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Opening statement by Mr Gerry Cross, Director of Policy and Risk
Central Bank of Ireland
On Commission proposals (2016) 850-854
At the Joint Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach
9th March 2017

Chairman, Committee members,

As the reform package being discussed maintains the principle of operational separateness between supervisory and resolution authorities, the Central Bank is represented today by senior staff from both authorities. I am joined by my colleague, the Head of Resolution, Patrick Casey.

The Central Bank in general welcomes these proposals. The package will finalise important elements of the post-crisis financial reform package. It seeks to reduce risks in the financial sector and enhance market confidence to enable further progress towards Banking Union. The proposals recognise the importance of bank funding to households and business in the EU and include a focus on proportionality in respect of smaller, less complex firms.

A number of changes are also proposed to the bank resolution framework. As the IMF noted last year, the framework has, together with the Single Resolution Mechanism (SRM), significantly strengthened the resolution regime in Ireland and the EU.

The Department of Finance has provided an overview of the Commission's proposals and I do not propose to duplicate that here.

In respect of the Capital Requirements Regulation and Directive (CRR/CRDIV), we welcome the proposal to introduce the Net Stable Funding Ratio as a harmonised binding requirement at EU level to ensure that banks and systemic investment firms have sufficient stable funding to reflect the profile of their business.

The leverage ratio is an important prudential back-stop measure, allowing risk-sensitive approaches to function while providing an appropriate baseline requirement.

Work carried out by the European Banking Authority indicates that the impact of these measures will not be disproportionate.

As you know, since the initial CRDIV/CRR package was finalised, there has been the major change represented by the introduction of the Single Supervisory Mechanism (SSM) for the prudential supervision of credit institutions in the Euro area. The SSM Supervisory Board, of which the Central Bank is a member, has been consulted on the Commission's proposals for the purposes of an ECB Opinion on the package, which is currently being drafted.

The Central Bank, in its engagement on the proposals, seeks to ensure that they reflect appropriate levels of soundness and resilience while reflecting the importance of adequate and sustainable sources of finance for households and business.

In particular, the Central Bank is focused on the following issues:

- The proposal to extend the scope of the waiver from capital requirements to cover subsidiaries in different Member States in the "Banking Union". To the extent that Ireland hosts subsidiaries of banks in other SSM jurisdictions, our concern relates to the fact that these entities may not be appropriately capitalised on a stand-alone basis;

- It is proposed to narrow the scope of Pillar 2 capital add-ons. We are very much opposed to this. We believe that supervisors need to retain the appropriate flexibility to adequately address emerging and evolving risks, as well as existing risks identified in the course of supervisory reviews;

- It is also proposed that Pillar 2 could no longer be used to address macro-prudential or systemic concerns. While Pillar 2 should ideally be about additional capital for bank-specific risks, we think the proposed change may be premature given that the Commission has yet to publish proposals following its review of the macro prudential framework;

- While we support enhanced proportionality, including to reporting, the proposal to allow smaller institutions to report on an annual as opposed to a quarterly basis would in fact not be helpful. Regular reporting is the basis upon which a proportionate approach to supervision can be implemented. A more effective approach would be to reduce the amount of information requested rather than the frequency.

As far as the resolution framework is concerned, the proposal includes the Financial Stability Board's Total Loss Absorbing Capacity (TLAC) standard as a Pillar 1 requirement, but for the largest global systemically important banks only.

Other institutions, including the Irish domestic banks, will be subject to a Minimum Requirement for Own Funds and Eligible Liabilities (MREL), the calibration and application of which has been revised in this package. Many of the revisions should in general be welcomed, as they provide additional clarity. However, we do have a number of reservations with the proposed calibration, including on the reduced flexibility in setting an appropriate level of MREL and the approach taken for the subordination of bail-inable liabilities.

Another key change to be introduced in this package is the partial harmonisation of the creditor hierarchy in insolvency and resolution. This proposal, which relies on contractual provisions, is clearly well intentioned; however, we feel that an opportunity may be missed to introduce a fully harmonised statutory regime which could also provide safeguards and preference to all deposit holders.

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