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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

TUESDAY, 23 MARCH 2021

1-002-0000

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

(The meeting opened at 9.05)

1-003-0000

Chair. – I would like to welcome Mr Andrea Enria, Chair of the Supervisory Board established at the ECB in the framework of the Single Supervisory Mechanism (SSM).

Today he will present the ECB's annual report on the SSM as foreseen in the interinstitutional agreement between the Parliament and the ECB. This report covers the ECB's supervisory activities in 2020. Since his last appearance in ECON on 27 October 2020, the COVID-19 crisis has continued to leave deep marks in the European economy. As he put in a recent speech, the challenge for the economy has been daunting and is still ongoing, and the Banking Union is facing its hardest test since its inception.

Therefore, we are keen to hear from Mr Enria today what the supervisory response is in order to enable the Banking Union to master this unprecedented challenge. Mr Enria, the floor is yours for an introductory statement of 10 to 15 minutes.

1-004-0000

Andrea Enria, Chair of the Supervisory Board of the European Central Bank. – Madam Chair, I am delighted to be here with you today to present our annual report. A year has passed since the COVID-19 pandemic started in Europe. It has had an unprecedented impact on the global economy over the course of 2020 and this has continued in the early months of 2021.

Credit risk is, and will remain, the top priority for ECB banking supervision. Although public support measures mitigate the risk, the deep recession caused by the pandemic is expected to lead to a deterioration in bank asset quality. The deterioration is expected to be most prominent in sectors most affected by the pandemic and the subsequent lockdown measures. The deterioration will also reflect the differences in the speed and strength of the recovery across different areas of business.

The important lessons that we learned in the last crisis, the great financial crisis, is that early recognition and then the management of credit risk are essential to avoid a pile-up of bad loans, which would amplify the depth of the shock and hamper the ability of banks to support economic recovery.

In July and December of last year, the ECB sent a letter to CEOs of significant institutions setting out our clear supervisory expectations on the fact that they need to be prepared, from the operational point of view, to deal with the increase in non-performing loans and for robust practices to identify, measure and manage risk in these exposures.

Our supervisory work has therefore focused on key priorities. The first priority area is to closely investigate and monitor potential cliff-edge effects in asset quality that could occur once the public support measures are withdrawn.

Our work here focuses on three elements. First, the classification of exposures and measurement of credit risk – so let's say the allocation of exposures to different stages of IRFS-9, provisioning choices and the like. We set clear expectations and we are following up on that.

The second is we are developing targeted analytics to enable us to benchmark banks against each other and to see how they're treating similar portfolios, so we're going very deep into the analysis of credit risk.

Third, we are trying to provide tools to support our joint supervisory teams, especially in the analysis of exposures to vulnerable sectors, those which have been particularly hit by the crisis.

The second area of priority for our teams right now is ensuring that banks are adequately prepared for the upcoming increase in NPLs. This is centred on two elements.

First is the operational capability, to make sure that banks have the capacity internally to deal with an increase in numbers of distressed debtors, also to engage with them, to manage, to restructure and to deal with them in a proactive fashion.

The second is that in the last crisis, we as the ECB set up new guidance on how to manage non-performing loans, and there are, of course, also new legislative rules, the backstop, the so-called prudential backstop, which will be essential. These measures have been set in place to avoid that we have, in the next crisis, a new pile-up of non-performing loans. We need to make sure banks are ready to comply with this guidance and rules.

These priorities are fully complementary, and they are crucial to address credit risk deterioration due to COVID-19 in a timely manner and to avoid that this could eventually also damage the recovery. When the support measures are withdrawn, banks need to be able to meet the increasing credit demand that will be there to assist the recovery.

We will in any case report in the coming months on the findings of the supervisory work, and will be keen to keep you updated on these actions.

There is a second important area of work for us, which is that the COVID pandemic has made it clear that it's more urgent than ever for banks to address the structural weaknesses driving their low profitability and depressed market valuations.

Even before the pandemic, return on equity was lower than the estimated cost of equity, for most of the banks under our supervision. Banks need to adjust their business model to ensure that they are sustainable in an environment where revenues are affected by the low interest rate environment, for probably a longer period of time, and credit losses will be rising.

There is no one-size-fits-all structural solution. Effective bank strategies include rigorous cost saving measures, as well as measures to diversify income sources. But what we've seen is that the banks which are most effective in addressing these challenges are the banks which have a

strong strategic steering – so the ability from the management to really steer the bank in terms of loan pricing, planning, control, cost allocation and oversight of business functions. This is again an area on which our supervisory work is focusing quite a lot.

Digitalisation is becoming an integral part of banks' business models, changing their internal operations and business practices. The pandemic has maybe made this awareness of the need to engage in digital transformation higher than was the case before.

