



EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI
President

Mr Mario Borghezio
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 6 January 2015

L/MD/15/1

Re: Your letter (QZ-40)

Honourable Member of the European Parliament, dear Mr Borghezio,

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 6 November 2014.

Please note that the ECB's comprehensive assessment in fact included a thorough review of trading book risks. As part of the asset quality review, core trading book processes of banks holding material trading book exposures were scrutinised. This work entailed, among other elements, the review of the validation of pricing models, credit valuation and other fair value adjustments, independent price verification, profit-and-loss analysis, and the internal process for the approval of new products. This qualitative review was combined with a revaluation of the most important complex trading book products, the so-called Level 3 exposures, and with a detailed challenge of the calculations of the credit valuation adjustment.

The stress test examined the resilience of the banks to baseline as well as an adverse macroeconomic scenario. It was carried out according to the harmonised methodology developed by the European Banking Authority (EBA). Banks holding material trading book exposures were required to carry out a full revaluation of the trading books under five scenarios, one of which was consistent with the macroeconomic adverse scenario of the exercise, and four which replicated historical crisis episodes. The banks in question were required to use the average of the two worst outcomes of the revaluation as their stressed trading loss.

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Finally, please note that the ECB is currently analysing the capital plan submitted by Monte dei Paschi on 10 November 2014. It should be noted that shortfalls identified in the stress test under the adverse scenario are expected to be covered within nine months from the publication of the results on 26 October 2014.

Yours sincerely,

[signed]

Mario Draghi