

Yves Mersch: Appointment hearing as Vice-Chair of the ECB Supervisory Board

Appointment hearing of Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 4 September 2019.

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Following my nomination by the ECB's Governing Council as candidate for the position of Vice-Chair of the ECB's Supervisory Board, I am grateful for this opportunity to outline the key principles that I intend to bring to the role.

I have spent more than 20 years of my career dealing with microprudential supervision in various roles, first at Luxembourg's Monetary Institute and Finance Ministry, and then as Governor of its Central Bank. During that time I helped to develop the template for modern banking supervision in my country – but I also witnessed the challenges national supervisors can face in a monetary union. This perspective proved vital when I co-led the internal preparations within the ECB for the creation of European banking supervision.

Today, the Single Supervisory Mechanism (SSM) is well established as the single banking supervisor in the euro area. If confirmed as Vice-Chair of the ECB's Supervisory Board, I am determined to uphold and strengthen this achievement.

In doing so, my approach to supervision will be based on three main pillars.

The first pillar is to transition to a more forward-looking supervision.

European banking supervision has been instrumental in tackling the legacies of the crisis: since 2014 stocks of non-performing loans, or NPLs, have declined by almost 50% and bank capital has increased significantly. But we also have to look to the future. In an environment of weak growth, banks cannot afford large inflows of new NPLs while clinging to outdated business models. Supervision must ensure that sound underwriting standards and adequate provisions are in place, that changing business models are sustainable and that upcoming risks are addressed.

The second pillar is to further increase the transparency of supervision.

Prudential supervision requires a high level of democratic accountability because its measures might have an impact on (national) taxpayers' money. So the way banks are supervised should be clear and predictable. Increased transparency also supports consistency when comparing banks' compliance with applicable supervisory principles and practices. It thereby ensures a level playing field and that all supervised institutions are treated equally.

Moreover, transparent supervisory requirements help to understand banks' risks, and anticipate supervisory actions. This in turn would strengthen market discipline.

But we need to strike a balance. Full disclosure is neither possible nor desirable. Sensitive information must remain confidential, as it could endanger financial stability if revealed.

The third pillar is to ensure the legality of supervisory action.

There are two elements to this. The first is that there are concerns that tensions could arise from having monetary policy and supervision under one roof. In my view, the clear delineation of mandates in the legal framework and the functional separation of the policy areas mitigate such risks, and I pledge to ensure that the separation principle is fully respected. It's worth

remembering that a system-wide perspective is the key advantage of European banking supervision, as it allows us to identify and react to euro area-wide linkages and spillovers. Applying national laws, on the other hand, can lead to a fragmented implementation of supervisory rules.

The second element is that we have to act within the boundaries of our mandate and respect the law at all times. Any supervisory action must remain bank-specific and be taken within the limits of relevant European legislation, which is defined by the co-legislators, i.e. the European Parliament and the Council, with further specifications from the European Banking Authority.

I look forward to answering your questions.