Digitalisation is an important cost-saving strategy, but can also generate revenues by enhancing their fee and commission-based activities and by enabling banks to develop new products and provide better services to their customers. Of course, digital transformation comes with important upfront costs in IT infrastructures and new skills, but in the medium term can provide clear opportunities for an increase in cost efficiency.

Finally, banking sector consolidation can be an important factor to help address the excess capacity in the sector and the fragmentation in the supply structure. At the beginning of this year, we published our guide on how we deal with consolidation projects from the prudential point of view to give clarity on our policies and also to dispel concerns that credible integration plans could be hindered by the supervisory actions of the ECB.

Internal governance is a key factor in banks' ability to overcome the challenges ahead. It is also at the core of our supervisory review and evaluation process (SREP) and this is the area where we have more findings and need for follow-up actions than in any other area. We are still very active here and we'll soon clarify our supervisory expectations, especially on the fit and proper assessments on the suitability of board members. We are expecting to have three main improvements and to make the system work in a more European fashion in a sense, so to be applied, notwithstanding some remaining differences unfortunately, in the legal setting across significant institutions.

First of all, we will encourage early engagement with the supervisory teams, recommending that banks that intend to appoint new board members inform us of their suitability assessment before making the appointments, irrespective of the ex-ante or ex-post nature of the national regulation in this area.

Second, when assessing the suitability of candidates for appointments or re-appointments on the bank's board, we're going to give greater consideration to any supervisory findings that relate to positions previously held by the candidates. So if there have been shortcomings in some areas will really try to trace back the individual responsibilities of the board members, not only in terms of action, but also in terms of inaction, to deal with these issues.

Third, as fit and proper criteria to be respected through time, not only when there is the first appointment, we want to further clarify the way in which we reassess sitting board members, if new relevant facts emerge which could affect their suitability.

Climate-related risks are becoming more relevant, more concrete in our supervisory actions. We published our supervisory expectations in November last year, in the form of an ECB guide. The banks under our supervision are required to carry out a self-assessment this year that will be an integral part of the 2021 supervisory review and evaluation process. We also provided guidance on banks climate-related and environmental risk disclosures, which we found not to be in a satisfactory shape, and in 2022 will carry out a climate risks stress test, which will allow us to review banks' practices in this area and take concrete follow-up actions if need be.

Meanwhile, we are setting up a Climate Change centre at the ECB, which brings together staff, data and expertise for both the supervisory and monetary policy functions, and these will shape

the ECB's climate agenda both internally and externally. We have the ambition to continue playing a leading role in European and international fora to drive progress in this field.

We continue, of course, also to engage with banks on the post-Brexit actions to be taken. We have always made clear that we want banks to continue progressing towards the target operating model we agreed with them and to ensure adequate risk management in their European business.

Finally, let me focus on the importance of completing the banking union. The lack of a fully integrated safety net in the banking union preserves segmentations across national markets, which adversely affects the efficiency of the European banking sector and the pursuit of our supervisory priorities as well. Following the conclusions of the Euro Summit last December, we welcome the ongoing discussions on a roadmap for the implementation of the European Deposit Insurance Scheme (EDIS).

It is important that EDIS is in place and completes the banking union to ensure that depositors across participating Member States enjoy the same level of protection of their savings, and to support a seamless deployment of capital and liquidity within banking groups, especially at times of stress.

We also welcome the European Commission's review of the crisis management and deposit insurance framework and stand ready to contribute to the discussion with the experience that we built up in the first years of the banking union.

The main improvement that can be made to this area is to ensure that crisis management works for all banks, not only for the larger banks with cross-border operations, but also with banks that are smaller and mainly funded with deposits. We can take inspiration from the US arrangements, the FDIC – the Federal Deposit Insurance Corporation – which has developed very robust and interesting practice.

Let me conclude by saying that, together with the newly appointed Vice-Chair Frank Elderson, and with my other colleagues in the supervisory board, I can assure you that we will remain deeply focused on tackling the challenges induced by the COVID-19 pandemic, and to make sure that banks continue supporting sustainable trade provisions and economic growth and recovery.

At the same time, we will continue looking into other areas of risk to ensure that the banking sector is, also with a longer-term perspective, such as in climate risk, able to prepare us for the future. We hope that the co-legislators can soon reach agreement on progress to strengthen the banking union for the benefit of all European citizens.

I look forward to continued engagement with you, and I look forward especially to your questions today.

1-005-0000

Chair. – Thank you very much, Mr Enria. Now we start our Q&A session. There will be the usual five-minute slots for the question and the answer. So with a maximum two minutes for the question and three minutes for the answer, with the possibility of a follow-up question if time permits, within the same slot. Any remaining time will be allocated on a catch-the-eye basis taking into account the weight of each political group.

1-006-0000

Georgios Kyrtos (PPE). – I have three questions for Mr Enria. First question, could you please compare the situation of the American banking system and the European banking system? It seems to me that the Americans are doing better in dealing with pandemic problems as far as

the economy is concerned. Could you say the same for the banking system? Are there any conclusions that we should draw to improve our situation?

