Sabine Lautenschläger: Interview with the Financial Times

Interview by Ms Sabine Lautenschläger, Member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the European Central Bank, with the Financial Times, conducted by Ms Claire Jones and Ms Caroline Binham and published on 4 July 2017.

* * *

If I may, if we just start with the big topic of Brexit, you've given a few speeches in the last few months just about what the Single Supervisory Mechanism's (SSM) expectations would be for UK institutions looking to establish a base in the eurozone, and you said you don't really want to accept just a brass plate, that you would want something substantial here. Could you elaborate a little bit more about what your expectations are for institutions that are looking to come?

Well, first of all, we do not want to have an empty shell in the euro area where booking is done, but not the risk management; there's the question of governance, the question of what kind of strategy does the bank have for the euro area entity: is it fully somewhere else where we do not have the contact, where we cannot supervise correctly? So, it is a question of the balance between what kind of risk profile a bank with a licence in the euro area has, what kind of risk exposure, what kind of risk management and what kind of decision-making has to take place in the euro area. Our supervisory expectations are that we do not expect the banks *not* to do some back-to-back booking; it's not, from our point of view, forbidden. But the euro entity should not be an empty shell where the credit risk stays in the euro area, and all of the market risks are booked and governed and managed outside of the euro area.

Is the expectation that an institution would actually set up a subsidiary or would some other kind of less onerous requirement, particularly when it comes to capital and liquidity, be okay for you?

Well, that depends on the legal environment we must have, and, as you know, there's a discussion ongoing at the level of the European Commission concerning intermediate parent undertakings. That does not mean that third-country branches would not be allowed, but it depends a on what kind of business there is, and what kind of structure the banks want to have too. It's not always the supervisor saying 'I want you to have a subsidiary', but sometimes the banks do see an advantage in having a subsidiary in a particular region in order to provide services to their clients there through a subsidiary rather than a branch.

Just on the issue of third-country branches versus subsidiaries, in terms of understanding the difference: is it that the subsidiary is fully capitalised and has liquidity buffers of its own and the third-country branch doesn't, or is it more nuanced than that?

Well, that depends where you have a third-country branch, and that's exactly why we point to fragmentation in the euro area in the supervisory and in the regulatory landscape, which needs to be addressed. Depending on where you would establish a third-country branch, how supervision is done can be different; it's not harmonised.

When you establish a subsidiary, you have very clear European rules, the ones which the UK, until now, followed and complied with too. So, you have your capital requirements and you have your liquidity standards. It's very clear that the supervisory approach in the euro area for subsidiaries is the same. When a subsidiary is a significant one, it is supervised by us according to our standards; when the subsidiary is less significant it is supervised by the national competent authorities (NCAs), but according to our standards. We have a joint supervisory approach. If it is a third-country branch or if it is an investment firm, it's under national supervision and under a national regime with regard to capital or liquidity, and you might have countries

where you have similar or even the same capital or liquidity demands and in other countries, it is quite different from a subsidiary.

Do you have many of those third-country branches currently? Because a lot of the non-European firms use their passport from subsidiaries from the UK and then passport it into Europe.

Yes, there are some from the US, from Switzerland, from the UK, and from Japan. These are the most important, yes.

But you think this loophole regarding branches does need to be addressed in the next couple of years?

I think it should be addressed, especially when we are talking about systemic third-country branches. So, I would make a difference between the smaller ones and the ones which have very relevant banking activities. There are third-country branches under a national regime, which might be very relevant. Then there are subsidiaries of investment firms that can do everything except deposit-taking under a national regime too.

And then you have different intragroup exposure rules in the different countries, which are very important too. When you try to book activities in different entities of one structure in the euro area, it might be relevant what kind of intragroup rules and limits you have – these are partly national, partly harmonised. In addition, you shouldn't forget all the questions of recovery and resolution where the structure of activities of a third country within the euro area play an important role.

