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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, 7 NOVEMBER 2023

1-002-0000

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

(The hearing opened at 14.39)

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Chair. – Good afternoon, let's resume our committee meeting. We resume with a public hearing with Andrea Enria, Chair of the Supervisory Board of the ECB. Welcome, Andrea. Thank you so much for being with us. This actually will be your last public hearing in ECON as Chair of the Supervisory Board before the end of your term in December 2023. So you are looking back at five years in this capacity as Chair of the EU's single banking supervision, the Single Supervisory Mechanism, which will celebrate its 10th anniversary next year. Today's hearing gives you an opportunity also to share your experience, the lessons that you've drawn and also your advice for banking supervision going forward.

But you, Andrea, when you were appointed SSM Chair five years ago, you were already familiar to us, the European Parliament and the European institutions. The other day, I went through the speech that you gave in February 2011, on the occasion of your confirmation hearing as the first Chair of the EBA, a position which you then held until the end of 2018. And I really would recommend my colleagues to read it and to go through it, because it's interesting to see how many of what were then only hopes that we had for the Union actually have been translated into concrete measures or actions. And it's impressive to realise the enormous steps forward that we have managed to make in these last dozen years. I think it's important, because we always complain about what is left to be done and never think about so much that we have accomplished.

Your speech at the time is also interesting for another consideration that I would like to make, and I just want to quote just a few sentences. You said back then, 'what I can bring to the process, if you confirm in the position as chairperson, is my long-standing commitment to building a truly European perspective on these matters'. And then you added, 'I am very attached to the independence of regulatory and supervisory authorities: independence from the industry, to avoid regulatory capture and cultural subjection; independence from national and European institutions, to avoid that other public policy objectives can distort the conduct of supervisory policies, thus resulting in the emergence of risks in the financial systems'. And then the last one: 'I'm also well aware then when it comes to independence, accountability is the other side of the coin, and if confirmed, I will actively pursue an open dialogue with this committee'.

So I think that these three sentences are the best summary of Andrea Enria, of your service as a regulator and supervisor: total independence, strong accountability and a true European

perspective. And I believe that no one can dispute the fact that you have consistently remained faithful to these commitments over all these years. And I'm really grateful, and I want to thank you for this. And I'm sure that I represent the committee in thanking you for the service and for your constant commitment.

This meeting, however, is not just an occasion to say goodbye, but also the opportunity to address some important and current issues, in particular the current state of the European banking sector, SSM work and priorities, and regulatory and institutional issues from a supervisor's perspective. So the meeting will be organised as follows: there will be an introductory statement by Mr Enria, and then it will be followed by a question-and-answer session, as we usually do.

So without further ado, I give you the floor.

1-004-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you very much, Irene, for your kind words. Indeed, this is my last appearance here. And it has been a tough ride to some extent in these 13 years. But I also want to pay tribute to the members of this committee, because throughout this period, there was always a very open and collaborative spirit, very open dialogue, informal and formal engagement, in-camera and open hearings. And I think that we could be proud of what has been achieved in terms of strengthening prudential regulation and supervision of banks, making the banking sector more resilient and better equipped also to support the European households. So thank you very much for your support. I want to warmly thank you really for all the good collaboration in these years.

However, let's say as our economies and financial markets continue to be tested by new developments, I will now focus more on the day-to-day issues and on the challenges facing European banks, rather than dwelling on past achievements. European banks have proven resilient and have been able to strengthen their balance sheets, notwithstanding many abrupt shocks to the macroeconomic environment we have witnessed in recent years. In the second quarter of 2023, capital ratios were all at historic highs. The CET1 ratio at 15.7% and the leverage ratio at 5.4%. Despite the gradual reimbursement of extraordinary ECB financing, banks' liquidity situation remains strong, with an average liquidity coverage ratio of 158%, well above regulatory requirements and pre-pandemic levels. And in addition, banks improved their profitability with their annualised return on equity reaching 10% in the first half of 2023 – this is also a record level since the start of the banking union, but still below the cost of equity, which remains higher than 13%. Banks' asset quality has also been steadily improving, as shown by the NPL ratio standing at 1.8% in the second quarter of 2023, below the level of one year before, although there has been an uptick starting at the beginning of this year.