The second question has to do with what you said about potential cliff-edge effects. When do you anticipate this danger – the second semester of 2021, the first semester of 2022?

Finally, you talked about banking consolidation. Is there a dynamic in favour of consolidation or are you just describing what we should be doing?

1-007-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – Thank you very much for your questions, Mr Kyrtos.

On the comparison between EU and US banks, I would say that if you take a snapshot, you see that EU and US banks entered this shock in a similar ballpark in terms of their capital positions. Asset quality on the European side was maybe a little bit worse because some banks were still dealing with the legacy of the last crisis, but all in all, let's say, in the same ballpark.

The point where the difference between the two banking sectors is most prominent is profitability. So in this scenario the European banks are lagging behind, and that's why we're putting so much emphasis on this area.

Another point on which we focused our attention is provisioning. There is a traditional bank practice in the US to move provisions upfront very much, so to be very proactive in booking provisions and then maybe release provisions later, which is very good in terms of supporting the recovery. So you put the paying upfront and then you are able to support the recovery better.

We have invited European banks, which are let's say less keen on taking this approach, to do the same. But it's also difficult to compare provisioning levels across the two jurisdictions because there are differences in the composition of portfolios. European banks, for instance, have more mortgages, more assets which are less risky. So it's very difficult to give an upfront assessment.

Overall, I would say in any case that there was very strong action from the ECB and from the European authorities. We moved very fast, and sometimes faster than our US colleagues. I think, all in all, the comparison is not that bad.

On the cliff-edge effects, it is very difficult to get a date. It depends very much on when the public support measures would be withdrawn, in particular the moratoria and the government guarantees. But at the moment what we are looking at is the support measures for the counterparts for the support to corporates, SMEs, the furlough schemes and the like. So when these are withdrawn – and our expectation at the moment is that if they are not extended further towards the middle of this year, these measures will be withdrawn – that will be the moment at which we will start seeing the materialisation of asset quality risks. But we have told banks to look through this problem and to start looking to the viability of their customers already now.

On consolidation, finally, there is excess capacity in the system. That is clear. We didn't eliminate enough excess capacity following the last crisis, and I think that some banks do not have long-term viability. So consolidation could be a tool for banks to clean up this excess capacity.

I think there is appetite for going there, and we have clarified our policies to take off the table the assumption that we were hindering consolidation. We've seen that some banks have started

considering combination projects and some of them have already been successful. So this is something which in any case needs to be driven by bank management and bank boards.

1-008-0000

Jonás Fernández (S&D). – Thank you very much, Mr Enria, for sharing your views and your latest report on your institution.

I have three questions. First, I would like to ask you about your opinion on the last action plan on NPLs, unveiled by the Commission at the end of last year. My group missed a more ambitious approach but, in any case, we would like to know your opinion.

The second question is about the new climate change centre that you are organising in the ECB, and its role in the context of the implementation of the Basel recommendation. I would like to ask you if you are thinking about elaborating any kind of proposal of any kind of idea about the possibility to introduce a green supporting factor in the implementation of the Basel III.

Finally, I agree with you that in the debate around the revision of the crisis management framework, we will need to prioritise the ‘sale of business’ strategy above other options. But to do that, I think that we will need to facilitate access to European funds, now, to the Single Resolution Fund and in the future to the European Deposit Insurance Scheme.

In that case, I think that we should review maybe the super-preference of deposits, among other issues. But in any case, my point is that in order to prioritise the sale of business, we should facilitate access to European funds, and I think that we need to review the current regulation to fulfil this.

1-009-0000

Andrea Enria, Chair of the Supervisory Board of the European Central Bank. – Thank you very much for your questions, Mr Fernández. On the action plan on NPLs, we have been supportive of the proposals made by the Commission and then endorsed by the Council. I think there are important elements in the picture and things are pointing in the right direction, especially concerning the necessary reforms to improve the insolvency laws and to make the management of NPLs smoother and more effective in all Member States; concerning the steps to create a more liquid and efficient secondary market for NPLs, also via securitisation, which we have seen can be quite powerful as a tool to help banks to clean their balance sheet; and also through asset management companies, which is another important element in the picture in case we are witnessing a surge in NPLs as a result of the COVID-19 shock.

So, on the last point, on the asset management companies, the Commission also puts forward this idea of networks of asset management companies. Let me stress here that, in my view as a supervisor for European banks – for banks in the banking union – what is essential for me is that we have a situation in which all banks can access the same type of support measures to clean their balance sheets irrespective of the country, the capital and the flag that flies at their headquarters. And in this respect on asset management companies, it will be particularly important that the pricing methodologies and the funding costs for these schemes are really harmonised across Member States.