So that's an issue, that these third-country branches aren't completely covered by the resolution rules for Europe?

That is a very good question. The rules around the third-country branches are different because of these national regimes. The resolution or the recovery, and the resolvability is then a different issue because it's not according to the harmonised standard.

How about within the SSM itself? Do you feel that you have now enough resources to cope with what might be quite a large influx of new institutions that are going to need some supervising that may be systemic, and, therefore, come under the SSM directly?

Right now, we are in the internal process of resource planning. So, I can't give you a number, but hopefully we will increase our staff already this year, and for sure next year, in order to cope with the wave of authorisations, licensing, qualified holding procedures and internal model approvals. And then some of these people will move into the joint supervisory teams which we have for each of our significant banks. Our joint supervisory teams are comprised of ECB staff and NCA staff, so you'll always have to take the NCAs into account too with regard to staffing.

We have had many meetings already, so we know that there will be banks coming, not yet perhaps fully their structure and where they will locate, but there will be banks coming. So, from my perspective, it is justified to already ask for staff this year, and then we will adjust according to the applications coming in. I'm pretty positive that we'll get staff with the right skill set. We are quite experienced with recruiting staff. In 2014, we had 26,000 applications.

Yes, working in banking supervision is very popular.

Well, it's very nice to work in an environment where we have 28 nationalities. I have been a supervisor, for many years now and I still like our Friday morning meetings where so many different people with different experiences and from different countries come together. We can exchange the expertise we have when making our assessments on individual bank cases. This is an opportunity many people would like to have – to gain such knowledge and to gain

experience – so we are positive that we will be able to recruit good people.

Is that something you think about? Maybe recruiting more Brits because they're going to have experience at some of these banks coming in? Would they be attractive? And what happens then in terms of the rules?

Yes, this might be one of the discussions we will have. We already had a discussion with the British staff here at the ECB.

You mentioned the need to work closely with the NCAs as well. How do you think the relationship is with the NCAs at the moment? Are you happy that there isn't a race to the bottom to try and attract companies out of London?

Well, for the part I know – and these are the banking supervisors – I do not see a race to the bottom. Everybody knows there will be supervisory standards to be fulfilled and complied with according to the SSM/ECB banking supervision harmonised standards.

We do have, for example, one directorate here which works directly together with the different NCAs on the supervision of less significant banks. They issue the standards for the less significant ones. They are in daily contact with the NCAs about, for example, their high-priority less significant institutions (LSIs). So, we have about 100 LSIs, which we consider as high priority in our ordering of banks into relevance clusters, and this directorate works together with the NCAs on the licensing for LSIs. The licensing, whether you are a significant bank or a less significant bank, is done at the ECB, so there is joint work with the NCAs involved here.

Are you confident that the heads of the national central banks will sign off on staff increases at the Governing Council? I was reading that this has been a bit of a problem in the past.

The Governors?

Yes, the Governors.

Well, we apply an agreed methodology for this. We put banks into clusters, depending on their size, interconnectedness, complexity, and depending on the cluster they are in – we have five – then the bank gets a certain amount of staff. So, it is a methodology which is intuitive.

You mentioned recently in a speech that banks need to be contingency-planning for a hard Brexit, even if that is not necessarily the outcome. Prudent planning would mean you plan for the worst. Do you think banks are doing enough of that at the moment, as you've seen?

Well, I believe the very big ones are quite well progressed in their planning. Many of them still need to make a clear decision on what kind of structure they want to adopt and what kind of location they want to have for their operations. It's not yet too late, but I think these kinds of decisions should be made pretty quickly because time is running out.

It takes a couple of years to get your authorisation and set up.

Exactly, especially when you have different entities coming in, and you have a whole new structure. So, I think it is worthwhile to maintain momentum, and I think the one or the other bank really needs to speed up a little bit more – I'm thinking about the middle-sized ones. So, my message would be very clear: 'Speed up. Make up your mind and contact us early so that we can have a discussion about your plans, about the expectations on both sides.'