The results of the 2023 stress test we published in July also confirmed that the banking sector as a whole could withstand a very severe economic downturn. The adverse scenario for this exercise was particularly harsh, much harsher than previous stress tests, and included sharp interest rate hikes, high inflation and a significant decline in asset prices. In addition, it could be established on the basis of an ad hoc data collection that unrealised losses in the sector's securities portfolios, stemming from the increased interest rates or the mark-to-market of the securities portfolios, would remain contained and manageable, even under an adverse scenario.

European banking supervision is striving to become more risk-focused, leaner in its processes, and better able to adapt to rapidly changing circumstances. During the pandemic, we concentrated on risk control systems, capital planning and profit distribution plans. Following the Russian invasion of Ukraine, we shifted our focus towards sectoral analysis, especially on the energy sector and risk assessments to evaluate risks linked to banks' exposure to Russian counterparties, counterparty credit risk in the context of heightened financial market volatility,

and cybersecurity, of course, in light of possible potential state-sponsored attacks. And well ahead of the normalisation of monetary policy and the turmoil of the spring of this year, we had already started to zoom in on interest rate risk, increase spread risk in the banking books and funding and liquidity risks, all while keeping an eye on increasing arrears and focusing on sectors that are particularly sensitive to higher interest rates.

To ensure that our European banking sector remains resilient in an increasingly unstable external environment marked by macro-financial and geopolitical shocks, we will need to stay alert. Furthermore, in the light of the lessons from the spring turmoil and the recommendations of an independent group of international experts which reviewed our supervisory processes, we must strive to become more effective in ensuring that banks remediate the weaknesses identified in our supervisory findings.

European banking supervision is urging banks to address shortcomings in their credit risk management. The exposures to the real estate sector deserve particular scrutiny. The current higher interest rate environment could put further downward pressure on office and house prices, making it harder for commercial property owners and households to service their debt. Banks should account for these risks in their provisioning practices and capital planning.

In addition, we are paying close attention to how banks structure their funding. This is particularly important given the more volatile behaviour of uninsured depositors seen during the banking sector turmoil in March 2023. Social media, digitalisation and attractive short-term investment alternatives offered by non-bank competitors may also accelerate retail depositors' reactions to price signals and market rumours. In response to these trends, we are closely scrutinising the funding plans and strategies of selected significant banks.

The management of climate and environmental risks is also becoming even more urgent for our banks. We are conducting various on-site inspections and targeted reviews, including targeted deep dives to follow up on the shortcomings identified in the 2022 climate risk stress test and thematic review. Our supervisors are already including bank-specific climate and environmental findings in the SREP – the Supervisory Review and Evaluation process – and have imposed binding qualitative requirements on a number of banks. We expect banks to be fully aligned with our supervisory expectations on climate and environmental risks by the end of next year, 2024, and we set intermediate deadlines and required banks to reach specific milestones. Not addressing them will trigger an escalation to enforcement measures.

Furthermore, banks need to better address cyber risk by improving their operational frameworks. To check where banks stand in this regard, we will run a cyber resilience stress test for all supervised banks in 2024. The test will be the first of its kind and will focus on how banks' response and recovery mechanisms would cope in the event of a severe but plausible cyberattack. Supervisors will scrutinise the results for any potential weaknesses and deficiencies, and ensure that banks remediate them in order to withstand real attacks.

The market turmoil in both the United States and Switzerland in March 2023 has also sharpened the focus on banks' internal governance. Each of the affected banks clearly had problems in terms of governance. As banks' capacity to withstand risks depends on strong internal governance, we will perform targeted reviews on the effectiveness of banks' management bodies, as well as targeted on-site inspections, and we will update our supervisory expectations regarding banks' governance arrangements and risk management.

Turning to and ending on the regulatory framework, I welcome the political agreement on the banking package and I am confident it will be fully finalised without delay. Swiftly implementing the international agreed standards will give the banking sector the legal and

regulatory certainty it requires, and any deviations from these standards should be regularly reviewed to assess their impact and consider whether they could be phased out.

