EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Andrea ENRIA
Chair of the Supervisory Board

Mr Markus Ferber
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 6 August 2019

Re: Your letter (QZ037)

Honourable Member of the European Parliament, dear Mr Ferber,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 12 July 2019.

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 (CRD IV)[1]. Let me nonetheless provide you with some relevant considerations in response to your questions, to the extent that they concern the ECB's competences regarding prudential supervision. I would also like to draw your attention to the letters sent in August 2017 to Mr Sven Giegold (QZ075 and QZ076) and Mr Philippe Lamberts (QZ086 to QZ089).

We note that the Bank Recovery and Resolution Directive (BRRD)[2] establishes, pursuant to Article 32(4) that extraordinary public financial support shall, among other things, be confined to solvent institutions and not be used to offset losses that an institution has incurred or is likely to incur in the near future.

First, at the time of the precautionary recapitalisation Banca Monte dei Paschi di Siena (MPS) fulfilled the applicable minimum capital requirements. The ECB also confirmed that the bank had no shortfall under the baseline scenario of the relevant stress test. It confirmed that the bank had a capital shortfall under the adverse scenario of this stress test and determined the amount of the shortfall on the basis of this exercise.

1 Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L176, 27.6.2013, p. 338).

2 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (OJ L173, 12.6.2014, p. 190).

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This was then used by the European Commission to calibrate the respective involvement of the public and of the private sector in the precautionary recapitalisation.

The approach followed was explained in a Q&A published on the ECB Banking Supervision website[3] at the time the MPS solvency statement was provided.

Second, as regards the requirement of the BRRD that extraordinary public financial support should not be used to offset losses that a bank has incurred or is likely to incur in the near future, let me highlight that the outcome of the credit on-site inspection (OSI)[4] was taken into account in the decision following the Supervisory Review and Evaluation Process (SREP). This was in turn shared with the European Commission before it issued the decision on the granting of State aid, and thus was used for the purpose of the precautionary recapitalisation. Indeed, the need for additional provisions revealed by the OSI report of June 2017 (based on a portfolio reference date of 31 December 2015) was considered to largely overlap with (i) losses already booked by MPS in its financial statements as at 31 December 2016 and 31 March 2017, or (ii) losses estimated to arise from the bad loans disposal requested by the European authorities as a key pillar of the restructuring plan underlying the precautionary recapitalisation of MPS. These overlaps were confirmed by MPS and supported by its external auditors. Where no overlap could be confirmed, the ECB asked for the provisions to be booked.

As stated in its decision on the granting of State aid[5], the European Commission concluded that the precautionary recapitalisation (capital support) was not used to offset losses that the bank had incurred or was likely to incur in the near future.

In conclusion, let me stress that the ECB, acting in compliance with the applicable legal framework, exercised its supervisory tasks in full independence from any undue influence or interference. The ECB's decision-making process also complied fully with the principle of separation between its supervisory and monetary policy functions, as foreseen in Article 25 of the SSM Regulation[6].

Yours sincerely,

[signed]

Andrea Enria

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[3] See "What is a precautionary recapitalisation and how does it work?", ECB, 27 December 2016.

[4] The inspection, which had a reference date of 31 December 2015, started in May 2016 and ended in February 2017. The final OSI report was sent to MPS in June 2017.

[5] See "State Aid SA.47677 – Italy: New aid and amended restructuring plan of Banca Monte dei Paschi di Siena", European Commission, C(2017) 4690 final, 4 July 2017.

[6] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).