And these are mid-sized banks that are already under SSM supervision?

No, I was now talking about the banks looking to relocate to the euro area.

For the SSM banks that will want to operate in the UK, we have very clear monitoring. We set up working groups and task forces, and here too I can say that there are some banks which are already well progressed in their preparations. They have a clear understanding about what they want to do. But then things are easier when they already have entities in the UK so it's not a question of whether they want to relocate or not. Then there are the others that still have to make up their minds, and to them I say very clearly that they should speed up.

And for those who have made licence applications, have you noticed anything about the type of banks that have been doing it? Have you been surprised by the number? Are there more or less than you thought?

Well, there are not many official applications right now because, as I said, banks have to decide about what structures they want to set up, how many entities, what kind of entities, and the location. But we've had many meetings where we discussed different solutions, different structures, and so on, and where we heard: 'Yes we will come, we will have an entity, but we do not yet know whether it is in the one or the other country.'

So, am I surprised about the figure? Well, it's not a small one. But no, I'm not surprised.

Are you able to put a ballpark figure on it at the moment?

No.

Earlier this week, the Bank of England put out its financial stability report, and in its assessment it thinks that any major disruption to the provision of financial services post-Brexit would hit European institutions harder than it would hit UK financial institutions. Do you accept that assessment?

Well, I always think that modelling these kinds of events, which are one-off events, where you do not have a comparable situation is quite difficult and different people might see it differently. Perhaps I'm more sceptical about these kinds of calculations because I'm a lawyer and not an economist.

Let me ask this. Obviously, Brexit is a massively political question, but I think regulators on both sides are very aware of the financial stability risks. Do you think politicians on both sides are listening to those concerns from people on the ground who actually have to do this on a day-to-day level and will have to be working out the consequences? Do you think enough thought has been given by the politicians to this issue of financial stability?

Well, I can only talk about the European side, as I am not talking to UK politicians, but here I do not see a problem. My impression is that there is an awareness of it, but also, that there are some topics that do need to be addressed and where we have time to address them. All sides should for sure speed up, and it is a challenge. Do not misunderstand me. Brexit is a challenge, but I would not overdo it either.

Have you had any discussions with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority in the UK about your working relationship in the future, and how that might be for cooperation?

We have a current working relationship which is good and very intense, and we regularly exchange information with regard to the preparation for the incoming and outgoing banks on both sides. So, I can wholeheartedly say the working relationship couldn't be better, and I expect it to be as good as that in two or three years, too. When you talk and discuss things with somebody

on a regular basis, you just do not lose touch.

What's your view about whether equivalence is a way forward for, again, outgoing institutions going, if possible, into the UK and institutions from the UK coming into Europe? Do you think equivalence holds the answers, or are you sceptical?

Well, this is not in the remit of the ECB. The equivalence question has to be discussed in the negotiations. It has to be looked at with regard to the regulatory topics in the Capital Requirements Regulation and the Capital Requirements Directive IV; we do not have a foot in that door, except when we will be asked for our legal opinion, but that hasn't happened yet.

Where we really look into equivalence is with regard to negotiating a memorandum of understanding, but this is at the end of the process with the PRA and concerns confidentiality requirements which have to be equivalent in order to be able to exchange information from one supervisor to the other. But this is far from what you are talking about here. You are talking about regulatory equivalence.

Yes.

So, this is something that needs to be done on the political side.

Mark Carney has floated the idea of super equivalence, perhaps at a level determined by the Basel Committee or Financial Stability Board where whole regions would think about equivalence. Do you think that's a good idea that could be pursued in the future, not just about Brexit, but more generally?