We hope to see also swift progress on the reform of the crisis management and deposit insurance framework, the CMDI package. Our existing crisis management framework has worked effectively in a number of cases, including Banco Popular and Sberbank, where both cases were resolved without the need of recourse to public funds. However, the framework may not be fully able to provide optimal solutions for mid-sized banks. The CMDI package offers an opportunity to achieve targeted and substantial improvements without changing the current institutional set-up, while making effective use of crisis management resources. I urge you, really, to swiftly adopt this important package. For the ECB it is crucial for policymakers to have an adequate set of crisis management tools, along with adequate funding for deploying them.

And of course, looking beyond my tenure and well into the next legislative term, more work remains to be done, in particular on completing a fully integrated banking union. As the introduction of EDIS – the European deposit insurance scheme – has come to a political standstill, a dangerous fault line remains in our institutional framework. To my concern, most of those involved in the debate still fail to see that a more integrated banking sector would be a more resilient one, which would rely less, not more, on any collective safety nets.

Let me conclude by again expressing my appreciation for your unwavering commitment and contributions to enhancing our legislative framework. Thank you very much for your cooperation, and I look forward to your questions.

1-005-0000

Danuta Maria Hübner (PPE). – Good afternoon, Andrea. I have a few questions, but they will be very short. First of all, I would like to ask you, if you could look forward, the next banking crisis in Europe will be coming from where? If you could just try to prepare us for this.

My second question is also that you say – I loved your speech actually in LSE, I read it like a sort of legacy speech and thank you very much for writing it, I think we should all read it, but in the conclusion you also say there something which is very brutal because you say ‘establishing an integrated European banking market appears impossible at the moment’. Could you just give two, three reasons for this?

And the last question, you mentioned the word effectiveness, then you mentioned Switzerland, Silicon Valley, where we believed here that there was this kind of growing weakness of the bank and on the supervision side there was no escalating of the actions there, so I understand there was something wrong with the effectiveness. Could you explain to us what it means for a supervisor to be effective? And can you be effective without the third pillar of the banking union?

1-006-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you very much, Danuta. Well, you keep me going for a while on these questions, but I’ll try to be concise.

The next banking crisis: of course I don’t have a crystal ball, but for me it’s clear that credit risk for the type of business that our banks are engaged in remains the key area on which we should focus our attention. Now that interest rates are on the rise, of course, the real estate market, commercial real estate and residential real estate in particular are really delicate areas. We have already seen a price correction starting in commercial real estate, the price correction is already quite significant, and we are now looking a lot into refinancing risk, because a lot of borrowers are actually relying on so-called bullet or balloon loans, which have a lump-sum

payment at the end. So no major reimbursement of the loan during the period during the maturity, but there is a big payment and usually the developers refinance them. And now with the higher interest rates we can have really a quite large gap in terms of cost to be filled. So that is a risk that I see quite prominently.

The other area is that we have seen a lot and we have not much visibility in terms of information on the non-bank financial institution sector. We know that in that area there have been a number of institutions which have taken increasingly leveraged and concentrated positions, and we suspect that there might be quite a significant amount of unrealised losses in that sector. So further volatility disturbances in the market can trigger some shock coming from that side. I would say that these two areas are the ones I'm most concerned about.

On the point on integration, I think it is a combination of issues. At the bottom of it there is a lack of, let's be honest, a lack of political commitment also, because we see this in the legislation also. I find it in the banking union disappointing that if a bank that has a subsidiary in the same Member State can waive the capital and liquidity requirements and manage the capital and liquidity on a firm-wide basis at group level, and if the subsidiaries in the neighbouring Member State are still under the supervision of the ECB, these types of arrangements for pooling liquidity and capital are not available. This, of course, is a major obstacle also to cross-border consolidation and maintains significant segmentation in our market.

And besides the legislative impediments, there has also been some moral suasion exercised sometimes by national authorities who are concerned, understandably, about the fact that if something goes wrong, the local deposit guarantee scheme is still the one footing the bill. So as we are moving to European arrangements in the banking union, I think we should have more confidence in the arrangements we have built and let banks integrate their business more. So this is a bit of a disappointment. I tried during my mandate to move all the levers we have to foster integration, but that was not easy.

