

ECON hearing

Brussels, 14/10/2024

Introductory remarks – ECON Hearing EBA Chairperson José Manuel Campa

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Dear Madam Chair,

Dear Members of European Parliament,

Let me start by congratulating you on your election. I am very pleased to meet a few of you for the first time in person.

The EBA stands ready to support your work for decision-making by providing our advice and knowledge of the sector.

We have submitted an extensive written statement outlining past achievements over the last 12 months. Let me, therefore, focus on what lies ahead of us.

The European banking sector: looking back and ahead

Today the banking sector's capital and liquidity positions are on solid levels. EU banks' CET1 ratios have increased to 16%. Banks have a nearly 500 bps headroom above overall capital requirements and Pillar 2 Guidance. In contrast, the Tier 1 ratio, in December 2013, stood only at 11,6%.

Second, the return on equity (RoE) was only at 2,7% in 2013 while it now stands at 10,9%. Likewise, the cost-to-income ratio decreased by 7% to 56%.

EU banks may have reached their peak in profitability in an environment of changing interest rates.

Third, the NPL ratio reached an all-time low of 1,9%. To remember, ten years ago, the same ratio stood at 6,5%.

To sum up: the benign economic cycle, change in interest rates, enhanced governance and risk management, as well as regulatory and supervisory efforts have paid off. We see them reflected in the strong EU banks' fundamentals. But where do we go from here?

Looking at the current risk map, let me highlight four key risks:

- First one is geopolitics. In fact, we are reminded every day when watching the news. And we see geopolitically motivated cybercrime increasing in frequency. Targets of cyber warfare are as well banks, companies and infrastructure. Generally speaking, it is not a question of *if* but *when* cyber criminals may strike successfully.
- On the credit side, real estate vulnerabilities, especially for commercial real estate, feature prominently. Those may provoke a ripple effect.
- We also see that non-bank financial intermediation entities, so-called ‘shadow banking’, are growing. This is an area of concern via direct and indirect exposures to EU banks.
- Finally, technology investment and industry transformation continue to be a challenge. Investments on innovation, cyber resilience and data security are needed to ensure business models in the medium term.

Regulatory landscape for banks: Basel III, sustainable finance and market discipline

Moving to reflections on the regulatory landscape.

Basel III negotiations concluded seven years ago. It is now for us to ensure the faithful implementation of Basel III in the EU *because* our memory of global crisis is fading. As EBA, we have laid out a phased EBA Basel III Roadmap to develop, discuss and consult on in full transparency on all mandates. We are committed to timely implementation. But we also recognise the EU Commission’s need to act on the Fundamental Review of the Trading Book (FRTB) in view of global implementation efforts.

Going forward, we should build on the EBA’s analytical work on the interaction of the different capital requirements and capital buffers to develop the framework and provide clarity where needed.

A key EBA project to force on transparency and market discipline is the Pillar 3 hub. By centralising the prudential disclosures of all banks, the hub will improve on efficiency and should be up and running during the second half of 2025. We continue our close cooperation to advance a harmonised, proportionate and fit-for-purpose reporting system with National Supervisory and Resolution Authorities and Central Banks, the EBA, the European Central Bank (ECB), the EU Commission (EC), the Single Resolution Board (SRB), and the banking industry itself.

Also in 2025, the EBA will run a new stress test exercise to enhance transparency and comparability across EU banks.

Looking at the sustainability agenda, we are pushing for progress mainly on two fronts. First, the EBA guidance on ESG risk management will help institutions integrate ESG risks into their frameworks, set minimum standards, methodologies and clarify content of the transition plans. Second, the dissemination and collection of comparable ESG-related risks’ disclosures across all banks remains a priority.

Regulatory landscape for payment services, crypto-assets and operational resilience

The EBA’s regulatory perimeter is reaching beyond banks.

As the financial services’ landscape changes, the EBA is also adapting its mission and tasks.

Let me stress three developments.

- You know already about our common ESAs' work on DORA to address cyber resilience.

Also, we just evidenced an increase in new emerging fraud risks in the payment area, such as social engineering and technical scam. The proposals of the Payment Services Directive (PSD3) and the Payment Services Regulation (PSR) are an important step to better tackle cyber and other emerging risks.

- Second, the digital transformation is impacting the whole value chain, including stablecoins on the product offering side.

The EBA is currently preparing for taking on its supervisory role for issuers of significant Asset-Referenced Tokens (s-ARTs) and Electronic-Money Tokens (s-EMTs) to ensure level playing field and avoid regulatory arbitrage or forum shopping. In preparation to that, we exchange on supervisory practices, experiences and future actions with the EC, the ECB and the European Securities and Markets Authority (ESMA).

- Third, in 2025, the Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA) will sit at the centre of the anti-money laundering (AML) framework in the EU.

As a result, the EBA will be handing over AML/CFT stand-alone mandates and resources attached to it. To enable a successful start for AMLA, we are taking several steps to facilitate the smooth transition and advising the EC on important aspects of the new regime.

Next EU priorities

Let me conclude by offering you our full support on your policy initiatives to build a stronger Single Market for the financial sector in the EU. In my opinion, three actions are essential:

- Enhancing the Banking Union by advancing in bank resolution policies, and enhancing deposit insurance at EU level.
- Removing barriers to cross-border banking activities and,
- Strengthening of link between bank and capital markets through securitisation and more active capital markets.

Only by putting the larger set of reforms in motion, we will fully unlock the potential of the EU Single Market.

Thank you for your attention and I am of course ready to answer any questions you may have.