EUROPEAN CENTRAL BANK

BANKING SUPERVISION

**Danièle NOUY**
Chair of the Supervisory Board

Mr Sven Giegold
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 15 August 2017

**Re: Your letters (QZ075 and QZ076)**

Honourable Member of the European Parliament, dear Mr Giegold,

Thank you for your letters regarding Banca Monte dei Paschi di Siena (MPS), 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.

As laid down in the Interinstitutional Agreement between the European Parliament and the European Central Bank (ECB), any reporting obligations vis-à-vis the European Parliament are subject to the relevant professional secrecy requirements, as outlined in the Capital Requirements Directive IV (CRD IV).[1] While I cannot disclose any confidential information relating to MPS, let me nevertheless provide you with some relevant considerations in response to your questions, to the extent that they concern the ECB's competences regarding prudential supervision.

A comprehensive assessment (including an asset quality review (AQR) and a stress test) was conducted from August to October 2015 ahead of the precautionary recapitalisations carried out in Greece in December 2015, as required by the IMF and ESM-supported programmes. In the case of MPS, the results of the EBA 2016 stress test, which are now publicly available,[2] were used for the purpose of precautionary recapitalisation. As the EBA 2016 stress test exercise was not accompanied by an AQR, AQR results were not available when confirmation of solvency was requested.

We note that the Bank Recovery and Resolution Directive (BRRD) does not provide for an AQR as a prerequisite for precautionary recapitalisation. Precautionary recapitalisation is available "to address capital shortfall established in the national, Union or SSM-wide stress tests, asset quality reviews or equivalent exercises conducted by the European Central Bank, EBA or national authorities" (Article 32(4) BRRD). Of

1 Directive 2013/36/EU of the European Parliament and of the Council.

2 https://www.eba.europa.eu/documents/10180/1532819/2016-EU-wide-stress-test-Results.pdf

course, AQRs are very useful, as we have also seen from the experience with the recapitalisation of Greek banks, in the context of precautionary recapitalisations.

The experience gained from the different cases will be beneficial going forward, and lessons learned can serve as a basis for further improvements to the precautionary recapitalisation framework .

While I cannot comment on MPS's restructuring plan, you may find the overview provided in the bank's press release of 5 July 2017[3] helpful. Regarding your question on the expected losses on the disposal of MPS's portfolio of non-performing loans (NPLs), I would again direct you to the press release of 5 July 2017, which provides a detailed overview of the losses arising from NPL disposals (page 6) and the key areas of the bank to be restructured.

Finally, let me add some considerations in response to your question on the supervisory toolbox available for addressing NPLs. As I also mentioned during recent hearings at the European Parliament's Economic and Monetary Affairs Committee[4], supervisory powers to address the problem of NPLs should be strengthened to support their ability to effectively address current high NPL stocks and prevent high levels of NPLs building up in the future. In particular, powers allowing supervisors to address insufficient provisioning from a prudential perspective should be strengthened. This could be done by explicitly allowing supervisors to require deductions from banks' own funds where the accounting treatment applied by the bank is considered not sufficiently prudent from a supervisory perspective.

Such provisioning powers are necessary to ensure that non-performing assets are adequately valued and that banks do not overstate their capital levels.

Against this background, we welcome the fact that the *ECOFIN Council its conclusions on an action plan to tackle non-performing loans in Europe*, as adopted on 11 July 2017, has invited the Commission to issue an interpretation of supervisory powers with respect to banks' provisioning policies for NPLs. Let me stress, however, that in our view such an interpretation will only deliver a partial and temporary fix. We are therefore particularly pleased that the Council will consider an amendment to Article 104 CRD IV in order to ensure that the necessary powers are available to supervisors, including the possibility for own fund deductions to be made where required. We consider such legislative amendments the best way to provide legal certainty.

Yours sincerely,

[signed]

Danièle Nouy

3 http://english.mps.it/media-and-news/press-releases/ComunicatiStampaAllegati/2017/CS%20Restructuring%20Plan%20ENG%20v17clean.pdf

4 E.g. https://www.bankingsupervision.europa.eu/press/speeches/date/2017/html/ssm.sp170619_1.en.html