I have to be honest that also the banking sector is not taking enough ownership of these objectives. In the past, they were pushing a lot for a more integrated banking market. Now they seem more interested in having alleviation of capital requirements, but have put inadequate pressure on having really a development of a genuine integrated market.

On effectiveness, I don't think this really depends on EDIS or the finalisation of the banking union. The real issue for me was when I saw the report of the Fed: the inspectors of the Fed identified the problems at Silicon Valley Bank in interest rate risk management in June 2021 and took until February 2023 to escalate to enforcement. And I started looking at my drawers, and I must say that we have a number of cases in which we have findings that date back to 2021 to 2022 which have not yet been remediated. And while we've been very effective on capital, on non-performing loans, when it is an issue of governance, business model, sustainability, internal controls, maybe we have not been equally effective. It is difficult, because of course we expect management to take ownership of these objectives and if they don't act it is not easy for us to substitute for management to say what the business model should look like. But it is clear, if you look at the banks that failed, they all had major governance and business model sustainability issues. So if you don't remediate these issues, there are going to be problems. So I think we need to find a better way to identify the issues which are really important, make clear to the banks that if these are not fixed within a definite timeline there will be escalation to enforcement.

1-007-0000

Pedro Marques (S&D). – Mr Enria, I'd like to start by thanking you for being with us once again, but above all I'd like to thank you for all the work you've done on the Single Supervisory

Board.

In the years you've been on the Supervisory Board, we've navigated several major crises, but also a period of stability in the financial sector, and your work should also be recognised in this context. But, as I said, even in this context of transition, we need to talk about the current reality and the challenges the sector faces, and there are some that you can still address.

Over the last few weeks, we've seen record profits in the European banking sector. Profits in the many millions, mainly because of the rise in interest rates and the difference between borrowing rates and lending rates, while at the same time many families are suffering from the cost of living crisis and the very effect of rising interest rates. It would be very difficult to explain a huge dividend payment to European citizens in a context like this.

So, I would like to ask you what instruments you have at your disposal and what instruments you plan on activating – because I think this is the question that needs asking – to encourage European banks to prioritise a convergence of rates, therefore the remuneration of deposits, and on the other hand, to strengthen their balance sheets. Are we going to invest in strengthening balance sheets to address the risks you've identified, also because of the rise in interest rates, or are we going to let banks pay unlimited dividends and unlimited bonuses to their managers? This is a question that needs to be addressed and to which European citizens expect a clear answer from the supervisor.

And my second question also relates to another of your references: the CMDI package, the banking resolution package. On the one hand, I would like to thank you for your reference to the positive direction taken by the package – we are negotiating it, we are committed on Parliament's side to trying to reach a position as quickly as possible that will allow us to negotiate with the Council – but, on the other hand, I would like you to explain better to European citizens and to some of the stakeholders in the European Council why this is a proposal that we really must support.

How does protecting medium-sized banks, banks of a regional nature, really strengthen European financial stability? Are we not giving some European banks a free pass with this proposal? I don't think so, but I do think that some stakeholders in the Council need to hear your answer.

So those are the two questions I would like to address to you, reiterating my high regard for the work you have done over the years.

1-008-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you very much for your kind words. On the first point, it is true that profitability of banks has improved. As I mentioned, it reached double digits for the first time since a long series of years. Still, as I mentioned also in my opening remarks, there is a moment of dissonance now. If you talk to investors, investors think that European banks are still structurally not profitable, are not an attractive investment proposition. And you see this in terms of the valuations, the stock valuations of banks, which are still depressed – the price to book ratio is 70%. They think that this increase in profits is temporary and driven by the increase in interest rates, and the normal expansion of the interest margins during hiking cycles.

Now it is true that in this hiking cycle, the pass-through to deposits has been less forthcoming, less fast than in previous cycles. But this is also linked to the excess liquidity that banks have compared to their reserves. If you look across banks, we should not look at the average data only. There is a huge distribution underneath these data, and you see that the banks that have started passing through to depositors already significantly the increasing interest rates are the

banks that have the tighter excess liquidity, as now also the other central banking facilities, the TLTROs, will be reimbursed, this excess liquidity will be diminishing also for other banks. So we expect that the pass-through will accelerate in the coming months.

