19 September 2012

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

Hearing of the Chairpersons of the European Supervisory Authorities

Initial Statement of Andrea Enria

Chairperson of the European Banking Authority

Dear Madame Chair, Honourable Members of this Committee,

The sovereign debt crisis has had serious adverse consequences on the banking sector in the euro area and the Single Market. The interconnection between banks and their sovereigns deepened, leading to a segmentation of the Single Market along national lines *a*nd to a dangerous volatility of deposits in some Member States. The concerns of investors translated into a freeze in bank funding, especially on the longer maturities, which could have triggered a massive and disordered deleveraging process, with potentially large effects on growth and employment. Since the second half of 2011, the EBA argued for a three-pronged approach to address this situation: (i) strengthening banks' capital, to put them on a stronger footing to finance the real economy and limit deleveraging; (ii) European interventions to support bank funding and break the link with the sovereigns; and (iii) actions directly remedying the sovereign debt crisis, thus taking redenomination risk off the table.

As supervisors, we tackled head on the first line of intervention, which falls directly in our remit. If we consider the capital injected in the system, for achieving the threshold set in the 2011 stress test, and the adjustment in capital positions triggered by our Recommendation, which asked banks to set up a Core Tier 1 buffer equal to 9% of risk weighted assets, with a prudent valuation of sovereign exposures, the overall strengthening already realised is above € 190 bn – an amount very close to the recommendation issued by the IMF in the Autumn of 2011. The support measures already approved for Greek and Spanish banks will bring the final figure further up, to a significant amount. We managed this complex process ensuring that banks did not achieve the capital target by cutting back on lending to households and corporates, especially small and medium enterprises (SMEs). We also fostered close cooperation between home and host authorities within supervisory colleges, to avoid that the possible capital adjustment was affected by a home bias. The EBA is committed to pursuing its efforts to ensure that the action of balance sheet repair continues. In this respect, supervisory coordination should take place to ensure that banks apply conservative and consistent valuation of assets and take actions to gradually restore the smooth funding of their activities in private markets.

The unlimited supply of term liquidity by the ECB and by other European central banks, and the decision to move towards a Banking Union, which we strongly support, are other key components of the policy package to restore stability in the European banking sector. The Banking Union will have an impact on the responsibilities of the EBA as it will call on the whole Union for an even stronger commitment to the Single Rulebook and for a leap towards truly unified supervisory methodologies - a Single Supervisory Handbook - to assess the risks at banks and to trigger corrective actions. Without such an effort, we risk a polarisation of the Single Market between the euro area, with single rules and supervisory practices, and the rest of the Union, which would operate with a still wide degree of national discretion in implementing and applying the Single Rulebook.

The EBA has put a lot of effort in contributing to the action of regulatory repair and the establishment of the Single Rulebook, by preparing draft standards in a number of areas defined by the proposed CRD4-CRR. At the request of the Commission, we also finalised a report on the capital requirements for SME lending, a topic that is receiving great attention also in your discussions. I believe we established a good working method, with open channels of communication with this Committee and due process of open consultation and impact assessment. This should allow us to promptly finalise our draft standards once the legislative texts are approved. In the final stage of the negotiations, it is essential that all policy makers maintain a strong commitment to rigorous and consistent rules, in line with international standards. In the EU, these rules will be applied to all banks and should therefore acknowledge the variety of business models and cultures. Proportionality will be a key concept in this respect. But in a large number of areas, it is essential that the yardsticks to assess the solvency and liquidity of banks are effectively the same for all banks in the Single Market.

The strong pressure we faced to address the difficult situation in banking markets and in contributing to the reform of banking rules determined a slower start in the accomplishment of our tasks in the area of consumer protection. I am aware that the

Parliament attaches great importance to these tasks. The urgency of making progress in this area is confirmed by the recent episodes of mis-selling, poor compliance with anti-money laundering rules and manipulation of market benchmarks. We are now working at a much higher speed in these areas and envisage issuing important guidelines in the area of mortgage lending - on responsible lending and on arrears management. Reviews of the risks for consumers and banks from financial innovations such as Exchange Traded Funds, Contacts for Differences and structured products are also being finalised. Further work is taking place under the aegis of the Joint Committee.

In conclusion, let me touch on the delicate issue of resources. We really appreciate the efforts made by the Parliament to strengthen our resources. Notwithstanding the generous support provided by national supervisory authorities, which have seconded a significant number of staff at our premises during the periods of our most intense workload, it remains difficult for us to fulfil our tasks under such stringent resource constraints. While the amount of staff envisaged in the steady state situation, to be reached around 2015, is still commensurate to our tasks, there is an urgent need to accelerate the process, as the difficult challenges we are facing require that the resources are available as soon as possible.

Thank you for your attention.