On the climate change centre, there is an internal tool to bring together the whole house here at the ECB and make sure that all our policies are coordinated and consistent in terms of tackling climate-related challenges. We think we are in a leading role, also globally in this area, and we want to maintain a strong, important role. Frank Elderson, the Vice-Chair of the ECB Supervisory Board, is also chairing the work of the Network for Greening the Financial System globally and the work in Basel and we are very strongly focused on being the front-runners in designing and implementing global standards here and experimenting also with new supervisory approaches.

On the green supporting factor, we want to make sure not surprisingly that everything that is done in this area is strictly risk-focused, so it is important that the prudential rules and practices remain focused on risks and that the charges in terms of capital reflect actually the risk content of the exposure. So we think it would be inappropriate to provide a sort of blanket reduction for this type of exposure but of course having a risk-sensitive framework could help banks to refocus their business towards less risky, more sustainable areas of business in the long term.

On the sale of business in crisis management, yes, I agree that this is an important element. I agree also that if we want, as I think is appropriate, to let the deposit guarantee schemes (DGS) play a role in supporting these strategies we need to harmonise these across the union and we need to eliminate the super priority for DGS, because otherwise there would be no room for doing that. I agree with you also that it is important – as we do have different legislation now but also different traditions and practices on the deployment of DGS in this respect – that we have a sort of overall European approach and maybe a role of the Single Resolution Board in driving this process. Furthermore, access to European funding could be ensured if we start moving forward towards EDIS at least in the form of liquidity support for national DGS. So, we have a unique opportunity to make progress here in terms of funding, but also in terms of more European practices and, in any case, on a path that is clearly leading to EDIS in the medium term. The sooner the better, of course. Thank you.

1-010-0000

Luis Garicano (Renew). – Mr Enria, first of all congratulations on how you've been handling the banking situation up to now. As the crisis gets extended, we all worry about how long the solvency of our SMEs and all of the companies, all the corporates, can last. Also, as unemployment levels start to hit the high numbers, especially in some southern countries, like Spain, we wonder about whether we will see again a wave of defaults in home mortgages, etc.

My first question is about NPLs. You've been warning about the fact that we are seeing very, very low recognition of non-performing loans under moratoriums. According to Fitch only 3% of the loans under moratoriums were classified as non-performing. I wanted to go in the direction of my two colleagues and ask you to flesh out a little bit more.

In your mind, in time, what should we be expecting in terms of the NPL performance over the next months? How worried should we be, and when should the different levels of provision and the capital buffers that you're talking about be coming in?

My second question is quick, but concerning the home/host issue, what progress should you like to see, what progress should we be making on the legislative side of the divide in dealing with the home/host issues? You're talking about some of the things you've done to ensure that M&As take place, but obviously without solving the regulatory issues that's going to be very, very hard as you know much better than me.

One last thing, if you have the time, which is that – and I say it telegraphically – institutional protection schemes (IPS) are the third wheel of the banking reform of the banking union. How should we reform how they're supervised or should we just not do it? What's your view?

1-011-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – Thank you very much, Mr Garicano.

The first question, of course, is a difficult one. You're right, there has been so far a relatively mild increase in NPLs. Actually, NPL levels at the end of the fourth quarter last year did not increase at all. So on aggregate the NPL ratio was basically stable.

We have seen a significant increase in the assets which have been under moratoria and have been classified in stage two, so as under-performing. We're not sure there is enough of them that have been classified as underperforming, so our supervisory work at the moment is very much focused exactly on this, on the classification of assets.

I think European supervision is a great asset in this respect because we can compare and contrast a huge number of banks, do peer comparison, challenge banks that have similar portfolios and that are lagging behind in terms of recognition of deterioration of asset quality.

So we are really putting a lot of pressure on banks in terms of their classification of exposures, in terms of their provisioning choices and in terms also, as I mentioned in my introductory remarks of their assessment of credit risk in sectors, in counterpart sectors, particularly hit by the crisis.

So as a result of this very granular in-depth work we expect to gradually move the system towards more effective ways of capturing non-performing loans. Let me be honest, if you read the reports of analysts at the beginning of this year, there is in general a market perception that banks have done quite a lot in terms of provisioning last year, and actually the market is expecting the banks will release provisions as soon as the recovery will start. We are still puzzled about this and we hope, of course, that the analysts are right and that we are excessively conservative, but as you see in terms of the likelihood of defaults in the SME sector, especially in some sectors, unemployment and the like, we are still quite concerned.

Ideally, if this work that we are doing is effective, we would expect banks to have done a proper and early management of these assets and if there is need for further provisioning and further capital buffers to be built, we expect this to be basically now. Let me also say that all our measures created a significant capital space for banks exactly to absorb losses. This capital space has been barely used, so banks can indeed dip into this capital space with a view to have proper management of their credit risk.