It is also true that there are different competitive conditions in different parts of the Union. Coming back to the question before, you know, it's a bit disappointing that the single market doesn't work in terms of enabling banks to launch competition and challenge other banks if they have rents from high concentration in individual markets, which happens across the Union. So I think that these aspects should gradually come to bring the pass-through to depositors more relevance. So I expect more competition coming in the next month. Also in household deposits, which are the ones which have been benefiting the least from the increase in interest rates, we see now an increased shift to term deposits, from side deposits to term deposits, which is indeed the way in which the pass-through occurs for these type of deposits.

On distributions, banks have increased their distributions with a view to lift their valuations, which remain very depressed. Again, it's also my hope and a point that I raised with the banks that soon banks will find better ways to invest in their own business and expand their business, maybe, rather than return capital to their shareholders. This is only a situation that emerges when market valuations are depressed. So we need to hope that this increasing profitability will prove more structural and will also make banks, European banks, more attractive for investors.

On CMDI, I'm trying to explain it in all possible places. I've already done this at the Council. I'll do it again tomorrow at the Eurogroup. And indeed the key issue there is that we should trust the European authorities. We have set up the Single Resolution Board, the Single Supervisory Mechanism, and we need to have some flexibility and optionality in the toolbox to deal in the best possible way with the case at hand. We have a lot of constraints in the system right now. If I look at the overall funds that we have in national deposit guarantee schemes and the Single Resolution Fund and compare it with the US, we are in the same ballpark. But the FDIC can enjoy a lot of flexibility in using this funding on a least-cost basis to sell the business, create bridge loans and minimise the impact on borrowers and depositors. We have to rush in a few days – as it happened for Sberbank – to find a fast solution, because otherwise we have to go to liquidation and possible destruction of value. So it's really a plea that I make to have this package progressing in the legislative process.

1-009-0000

Georgios Kyrtsos (Renew). – I would also like to thank Mr Enria for his contribution. Of course, not everything went very well. I remember that EBA used to be in London, so there were some substantial losses on the way forward. I have to tell you that, speaking as a politician, the perception in southern Europe is that the banks make extremely high profits. This is the perception that you have to take into consideration as politicians. And for instance, Spain introduced some measures to put extra taxes for high profits and the government in Italy had some thoughts about it, but it seems that they changed their mind. What is your view? Do you think that the governments that move in this direction create problems to the banking system? Or there are some prerequisites, that if these prerequisites are fulfilled, governments are allowed to think that way? This is my first question.

The second question has to do with the borrowing needs that keep increasing. And I think they will keep increasing because they also increased in the United States, in Japan, in the United Kingdom. Everybody spends more money, the deficits are going up and, of course, the public debt is going up. So there is a general trend even among our competitors. But do you think that this creates problems for the banks? Let's say, the repetition of the so-called doom loop, where the banks will find themselves having to finance the state and take additional risks by financing the state. Do you think there is such a danger? For instance, in Italy, I read that they have to borrow hundreds of billions of euros in the immediate future. I come from Greece – OK, now

everybody talks about Italy, but the situation is even worse in Greece. We have 170% of GDP is our debt, our public debt, whereas Italy's is 140%.

And finally, what's your view about the harmonisation of insolvency law? Are we moving in the right direction? Do you have any suggestions?

1-010-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – Thank you for your questions. Let me go straight to the issue of profits and extraordinary taxes. Of course, I'm a supervisor, so taxes are in the remit of governments, parliaments, so we should be very careful when we express views on these topics. And it's far from my approach to interpret my role as defender of the banks' profits. Still, when I see the type of interventions which have been made, I think that it's my duty to highlight to the attention of governments and parliaments a few facts. The first one is what I was mentioning before, that there is a perception that banks are realising extraordinary profits, but they are not earning their cost of equity. So the market still perceives that they are not profitable enough, they're not attractive enough. And to some extent the fact that there are extra taxes also crystallises this perception that whenever banks make profits there will be somebody coming in and taking them out. So the attractiveness of the European banks is not particularly benefiting from that.

I care, as a supervisor, about the issue of valuations and attractiveness of banks as investments, because as you have seen in the case of Silicon Valley Bank, if the stock prices are depressed and if the banks are not attractive it is very difficult to raise capital. Silicon Valley bank had losses, tried to raise capital from its shareholders, they would have been massively diluted with the evaluations that the bank had at the time. They refused to inject capital and the bank went bust in 24 hours. So that's a stability issue for me.