In order to really give an opinion about that I would need to have a little bit more detail around what this super equivalence means. I'm not so sure whether this kind of super equivalence really fits into the Brexit topic. For Brexit, we are talking on the one hand about what kind of rights and what kind of obligations does a country have within the EU where it has all kinds of rights and obligations, and on the other what kind of rights does a country have when it is not within the EU anymore, and does not wish to fulfil obligations linked to these rights.

We wanted to ask about euro clearing as well because, obviously, that was a big subject, particularly two weeks ago when the Commission put out its paper. Would it be the SSM, potentially, that would have oversight of clearing as well, which would be adding to your remit there?

No, we are supervising banks, so if a central counterparty (CCP) would be a bank…

…the oversight sits with the ECB.

The oversight is with the central bank; the supervision of banks is with the SSM. When the CCP is a bank, then there are overlaps. But talking about euro-denominated clearing is talking about financial stability from our perspective, and about transmission of monetary policy. So, it is very important to have smoothly running operations, and until now, because of our very robust arrangements with the Bank of England, and with the CCPs via the European Securities and Markets Authority we have been able to participate in the colleges. By the way, in these colleges for the CCPs, it's not only the central bank participating but the SSM too, because, as the customers of CCPs are the big banks, and we supervise the big banks, there's an SSM observer there too.

Via these colleges we had information and influence on the relevant decisions for capital, liquidity, risk management, standards, and so on, of the CCPs. At least if we were to think about a hard Brexit, this would change, and so something at least equivalent, depending on the systemic nature of the CCP, has to be ensured.

An equivalent type of college, as it were?

Well, let's see. It's the Commission that has to put a proposal to the EU lawmakers, on how to ensure that this financial stability aspect is taken care of.

But you're broadly happy with this Commission draft paper then, it would be fair to say?

As an Executive Board Member of the ECB, I'm following the developments on this but there are others on the Board working more closely on this than I am, so let's wait and see.

Can I ask about the Veneto banks and the banking union? What do you think of the treatment of the Veneto banks and EU's banking union, because clearly it's raised some big questions over issues such as how the new rules work and about deposit insurance. What's your personal view? How damaging or otherwise do you think this is to the banking union what's happened over the past few days?

First of all, we've made quite some progress with the banking union. We established European supervision. We established a European Resolution Authority. It is, from my perspective, a long-term project, meaning we need to acknowledge that we might not be there fully yet, but we need to have a long-term perspective to settle all the interpretations possible according to the legal environment. We need to work on a very clear joint direction, on how we implement and transfer the general objectives and ideas. So, I think partly we can be satisfied that we made progress, but we need to acknowledge, too, that there is a longer way to go, a longer path to take. Here and there some improvements should be done. If I may, I can give you some information if you so wish.

Yes, please.

What is really important to say is that this is a long-term project. It should be clearly understood that we are here to stay. We're not in a situation where a one-size-fits-all approach will work in all cases. I'm pretty sure it's not the way with things in the UK either, that you settle on one reform and then for the next 50 years you are happy not to improve it. So, for me, the whole minimum requirement for own funds and eligible liabilities (MREL) topic is a very relevant one. It's not only the framework, the rules and the technical standards around MREL, but that banks have MREL in their balance sheets is really a very important issue in order to have the banking union moving forward, fulfilling all the expectations. This is really very important for me.

As a supervisor we clearly see that the tools we apply need to be improved, too, and I'll give you two examples. The first example is the moratorium. When you have a bank with problems with liquidity it's quite helpful to have a moratorium. I'm used to it in Germany; I missed it in Spain.

Equally important, to address several problems, is to have a tool which we call 'deductions from own funds'. This means that if you find that a bank needs to increase its provisions because of risks uncovered in, for example, an on-site inspection, then from a prudential point of view, using the 'deductions from own funds' tool, the supervisor would expect that these risks be covered by the bank with more capital. But in the absence of this 'deduction from own funds' tool, the bank may take the view that additional provisions are not necessary and instead falls within the range of accounting interpretation.