On home/host issues, it's a very difficult question. Of course, the most important topic is EDIS. As long as Member States think that if things go wrong they will land in their national safety net, they will continue adding incentives to use all possible regulatory discretions, options which have been maintained in the framework to ring-fence capital and liquidity at the local level

We're making a lot of effort to give a more firm-wide approach in our supervisory approaches, practices, but of course the lack of EDIS and the connected large amount of national discretions and options in the regulatory framework, which is linked also to the lack of EDIS, are the two main points on your table, let's say, that could help in this respect.

On IPSs, we're doing a lot of very in-depth work – together with the national authorities, of course, because the IPSs in most cases are dealing with LSIs administered and supervised by the national authorities. But some significant institutions are also part of these schemes so, jointly with the national authorities, we identify criteria for these schemes to be really effective. If there is a crisis in providing fast and efficient support, sometimes their decision-making mechanisms are quite cumbersome, not fast enough, and their structures are very regional and sometimes (*inaudible*). So we try to put pressure on these schemes to improve through time. That's the task that the legislation assigns to us right now.

1-012-0000

Antonio Maria Rinaldi (ID). – Signora Presidente, onorevoli colleghi, ringrazio il dottor Enria.

La politica monetaria dell'Unione, insieme a quella fiscale, ha risposto prontamente a supporto della grave crisi economica generata dalla pandemia di COVID-19. Lo stesso non può dirsi invece per le regole sulla definizione dei *past due*, che identificano i crediti scaduti o sconfinanti da più di 90-180 giorni, che rientrano nel novero delle posizioni di default e degli NPL.

Purtroppo a breve termineranno le moratorie concesse e imprese e famiglie saranno trattate come se fossimo in una condizione di normalità. Emergono già i primi segnali di maggiore attenzione al credito da parte delle banche e questo potrebbe dare luogo, nell'eurozona, a moltissime bancarotte e fallimenti non dovuti, come afferma la stessa Banca mondiale in una relazione del 2020.

Il mio partito, la Lega, ritiene che sia necessario continuare a sostenere famiglie e imprese fino alla fine reale della pandemia – cioè finché non sarà terminata la campagna di vaccinazione e fino a quando non si sarà riacquistata la normalità – e che la via da seguire non sia più quella delle moratorie, bensì quella della revisione delle regole, ad esempio con una normativa che consenta la prelazione individuale sulla vendita in blocco di NPL da parte di vecchi debitori.

La scorsa settimana, in uno scambio con la Presidente Lagarde, è emerso che recentemente Lei ha inviato una lettera alle banche dove richiedeva di analizzare attentamente caso per caso. Stimo molto il suo lavoro, dottor Enria, e so bene che non è Lei a scrivere le regole, ma è Lei che le applica, e per questo motivo vorrei una Sua autorevole riflessione in merito.

1-013-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – Thank you Mr Rinaldi. Well, I would say that supervisory policy has responded very quickly to this crisis. I think we were the first authority at global level to move with relief measures for banks. I think it was on 17 March last year, together with the first monetary policy measures, in a very coordinated fashion. So I think that also in the supervisory field there has been a very strong response. Creating capital space, providing operational relief, thereby enabling banks to focus on their difficult job during the first lockdowns and provide interpretations of the new rules to avoid pro-cyclicality, and also suggesting restricting dividend payments to preserve capital in the sector.

Concerning the issue of definition of default and moratoria, again, on the definition of default we think that it is quite essential that – and this point has always been made very strongly at our supervisory board and is something on which we do have a very strong common view – it is important to create space for the banks to continue supporting the economy, to absorb the losses. But, it's also important not to tamper with the thermometer, as we say internally, and also not to sweep the dirt under the carpet and avoid recognising the actual deterioration in the bank's portfolio.

So it is important to have a metric that enables us to really see the actual deterioration of the customers' position and this is important to support the customers. Our efforts on early management of NPLs (Non-Performing Loans) is because we want the banks to recognise when a customer is distressed irrespective of the moratorium. If you have been in moratoria for one year and the customer is not being paid you need to differentiate whether the customer is not being paid but will be able to restart the payments at the end of the moratoria or discuss if they are unable to pay. If the customer is unable to pay, then the bank needs to approach the customer and start managing actively – proposing a rescheduling of the loan, a restructuring of the position so as to help the customer recover. That is essential. If this is not done, as we've seen in the last crisis, the risk is that we will face a massive pile-up of non-performing loans at the end of the crisis.

So, it is important to keep this double aspect of providing capital space to banks, making sure that they can use buffers, that they do not feel supervisory triggers to tighten the lending and at the same time, make sure that they classify their customers carefully and that they make provision in the right way. And if the customer is in default, again, the customer needs to be recognised as such, I think. Thank you.

1-014-0000

Ernest Urtasun (Verts/ALE). – En el mes de diciembre ustedes levantaron la recomendación de suspender el dividendo y la recomendación de no proceder a operaciones de recompra de acciones.

