

Sabine Lautenschläger: Confirmation hearing for the Vice-Chair of the SSM Supervisory Board

Introductory statement by Ms Sabine Lautenschläger, Member of the Executive Board of the European Central Bank, at the confirmation hearing for the Vice-Chair of the SSM Supervisory Board, Strasbourg, 3 February 2014.

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Madam Chair,

honourable members of the Committee on Economic and Monetary Affairs,

It is a pleasure for me to be back here only three weeks after you had supported my candidacy as member of the ECB Executive Board.

The fact that I am back here after such a short period of time reflects the central role that the European Parliament plays in holding the ECB accountable for its supervisory tasks. It also demonstrates that the Banking Union project is rapidly moving forward.

The Governing Council has proposed that I become Vice-Chair of the Supervisory Board of the single supervisory mechanism (SSM). I am honoured by this proposal and glad to be here today to demonstrate that I am ready to take up this challenge.

As you already know, I have been a banking supervisor for almost two decades, at the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and as Vice-President of the Deutsche Bundesbank. I have also been closely involved in international cooperation on financial sector supervision and regulation in various bodies. These responsibilities have provided me with first-hand experience in the very field in which Europe is currently undergoing its most significant institutional overhaul since the introduction of the single currency.

During my last visit here, I said that good supervision cannot be achieved solely at the national level. But that does not mean that simply raising supervision to the European level will automatically make everything run smoothly. In order to make common supervision a success, we need to do things right from the very start.

That is what I want to help achieve as Vice-Chair of the SSM's Supervisory Board.

Doing things right from the start has been the guiding motif of the comprehensive assessment, and it will also be the benchmark for our new supervisory model.

I will go into both of these aspects in my remarks today.

Comprehensive assessment

Let me start with the structure of the comprehensive assessment exercise. Following an initial risk assessment, the comprehensive assessment will comprise an asset quality review (AQR) and a stress test.

The asset quality review covers point-in-time risks. That means it takes into account the current state of a bank and does not consider any future developments. A rigorous selection of portfolios that should be reviewed is currently under way. The national competent authorities (NCAs) have submitted proposals for these portfolios and the ECB is currently studying these proposals before a final selection is made.

The stress test will address forward-looking risks. For this component of the comprehensive assessment, the ECB is using the methodology defined by the European Banking Authority (EBA). We published a first set of details today.

The objective of this stock-taking exercise is to ensure that banks' balance sheets are sound before the ECB takes over their direct supervision. The comprehensive assessment is intended to boost transparency, and thus foster confidence.

But this will only work if it is credible and of high quality. In my opinion, two things are crucial for ensuring this:

- an impartial and objective methodology that fosters comparability; and
- transparency of the process, as well as of the results.

For the asset quality review, an impartial and objective methodology means, for example, that we need to apply, and will apply current accounting rules as consistently as possible. The vast majority of the banks undergoing the assessment report their accounts in line with the International Financial Reporting Standards (IFRSs). For the others, we are devising methods that allow national accounting standards to be used and still facilitate a high degree of comparability. But this is only one aspect of achieving comparability.

The stress test will cover credit, market and funding risks. It can only deliver a credible indication of the resilience of European banks to the market if it is based on tough stress scenarios. This means that the scenarios will also have to include stressed sovereign bond markets.

In addition to impartiality, transparency with respect to both the process and the results is key for the assessment to live up to expectations.

In the first instance, transparency means informing the general public about the underlying methodologies and the thrust of the exercise. That is why we have issued a press release today, in which we provide information on the progress of the asset quality review and confirm that we will use the stress test parameters announced by EBA last Friday. The ECB will not publish intermediate results, but only the final outcomes, because we feel that only those will be robust.

The supervisory model for the SSM

The second issue I want to highlight in my introductory remarks today is the implementation of the SSM's supervisory model.

One of the advantages of the SSM is that it will draw on a broader and better basis of information on euro area banks. This implies that we will be able to uncover trends in individual business lines and risk management much sooner in the future. That will make it possible to reveal undesirable developments more quickly.

I also expect the establishment of the SSM to be a major step forward with respect to a consistent application of supervisory rules. Furthermore, I hope that European supervision, involving teams of supervisors from various nations, will provide a new paradigm that incorporates the best elements of each nation's approach to supervision. This new approach will leave no room for a "home-biased" supervisory regime.

The new responsibilities of the SSM must be subject to democratic accountability. Based on the SSM Regulation, the Interinstitutional Agreement provides for a strong framework for accountability vis-à-vis the European Parliament, and I believe it to be of utmost importance to ensure a trustful relationship between our two institutions. Today, we provided you with the first quarterly report on the SSM, and Danièle Nouy will discuss it here in Strasbourg tomorrow.

Honourable members,

I have only mentioned two of the aspects that we are currently dealing with in preparation of our new supervisory tasks. Much could be added with respect to data reporting, staffing, the IT infrastructure, the legal framework, supervisory fees and many other issues. However,

allow me instead to closing with a remark on a different but related topic – banking resolution.

Adding a true single resolution mechanism (SRM) to a single supervisory mechanism is, in my opinion, indispensable. The Banking Union must stand tall and strong on both these pillars to be resilient. In order to achieve a balance between liability and control, a cross-border supervisory structure needs to be complemented by a common regime for restructuring and resolution. I hope that the legislative process will be completed in good time to allow the SRM to become operational by the end of this year. On substance, I believe we need an efficient decision-making process that ensures that effective resolution action can be taken. I also believe that only a truly single resolution fund (SRF) with a fiscally neutral backstop, together with risk sensitive rules for capital requirements, as well as a tough banking supervisor, can successfully break the sovereign-bank nexus that has affected the banking sector negatively during the crisis. In order not to create moral hazard between the banks, it will be crucial to have a risk-adjusted levy system for contributions by the resolution fund. As the most of you do, I would have preferred a pure European solution, instead of an intergovernmental agreement, but I have to accept the constraints in national laws. Nevertheless, I am hoping for a compromise on the SRM and SRF, because starting the SSM in November without clarity about the resolution system would clearly be disadvantageous.

Thank you for your attention. I am now at your disposal for questions.