In terms of provisioning for losses?

No, losses are different. You see, with risk, you have not yet incurred a loss. You see a risk, and in the accounting standards, you can decide how you need to provision it and to what kind of amount. But you can also take a prudential view where you might want a bank to be more conservative in provisioning for risks because you want to push the bank to work out its non-performing loans (NPLs), for example. Then you would like, from a prudential perspective, the

bank to cover this risk with higher provisioning. In some countries you have this prudential tool for deducting from own funds already.

Do you think that the introduction of International Financial Reporting Standards 9 would help in forcing banks to be more forward-looking in their provisioning of risk?

With regard to the accounting standards, yes, for sure. We are moving from an incurred loss model to an expected loss model, so in some years we will have a different way of doing things.

Yes. I think this is pertinent here. One of the key criticisms that's been raised about the SSM and the process that they're bringing to the banks is that the declaration of insolvency didn't come early enough, that we've known for several years that there were problems with these banks, and that it wasn't until last Friday [23 June 2017] that they were declared failing or likely to fail, and that there's now a greater amount of expense to the taxpayer. Do you think that's a fair criticism?

Well, I think it's not. Let me first explain that the failing or likely to fail declaration is not a declaration of insolvency. This is something different. This is the first point.

The second point is one where people perhaps do not understand the legal environment correctly. The requirements for failing or likely to fail, apart from the liquidity side – let us focus on the capital side here – very clearly say that if a bank breaches 'own funds' then you might declare failing or likely to fail. So, you have discretion. You have not only the right, but you have the obligation, to look into this discretion.

There it depends very much on whether a bank breaches the minimum capital requirement or whether it breaches the additional capital requirement set by the supervisor. The minimum capital requirement set by the lawmaker is, as such, stronger. It's a more important requirement. However, the supervisory Pillar 2 requirements are relevant as well. There's a threshold too, but it is set by the supervisor, so when Pillar 2 requirements are breached, rather than the minimum capital requirements, the supervisor needs to apply the proportionality principle: supervisors need to give the bank time to rectify the deficiencies, to find a solution. A breach might occur from a forward-looking perspective, and if so, then the supervisor tells the bank it has to provide a capital plan which shows the possibilities to counter this breach, to restore capital again.

Now, you have to look into the capital situation of these banks, which are public, and their capital increases in recent years. We were quite insistent on addressing the risks in both banks, which led to the need for capital increases. And then the last time there was a question of a capital increase, additional questions arose: who would be the investors, what kind of business plan would work, what kind of restructuring would be necessary, in short, what kind of prospects would the banks have? It was clear-cut that there was no adequate solution, and so then we had to act.

If Pillar 1 is breached the supervisors have to act much faster, but with Pillar 2, which is set by the supervisors themselves, there are different obligations.

Does this not create problems for the banking union then, because you've got a system where – even if these rules had been followed to the letter – the spirit of the new rules, and banking union, was this idea that taxpayers weren't on the hook. And you need that in order to be able to push for deposit insurance in a next step. Instead, it now looks like taxpayers are once again on the hook.

That is the second part.

But would it not be less expensive for the taxpayer if you were able to declare the bank

failing or likely to fail sooner, because there's a situation now where the bill is €17 billion, whereas if you were able to do it in a shorter timeframe you would find that the taxpayer bill would be a lot smaller.

That is a question of balance. On the one hand, and I fully agree, a supervisor has to be forward-looking. That's why the question with regard to the deduction from own funds is a correct one. I fully agree that a supervisor has to be forward-looking, and we are forward-looking within the legal framework given to us. So, it is on the one hand a question of how fast and how strong you act with the ultima ratio measure – that is, naming a bank failing or likely to fail – and on the other hand, when you act, you infringe on the laws of the investors because a bail-in means you expropriate.