La nueva recomendación que ustedes presentaron permite la distribución de dividendo a aquellas entidades que tienen una perspectiva de capital positiva y limitando ese pago al 15 % del beneficio o a 20 puntos del capital básico. Ello ha provocado que un gran número de entidades financieras ya esté anunciando el reparto de dividendo. Por poner algunos casos, en el caso español hay 530 millones anunciados por parte del BBVA, pero también otras entidades supervisadas por ustedes, como CaixaBank o el Santander, están haciendo anuncios de este tipo.

Sinceramente, tengo que decirle que a nosotros ese cambio en las recomendaciones del pago de dividendo no nos encaja con todo lo que nos está diciendo esta mañana y ha venido sosteniendo reiteradamente sobre los riesgos que tenemos por delante. La mora va a crecer muchísimo. Usted ha estado hablando de ello durante toda la mañana. Incluso llegó usted a poner encima de la mesa la cifra de una posible mora en NPL de 1,4 millones de euros en el escenario adverso. Entonces, no entendemos que estén ustedes permitiendo el reparto de dividendos ante ese escenario.

Por eso, yo tengo algunas preguntas que hacerle.

La primera es: ¿qué justifica haber levantado eso?

En segundo lugar, querría saber si tienen ya una estimación de lo que se ha repartido en este primer trimestre, fruto del levantamiento de la recomendación de no hacerlo.

Y, en tercer lugar, nos preocupa el hecho de que hayan hecho recomendaciones con algunos criterios que hacen que algunas entidades puedan repartir dividendos y otras no. En el caso de aquellas que no lo están haciendo, ¿no creen ustedes que están lanzando un mensaje al mercado de que esas entidades van a tener más problemas de cara al futuro y, por lo tanto, poniéndolas en mayores dificultades?

1-015-0000

Andrea Enria, Chair of the Supervisory Board of the European Central Bank. – Thanks a lot for giving me the opportunity to mention the policy we have in this area.

I think, first of all, that the decision to recommend the suspension of payment of all dividends for all banks and also of share buybacks last year was a wise one. It enabled banks to preserve capital in the system. Actually the Banco de España published an interesting analysis a few days ago because our recommendation hit in the middle of the season of shareholder meetings in Spain. Some banks had paid dividends and some hadn't and were constrained by our recommendation. This clearly shows that the banks that didn't pay dividends actually increased lending more. So that supports the fact that that was the right decision.

We are micro-prudential supervisors, so we look at individual banks. The rationale for having a measure of this type across all the banks, which was the same for all the banks, was the deep uncertainty that banks were facing in terms of the pandemic 'hit' on their exposures and the

type of losses they would have experienced. So, also banks that presented an apparently very comfortable capital position could be hit hard because maybe they had exposures concentrated in specific sectors of the economy and we didn't know how to differentiate across banks owing to this huge uncertainty.

Now this uncertainty was to some extent dispelled throughout the year and we have seen that the ECB has so far published three official projections that have confirmed a central path towards recovery.

The severe scenario that we tested in December last year that also gave rise to the concern of a very significant amount of NPLs' materialising in the banks' balance sheets – as you mentioned in your question – has become increasingly less likely, in the opinion of our colleagues in the economic forecasting team, so we have been gradually more and more able to understand and differentiate the credit risk management and measurements across banks.

So these are the reasons that led us to believe that we couldn't maintain these sort of blanket restrictions for much longer. Having said that, we remain the most conservative supervisor globally in terms of the constraints to dividends. In the UK, in the US and other jurisdictions globally, no other authority has been as demanding as we have and is as demanding as we are, so our constraints, our moderate release has in any case been more conservative than anybody else's.

As a result of the gradual restricted reopening to dividends and share buybacks, the banks now plan to pay back EUR 10 billion in dividends and this is within the envelope that we considered when we revised our policy and is one-third of what the banks plan to pay back in September. So, there is significant restriction anyway and we now plan to actually go back to the old 'normal' in September this year. Of course the old normal doesn't mean that we will not look into dividends. We will look into the dividend plans of the banks within the framework of their capital plans. So banks which have very reliable capital plans and will be able to travel well above the supervisory requirements will face no constraints. However, in the case of banks which are, let's say, more challenged on the capital side and their capital plans, which are less reliable, of course, we will engage with them in a very robust dialogue, and I think that's our job. That's what we as supervisors are supposed to do.

