to help finance the economy. In this respect, it is crucial to consider not only the short-term costs of the regulatory reforms, but also the long-term benefits. Indeed, in period of crisis, higher regulatory standards should help banks to recover more quickly and refinance the economy when it is most needed. The ECB, jointly with the EBA, produced a macroeconomic assessment of Basel III finalisation which found that the long-term benefits are substantial and outweigh the transitory costs. The reforms are found to permanently mitigate the severity of future economic downturns by around 0.2 percentage points of GDP through a reduction in both the probability and impact of future crises. The ECB also actively supports ongoing evaluation initiatives conducted by international standard-setting bodies, such as the BCBS and the Financial Stability Board, to ensure the regulatory framework is functioning as intended and any necessary adjustments are carried out.

3. Transparency

The Resolution (paragraph 34) requests increased transparency standards in banking supervision.

As highlighted by Andrea Enria in his speech of 20 February 2020,[7] transparency is one of his foremost priorities as Chair of the ECB's Supervisory Board. It is not only the amount of available information that determines market outcomes, but also how this information is processed so that all economic agents can better understand the risks they are taking.

The ECB uses various communication tools (e.g. workshops with banks, speeches, supervisory dialogue with the JSTs, press releases, conferences and calls with CEOs) to inform the supervised entities and the general public about the ECB's supervisory approaches. Most recently, the ECB has created the "Supervision Blog", a platform where members of the Supervisory Board provide further insight into the latest supervisory actions and discuss upcoming supervisory challenges and priorities for the European banking sector. Moreover, a significant number of episodes of "The ECB Podcast", which first aired in September 2019, have been devoted to banking supervision and to explaining ECB Banking Supervision's approach to key topics such as profitability or Brexit.

Furthermore, the ECB has published on its banking supervision website comprehensive information on how it performs its supervisory tasks. In addition to a general guide on banking supervision and the Supervisory Manual, it has published a considerable number of documents outlining its supervisory policy stances and practices. ECB Banking Supervision has continued to consult stakeholders and the public on important supervisory topics, most recently as regards the ECB Banking Supervision approach to consolidation in the banking sector and the ECB Banking Supervision approach to the supervision of climate-related and environmental risks.

As regards the outcome of the SREP, ECB Banking Supervision already substantially enhanced its transparency in the SREP press conference that took place on 28 January 2020 by publishing (i) additional aggregate results on SREP 2019 cycle, including for the first time the breakdown by business model and evolution of scores by risk, (ii) further details on the SREP methodology, and (iii) for the first time ever, the bank-specific Pillar 2 Requirements of the 2019 SREP cycle applicable to 2020.[8] This practice will be continued for future SREP cycles.

4. Resolution and deposit insurance

The Resolution (paragraphs 46-56) contains high-level remarks on resolution and deposit insurance, including a call for harmonisation of specific aspects of national insolvency laws to the extent necessary to ensure the effective application of the crisis management framework and in support of the completion of banking union, with the creation of an EDIS. The ECB agrees and recognises the need for a minimum harmonisation of the national insolvency laws and has also stressed that an EDIS is a key missing element for completing banking union that should remain a top priority. An EDIS is crucial to ensure a uniform level of depositor confidence across the banking union, regardless

[7] Speech by Andrea Enria, Chair of the Supervisory Board of the ECB, entitled "The case for more transparency in prudential supervision", at the EBI Global Conference on Banking Regulation, 20 February 2020.

[8] Bank-specific Pillar 2 Requirements determined during the 2019 SREP cycle applicable to 2020.

of a bank's location; it is the logical complement to elevating responsibility for banking supervision and resolution to the European level; and it would be better placed to withstand shocks than national schemes, thanks to the pooling of resources at banking union level. The ECB shares the call by the European Parliament to move further with the negotiations on EDIS and considers that a fully fledged EDIS should remain the end goal.

The Resolution (paragraph 51) also notes the importance of the creation of the backstop to the Single Resolution Fund (SRF) and its swift operationalisation and expresses concerns regarding the lack of a mechanism in the banking union to ensure the provision of liquidity to banks in resolution. The ECB very much agrees and recognises the importance of having the backstop to the SRF operational as a key additional tool to underpin the credibility and effectiveness of the resolution framework. The ECB has also been actively involved in the discussions on how to ensure liquidity provision to banks in resolution.

The Resolution (paragraph 50) also calls for a clarification of the legal basis for early intervention measures, noting that the requirements for the use of early intervention measures overlap with other supervisory measures available to the ECB. This is in line with the recommendations made by the ECB in its Opinion on revisions to the Union crisis management framework,[9] where it agrees that there is a need to enhance the effective use of such measures, supporting the removal from the Bank Recovery and Resolution Directive of the early intervention measures that are already provided for in the CRD and the SSM Regulation, but also an amendment to the Single Resolution Mechanism Regulation in order to provide a directly applicable legal basis for the ECB's early intervention powers to facilitate their consistent application.

[9] ECB Opinion of 8 November 2017 on revisions to the Union crisis management framework (CON/2017/47).