So, the shareholders, the junior and senior debtors, depending on what is done later in the resolution, have their rights too. They are expropriated. So, you have to get the timing right, which is not always that easy. Let me be very clear: in how much or whether the taxpayer is then affected is not within our remit. This is then the question of how resolution is done and what kind of decisions are taken after the declaration of failing or likely to fail.

It goes to Elke König [Chair of the Single Resolution Board (SRB)] at that point.

Yes, or the national resolution authority (NRA). They have to decide how they want to solve the case after the failing or likely to fail declaration. This is nothing we can decide.

So you felt as though you had to say at the start of this year, in January, that this was a solvent bank, even though there were Pillar 2 concerns, while Pillar 1 was okay.

Well, as I said, the question of failing or likely to fail and the question of solvency are not fully overlapping. It's not two sides of the one coin because solvency is something you state at a point in time. You have to ask whether there are no more prospects to solve an actual or likely Pillar 2 breach. This is because you have to give the investors and other stakeholders the possibility to rectify a solution to ensure that the bank does not fail.

The other loophole that seems to need to be closed is a legal one, the definition of public interest. The Italian government used the provision that it was in the public interest to do it this way. Is that not a legal question that needs to be sorted out as well, whether governments can decide: 'Okay, well, we've got all these rules about too big to fail, but you know what? We'll ignore them because it's in the public interest to do it this way.'

Well, I can imagine that there will be a discussion about this in the next year. Where do we have a joint understanding, a joint interpretation of public interest? That's what I meant when I stated we've made many, many steps towards the objective, and we've achieved quite a lot. But we are not yet fully there.

One thing people are interested in is this declaration by the SRB that resolving these banks was not in the public interest.

What the SRB has to do is to answer the question of the public interest. Not every systemically relevant institution, according to the SSM regulation, has to be resolved via the SRB. When there is no public interest, it has to go to the NRA.

There's been some reports in the Spanish press in recent days about the situation with Banco Popular that it may have, in fact, had some collateral that it could have used to access liquidity which was not known in the past. How much of a concern is that for you that there wasn't as much of a liquidity shortage in that instance as may have appeared

to be?

I did not understand the question. We have a confidentiality regime, so I cannot talk about single banks and reveal information about single banks if this information was not yet publicly disclosed by the bank itself. What exactly were you asking about?

The issue is that the reason behind the decision on Popular seemed to be that the liquidity position had deteriorated very quickly.

Yes, and there was no prospect for a change in that situation.

So, the issue which seems to be talked about now is that Popular may have had some more collateral that it could have used to access central bank liquidity, at least that's what I understand from reports in the Spanish press. What's the general position on how bad the liquidity issue needs to be before you can invoke this failing or likely to fail?

I cannot answer because I'm not allowed to answer individual bank queries, but perhaps I'll just quote some rules so that you can make your own assessment. First of all, again, when you look at capital and when you look at liquidity, it's not only that there needs to be a certain kind of deterioration, but you also need to assess and examine that there are no private means, that there are no prospects anymore that the situation can be turned around.

When we are talking about central bank liquidity the collateral has to be eligible, it has to be there, and it has to be given to the central bank in order for it to be able to then give central bank liquidity to the bank.

Just closer to home, what's your position on the banks that are struggling with shipping loans? How close is that issue to being resolved?

This is a very good example of what the SSM can do that others in NCAs can't do. It's about getting an overview and looking at the standards, which banks might not meet the standards in a certain area, and then raising the bar for everybody. We looked into the shipping loans, for the last two-and-a-half years. We had a special project, and made quite a few on-site inspections and off-site analyses, and established a new tool there.

In fact, it is a nice tool. It gets those supervisors' eyes sparkling. All across countries ship financing is project financing. It's an international activity, so it does not have much to do with national specificities. It rather depends on whether you have bulkers, tankers or container ships. Do you have large ships? Do you have old ships or new ships? So, it's very focused on the specificity of the project financing. We made huge progress in this area and raised the bar for many banks. We got a very good insight and took this knowledge for our NPL guidance, too, in order to ensure that banks do not only have an idea of their NPL exposure, but that they also have a strategy, that they have a governance around it. Very interesting.