1-016-0000

Δημήτριος Παπαδημούλης (The Left). – Κυρία πρόεδρε, κύριε επίτροπε, το δημόσιο χρέος στην ευρωζώνη έχει ξεπεράσει το 100 % του αντίστοιχου ΑΕΠ. Είναι αντίστοιχο με το ύψος του δημόσιου χρέους στον Δεύτερο Παγκόσμιο Πόλεμο. Η Ευρωπαϊκή Κεντρική Τράπεζα είναι διατεθειμένη να συζητήσει λύσεις για μια ελάφρυνση αυτού του χρέους σε ευρωπαϊκό επίπεδο;

Μέσα σε αυτό το κλίμα μιας εντεινόμενης και ανθεκτικής κρίσης που προκαλεί η πανδημία, σημειώνω ότι το ευρωπαϊκό σύστημα εγγύησης καταθέσεων συνεχίζει να προκαλεί τις αντιρρήσεις μιας σειράς κυβερνήσεων. Το έχει προτείνει και το στηρίζει η Ευρωπαϊκή Κεντρική Τράπεζα και η Επιτροπή εδώ και πολλά χρόνια, πάνω από 7 χρόνια. Ωστόσο, δεν υλοποιείται και χωρίς αυτό δεν υπάρχει ευρωπαϊκή ενοποίηση, χωρίς τον τρίτο πυλώνα, οι ανισότητες και η παραβίαση των κανόνων ανταγωνισμού είναι μεγαλύτερες και δεν υπάρχουν άμυνες απέναντι σε αυτό. Σας ρωτώ, τι σκοπεύετε να κάνετε για να πιέσετε από τον θεσμικό σας ρόλο για να γίνει επιτέλους πράξη το EDIS;

Και μια τρίτη ερώτηση: η κυρία Lagarde τόνισε την ανάγκη ενός διαλόγου για αλλαγές στο Σύμφωνο Σταθερότητας και Ανάπτυξης που λειτουργεί τώρα εν αναστολή με ρήτρα διαφυγής, προκειμένου να μην έχουμε νέες πολιτικές λιτότητας, μια νέα κρίση χρέους στην ευρωζώνη, καθώς οι επιπτώσεις της κρίσης είναι ασύμμετρες και μεγαλώνουν τις ανισότητες. Πώς είναι

διατεθειμένη η Ευρωπαϊκή Κεντρική Τράπεζα να συμβάλει σε αυτό τον διάλογο, έτσι ώστε να μην επαναλάβουμε τα λάθη της προηγούμενης δεκαετίας;

1-017-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – thank you Mr Papadimoulis.

On the pressure on EDIS, I cannot think of doing more than what we are doing. The ECB, myself, ECB supervision, the central banking side have been consistently asking for the completion of the banking union and for a faster agreement and movement towards a fully-fledged EDIS. We are definitely supporting steps in that direction.

Sometimes I hear that there are proposals for a roadmap for EDIS. Roadmaps are good; in general we are very good at working with roadmaps in the European Union, but let me qualify this statement by saying that we should not move to an intermediate stage in which EDIS is just providing liquidity support to national deposit guarantee schemes, for instance, and then getting stuck there for a very long period of time. So it is important that we have a clear path to arrive at a fully-fledged EDIS in a certain ideally compressed timeframe.

This is very important because otherwise the banking union cannot deliver its promises. The promise of decoupling banks and sovereigns and breaking the loop between banks and sovereigns requires EDIS. As I was mentioning before, without EDIS Member States will continue not to maintain segmentation in the way in which capital and liquidity are deployed across banking groups. This will also generate risks to stability, because if a shock hits a group you want the capital and liquidity to move as fast and as smoothly as possible to wherever the support is needed.

We want the banks to be able to consider the banking union as their domestic market and we are not there yet, so this is absolutely essential. I cannot do more than what I'm doing now, so if you have any suggestions I stand ready to support any additional steps to make sure these messages are clear.

On the additional comments, I will not of course enter into the discussion of fiscal policy. This is not to say that we have not made clear at the ECB, at all levels, that we must be very careful not to withdraw the support to the economy too early, and that also counts for our own measures. As supervisors we provided relief measures, space, prudential space for banks to adjust and we should be carefully reviewing the developments in the coming months and make sure that we are not withdrawing these prudential spaces, these relief measures excessively early, and we are definitely aiming not to do that.

1-018-0000

Aurore Lalucq (S&D). – Madame la Présidente, Monsieur Enria, je suis un petit peu inquiète par rapport à ce que j'entends, parce que vous pointez, et à juste titre, depuis des mois, la question de l'explosion des prêts non performants et la difficulté de certaines banques à suivre la gestion du risque crédit. Finalement, on se retrouve plus ou moins avec des marchés - et un marché ne régule pas un risque, c'est fait pour faire de l'argent et c'est très bien comme ça - pour régler cette question, et puis la titrisation qui arrive et j'ai l'impression qu'on n'entend plus parler de la question de la *bad bank*, qui était pourtant quelque chose d'intéressant, à mon sens. Donc, je voulais savoir où on en est finalement sur cette question de la *bad bank*? Est-ce qu'on y va ou pas? Est-ce que ce sera public ou privé, et quels en seront les critères si jamais finalement elle était mise en œuvre?