The second point is that these taxes are introduced as temporary, then they tend to remain for a longer period of time, so it is important also how they are constructed. Many of these taxes are targeting the interest income, not the profits, which means that they don't take into account additional elements that affect the banks' profitability, like the increase in staff costs due to inflation and the increase in needs for provisions, because the higher interest rates also cover for a higher risk in their balance sheets. So it is important that if there are interventions in this area they are not to the detriment of profitability and capital strengthening. So these are mainly the points that we raise to the attention of governments and parliaments discussing these issues.

On the point on debt levels going up and the doom loop, first of all, as I said, while the debt in the economy is going up, the leverage of the banks has gone down in the last years. So that's why I also have a concern about the amount of debt which is increasing outside the banking sector. And that's the first point I want to make.

On the issue of the doom loop, first of all we are not in the situation of 2011-2012. Banks have better diversified portfolios, have reduced the concentration of their sovereign exposures on their domestic sovereign, and are better managing the risk. We have done this data collection during the stress test on unrealised losses, and we came out that the overall amount of unrealised losses was around EUR 70 billion. If you consider the US, it was north of USD 600 billion, so it's much more contained. Seventy per cent of this is actually sovereign bonds. So basically it means that banks are managing these also through hedging and other tools more effectively than in the past, but the doom loop, let's be honest, we have not totally taken it out of the table, because the real step to take it off the table is to complete the banking union, because still now banks depend on the domestic safety nets and some of these domestic safety nets are stronger than others. So until we will have a full integration of the deposit guarantee scheme, this sort of interconnection between the banks and the sovereigns will to some extent remain.

On harmonisation of insolvency law, yes, that's something that we would very much welcome, but to be honest, I would be happy now with the CMDI package as the first step to fix the most important issues.

1-011-0000

Michiel Hoogeveen (ECR). – Thank you so much for being here and for all the years of serving your mandate, very much appreciated. A very short question on my behalf. We had previous discussions here in the European Parliament, and that was particularly on the non-performing loans. And you have mentioned indeed, and it's also seen in the figures, that we have seen quite an NPL reduction during your mandate.

Question on my behalf: what is the actual status of NPL reduction and where do you still see potential vulnerabilities if we look at the prospects, if we look at the future? And, for example, there is criticism by the Single Supervisory Mechanism that new legislative proposals would undermine the effective resolution of non-performing loans. What do you think of that criticism?

1-012-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you very much for the question. Well, in terms of the actual status of NPLs, I would say that in the last years we really turned the corner. We don't have long data series now because the common definition of non-performing loans was agreed only after the great financial crisis. But my impression is that we are at the minimum level ever in the countries participating in the banking union.

As I mentioned before, we start seeing some upticks in NPLs, especially we see an increase in arrears, so the loans which are past due between 30 and 90 days, which is usually a leading indicator for a potential future increase in NPLs. And the main driving sectors are consumer finance and commercial real estate at the moment. So these are the areas where we are focusing particularly our attention.

If I have to add, in terms of vulnerabilities, we have paid a lot of attention also to leverage finance or to the exposures to counterparts which have debt which exceeds more than six times their earnings and earnings before EBITDA – before interest, taxes, depreciation and amortisation. So these are areas, of course, which are more fragile. And I mentioned also the issue of non-bank financial institutions.

In terms of the point which has been raised on ideas which have been floated for addressing the situation of distressed borrowers, I would say that I sympathise very much with the idea of parliaments, governments launching initiatives to protect citizens, small and medium enterprises which are suffering because of excessive debt. The point is that when they do so, my recommendation would be to be very careful not to damage the secondary market for non-performing loans, because if the measures you take there destroy the appetite of investors to buy non-performing loans, this means that the banks themselves will have more difficulty in cleaning their balance sheet. They will need to price, up front, higher risk premiums when they lend, and this will be to the detriment of the broader set of customers today. So having a liquid and efficient market for non-performing loans benefits the whole set of borrowers. And it's important that any initiative in that field does not destroy this value.

