EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Danièle NOUY
Chair of the Supervisory Board

Mr Philippe Lamberts
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 18 August 2017

Re: Your letters (QZ-086 to QZ-089)

Honourable Member of the European Parliament, dear Mr Lamberts,

Thank you for your letters regarding the asset quality review (AQR) and early intervention measures, which were passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 24 July 2017.

Article 27 of the Single Supervisory Mechanism Regulation (SSMR)[1], together with Articles 53 et seq. of the Capital Requirements Directive IV (CRD IV)[2], provide for a professional secrecy regime under which the disclosure of confidential information related to the supervision of credit institutions by a competent authority is only permitted in those cases expressly mentioned in CRD IV.

This notwithstanding, as you refer to publicly available information on Banca Monte dei Paschi di Siena (MPS), I would like to provide you with the following clarifications: (i) while the coverage figures you mention refer to the increase in provisions in the portfolios that were reviewed under the AQR exercise, not all portfolios were selected for review; (ii) although the bank was requested to review its provisioning levels, no coverage ratio was imposed on the bank; and (iii) while 58% was the average coverage ratio for bad loans only, the coverage ratio for all non-performing loans following Banca d'Italia's 2012 AQR was 43.5%.[3] By the end of 2015, MPS's average coverage ratio for all loans stood at 48.5%, while the average coverage ratio for bad loans stood at 63.4%.

As for your question concerning the 2014 AQR findings on loans to corporates, as opposed to small and medium-sized enterprises (SMEs), please note that the "corporates" segment, as defined in the AQR, includes large SME portfolios. Of all MPS's portfolios, the large SME portfolio was undergoing the largest

[1] Regulation (EU) No 806/2014 of the European Parliament and of the Council

[2] Directive 2013/36/EU of the European Parliament and of the Council

[3] Please see page 6 of "The recent Asset quality review on non-performing loans conducted by the Bank of Italy: Main features and results".

adjustment to provisions under the AQR (totalling EUR 1.87 billion). The analysis of the bank's provisions compared to the supervisory benchmark (the AQR "challenger model") identified a need for additional provisions in all of MPS's portfolios, except for the significantly smaller retail SME portfolio.

As regards the AQR in 2014 more generally, the EBA stress-testing methodology from the same year allowed exemptions from the static balance sheet assumption for banks under a restructuring plan publicly announced before 31 December 2013 where completion of the approved restructuring plan was likely. An assessment was made of all potentially eligible banks at this time. It should be noted, however, that such eligible banks were expected to use conservative projections in line with the adverse stress test scenario. In its 2015 Annual Report on supervisory activities[4], the ECB included a section on the implementation of the capital plans that banks facing capital shortfalls as a result of the 2014 comprehensive assessment were required to submit, describing inter alia the types of measure taken.

With regard to your request concerning the use of early intervention measures (EIMs), they are regularly considered for distressed credit institutions, notably as a step in the Supervisory Review and Evaluation Process (SREP) for the weakest institutions. Although the ECB has made frequent use of the supervisory measures provided for in Article 16 SSMR, the implementation of EIMs has proved challenging so far, notably because: (i) the powers are not included in the SSMR and can only be exercised by the ECB on the basis of the respective transpositions of the Bank Recovery and Resolution Directive (BRRD)[5]; and (ii) there is significant overlap between EIMs and "regular" supervisory measures provided for in Article 104 CRD IV and Article 16 SSMR. This overlap means that some early intervention measures are also available as "regular" supervisory measures and are therefore usually adopted as such for proportionality reasons. In particular, a bank may be required to disclose early intervention measures, whereas this might not be the case for measures taken under Article 16 SSMR. In addition, please note that annotated decisions by the Supervisory Board, including decisions to apply early intervention measures, are referenced in the records of proceedings of the Supervisory Board transmitted by the ECB to the European Parliament, as laid down in the Interinstitutional Agreement between the European Parliament and the ECB[6] and under the relevant clauses on the protection of confidential information shared by the ECB with the European Parliament.

To ensure that the toolkit available to supervisors in their crisis prevention role is effective and fully usable in practice, the ECB has expressed a wish for clarification of the early intervention measures available to the supervisors under the BRRD (reduction of the overlap with Article 16 SSMR) as well as their inclusion in a directly applicable regulation.[7]

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4 "ECB Annual Report on supervisory activities 2015", available at https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssmar2015.en.pdf?76bfa705d9eb131ceed673b36b94079a

5 Directive 2014/59/EU of the European Parliament and of the Council

6 Interinstitutional Agreement between the European Parliament and the European Central Bank on the practical modalities of the exercise of democratic accountability and oversight over the exercise of the tasks conferred on the ECB within the framework of the Single Supervisory Mechanism (OJ L 320, 30.11.2013, p. 1). See, in particular, Part I.4 "Access to information".

7 See, for example, the introductory statement by Danièle Nouy, Chair of the Supervisory Board of the ECB, at the public hearing on "Updating CRR, CRD, BRRD and SRMR: the new banking legislation package" in the ECON Committee of the European Parliament on 25 April 2017, available at https://www.bankingsupervision.europa.eu/press/speeches/date/2017/html/ssm.sp170425.en.html

Concerning your question on the results of the 2016 comprehensive assessment for Rietumu Banka (Latvia), please be informed that they were not disclosed because the bank did not provide consent for their publication. This does not reflect unequal treatment: in all comprehensive assessments conducted by the ECB (2014, 2015 and 2016), the participating banks were asked to provide consent for the disclosure of their results, and the ECB informed the banks that it would only publish those for which consent had been obtained.

Yours sincerely,

[signed]

Danièle Nouy