Et je vais insister sur ce qu'a dit mon collègue Ernest Urtasun: est-ce que c'est vraiment le moment de relancer la question des dividendes? D'ailleurs, finalement, avez-vous eu la pression de certains États pour pouvoir relancer les dividendes? Je pense particulièrement à un pays

comme le mien où État et banques sont en fusion. Est-ce que c'est le bon moment, sachant que oui, peut-être qu'on a des banques performantes aujourd'hui mais, vu l'état de ce dont on parle depuis le début de cette session, c'est-à-dire des prêts non performants, les banques qui sont aujourd'hui performantes ne le seront peut-être plus demain.

Cette première question portait sur la stabilité, la deuxième aussi mais cette fois sous l'angle environnemental.

On a accueilli avec plaisir l'étude proposée par le vice-président, qui reconnaît le fait que le dérèglement climatique constitue un risque systémique - et c'est ce que nous, parlementaires européens, avons demandé, donc nous accueillons vraiment cette étude avec grand plaisir. Maintenant, quelle va en être la traduction immédiate en termes de règles micro et macro-prudentielles, c'est-à-dire, comment allons-nous adapter tout cela? Est-ce que cela veut dire qu'on va aller par exemple vers plus de capitalisation pour les banques les plus exposées? Comment sera gérée la question de la pondération des risques et comment mettre tout cela en cohérence avec l'article 128 notamment du CRR? Merci infiniment pour votre présence et surtout pour vos réponses.

1-019-0000

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

Indeed, we remain, as I mentioned, concerned about the credit risk environment and what will be the path ahead of us, and I think we need to remain very focused on that.

I don't see this as contrasting with, for instance, the support to the use of securitisation also for cleaning banks' balance sheets. First of all, let me say that we had bad experiences with securitisation in the great financial crisis. Actually it was one of the main activities that created the misperception on the size and distribution of risks in our economies, and there has been quite a lot of attention in the repair reforms done after the great financial crisis to reset securitisation on a much more solid and stable footing.

Securitisation has been an important tool, for instance, for Italian banks and now also for Greek banks, for cleaning their balance sheet and reducing legacy non-performing loans from the past crisis. So, I think we need to have tools that enable banks to use these techniques in a safe way and to help them actually cleaning their balance sheet.

On asset management companies, as I mentioned before, market analysts are becoming relatively rosy about the path ahead in terms of credit risk. If they are right, or if we are particularly effective now in pushing banks to frontload their action to contain credit risk, maybe there won't be a need for asset management companies going forward. I hope so, honestly. But this doesn't mean that we don't need to get prepared.

If there is a still further deterioration in our economies – suppose that there is a hiccup in the coming months that leads to a more prolonged recession and difficulty for the recovery to take hold in the next one to one-and-a-half years and the situation impacts banks' balance sheets massively – we need to be ready to tackle this issue. Asset management companies in the past have proven effective tools.

On dividends, again, I think that we need to be careful. We are being very careful, but eventually we have to also differentiate. If there is a bank which is able, under the main scenarios that our economists consider the most likely and even in the relatively stressed scenarios that the banks themselves are developing, the bank is able to stay well above all the supervisory requirements, also remunerating their investors, I think it's right to let them pay dividends. This is essential

also because if banks eventually might need in the future to issue capital, they need to also have conditions to attract shareholders. That's also important for us as supervisors.

Mergers also are a tool that if deployed in a safe and prudent manner – and that's exactly what we target with our guide that we published earlier this year – could help absorbing excess capacity. If you look at all the sectors that have been in a crisis and had to restructure after the crisis – take the steel sector, the automobile sector in the past – after the crisis they had to go through a significant consolidation wave to remove the excess capacity that was generated as a result of the crisis.

This has happened in the US, for instance, but not in the European Union to the same extent. We still have banks which are not viable in the medium to long term. So these banks either restructure themselves radically or consider also mergers as a possible way forward.

On climate change, indeed, there is a systemic dimension which our colleagues have already tackled. There is a microprudential supervisory dimension, which was covered in our guide published late last year. Again, the focus is always on a risk weights and capital. These are important things, of course, let me not deny that, but doesn't everything boil down to the fact that what is important is that banks develop internal risk management methodologies to really measure and manage climate change risk, transition risk, physical risk?

We have a number of recommendations in our guide, for instance, to attribute clear responsibilities to a board member on climate risk, to have developed a risk appetite in the framework of climate risk, to have proper disclosure. We've seen that markets are punishing banks already if they are not proactive enough in dealing with climate risk.

So these micro-recommendations that we started setting up in our guide can be very helpful on a bank-by-bank basis to support change in the industry and then for reducing the systemic risk.

1-020-0000

Chair. – Thank you very much. We have finished our list of speakers. We can take now a short five-minute break so we can test the connection with Ms Elke König, and then we will start the next hearing.

Mr Enria, thank you very, very much for this exchange, for your availability. It was a really interesting session.

(The meeting closed at 10.12)