1-013-0000

Aurore Lalucq (S&D). – Madam President, I also wanted to thank Mr Enria, as a citizen for all these years when he protected us, because he has been an excellent supervisor, and also as a legislator, because we have had years of extremely rich hearings and exchanges. We were able to work very well with you and I wanted to pay tribute to your qualities as supervisor, because they are not skills that everyone has. So, first of all, a very big thank you.

Secondly, I wanted to say that I share your disappointment on the issue of the banking union and the fact that not completing it properly is a question of political will, that the banks have often not played along either, and that ultimately all this is linked because unfortunately there is a 'blood relationship' between some Member States and their banks. I'm thinking particularly about my country. You can't say it, but I can: the French government is particularly problematic in this area. This is clear, for example, from a common-sense issue like the repatriation of clearing, of compensation, where we see the French Treasury using its full force to block a measure that would provide a little more financial stability.

The reality, therefore, is a banking union today that is not finalised, a banking sector that is weakened by unrealised losses, and bonds linked to rising interest rates. And then there is also a situation of probable financial instability problems, because we saw that ultimately, with SVB, what happened in the United States, only 0.5% of global assets still managed to destabilise much of the global banking and financial system.

And since the Chair had the courtesy to recall what you have achieved, saying we're not going to think only about what remains to be done, I want to ask you what remains to be done, in other words: what are the top priorities as regards what remains to be done today in this context? Is it the repatriation of clearing? Is it the liquidity ratios or liquidity risk that you mentioned, as reported in the *Financial Times*, where you explained that ultimately the issue of liquidity was increasingly important? Is it Basel III? Is it things that we have not yet seen or thought about?

In short, now, as legislators, we want to listen to you; we want you to be able to say: in my opinion, this is really what you need to focus on right away to avoid the risk of financial instability. Many thanks once again for all your work.

1-014-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – Thank you very much for your kind words of appreciation. I'm really flattered. Now of course I'm biased. I mean, I'm a prudential supervisor, so I will focus more on the issues which are straight in my backyard. I generally think that the completion of the banking package is an important step forward. I mentioned also to the banks that we have had a long debate about the calibration of capital requirements. Now it's the moment to turn a page. So to close this debate and avoid continuous discussions on these issues and move on.

In my view, the most pressing issues are, for the short term, the CMDI package. Because I really think that we have seen in these years three shocks, one after the other: the pandemic, the Russian invasion of Ukraine and then the return of inflation with the fast hiking of interest rates. So we don't know what will be the next. The point is that we need to be ready if something happens to manage the exit from the market in a smooth way.

We have a good set-up. But again, in the immediate aftermath of the great financial crisis, the main focus of both, let's say, politicians and authorities was on the 'no more taxpayers' money' objective. So the focus was there. So bail-in versus bailout. And we developed also good tools for resolution, but we failed a bit to create the optionality in the framework to make authorities able to deal with different crises in the best possible way. So this flexibility for me is important, especially in a regime which is quite legally complicated as ours, because when we had to manage even a small crisis like Sberbank, we had to deal with the Austrian, the Slovenian and the Croatian legal environment and the three different DGSs that were operating in different ways. So if you could help with this challenge, that would be very helpful.

Going forward, I generally think that the challenges will be in the area of IT and cyber risk, and climate and environmental risks. I mean, these are areas in which we are already moving in terms of our Pillar 2 and our supervisory responses. But there are huge challenges. I mean, for

instance, a lot of banks are relying on third party providers of cloud services. Now, DORA will be a big improvement, but in that area, if something goes wrong, there could be indeed a massive impact on the critical functions of banks and on the access of core banking services by citizens and firms. So it's something that we need to pay a lot of attention to.

And climate and environmental risks, it's clear now that they are not any more a sort of long-term issue to address in the distant future. We have a materialisation of these risks here and now, and it is important that banks step up their capabilities in those areas. So I would say that these are the main areas in my view, for attention.

1-015-0000

Chair. – OK, so we have completed our list of registered speakers. No further requests for the floor. So I really want to thank again Mr Enria. Andrea, thank you very much for everything. It's been a pleasure, really, indeed. Thank you very much to everybody.

(The hearing closed at 15.30)