Given that you now have this new, great tool and all of this information, how concerned are you? Do you think banks are making decent progress in this area?

Many banks are making decent progress in this area. We experienced this in the whole NPL topic, as such, not only shipping. When the supervisor focuses on a topic where you ask not only what kind of strategies do you have, but you ask the bank: 'What are your targets, where do you want to be in the next year, and in 2018, and 2019 and 2020? What are your tools and how do you do the workout and what kind of staff do you have?' Then this raises awareness in the banks too, and the way banks deal with these issues. It gets much more focused, especially in the NPL exposure topic we see progress made. The same we had, by the way, with Basel Committee on Banking Supervision 239. With this risk aggregation we got a lot of very positive feedback from banks saying because we compared them horizontally, we could then tell the banks: 'You are

below or above the standard'. This helped the banks quite a lot to push the issue internally.

Can we ask about the MREL, which you mentioned in relation to recovery and resolution? It seems that the large banks are on track to raise the MREL required. What about the mid-sized and the smaller banks? Are you worried about how much they have to contribute?

This is a very idiosyncratic question. It depends very much on the individual banks. I cannot tell you that everything is fine, because here and there some homework still needs to be done, and there's some time left so this is not the biggest issue. Many banks depend on the national legal environment too. It is very idiosyncratic.

Just going back to the Italian banks again, how comfortable are you? How much progress has been made on the NPL issue? Is it the case that six months down the line another Italian bank is going to be in trouble or do you think progress has been made in this area? The NPL issue has dragged on for a while.

It's very clear that the NPL topic will not be solved in two, three months, or in one year, but this is something that we need to work on in a medium-term perspective. What I think is very important – and we are working on it – is that the solutions are not only with the banks, but with the national governments too. This is also a question of the legal environment: the judicial situation is of utmost importance for the price, for the value of a NPL, and how fast a workout can be done.

We made a very interesting stocktake last year of eight of the most relevant countries in terms of NPLs.

In the stocktake we asked: 'How supportive is the legal environment and the judicial environment for a workout of NPLs? And how important is it for a country with a lot of NPLs?' We knew that it is important, but we were quite surprised just how important it is and what kind of heterogeneity we found. I'm a lawyer. I knew that it is very heterogeneous, but we found huge varieties regarding, for example, the repossession of collateral.

So, we had countries where there was collateral for the loans, but you were not able to repossess the collateral. So, in this case the collateral is worth nothing. And it is crucial how long you need for the workout, to repossess. There are countries where it is a year or one-and-a-half years, and there are countries where you need 12 years.

Just to give you an idea of the value of an NPL. When you'd like to sell NPLs, the value of these NPLs is partly driven by how fast you can do the workout.

But I think funds seeking to buy NPLs also feel a little bit tentative because of what happened in Greece, as well. I think they are more tentative about coming into Italy if their legal rights aren't fully established and can be revoked as well. I think that's also a fear for them.

That is the legal environment.

Exactly.

That is exactly what I meant. You need to have what we call in Germany legal certainty. You need legal certainty, and the certainty that you do not need ten years to go through all the judicial instances, but that you have a right already after the first court decision. And even if you have the law – and that's why I would like the countries not only to implement changes in the legal environment but the judicial one too – because if you do not have the staff to then implement the law, it doesn't help either.

If you have the laws but then you need to wait for eight years because there is no judge, it does not help either. And if there is no judge the cases pile up, and you can count them as they come in. If the number of judges does not increase, you will be queuing for eight years. Germans sometimes do not know how great our bureaucracy is. I give you an idea: it is worth money. People are profit centres. Economically it is a profit centre. I think in Germany it takes one year to get a repossession of collateral.

Thank you so much.