



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI

President

Mr Luke Ming Flanagan
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 16 January 2019

L/MD/19/005

Re: Your letter (QZ-067)

Honourable Member of the European Parliament, dear Mr Flanagan,

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 1 August 2018.

In line with the provisions of the Treaty on the Functioning of the European Union (TFEU), the primary objective of the ECB is price stability and, without prejudice to this objective, the support of the general economic policies in the Union.¹ Nevertheless, since its establishment, the ECB has been monitoring financial stability in the euro area, as reflected in publications on potential risks to euro area financial stability.² Also in line with the TFEU, the ECB issues opinions when consulted on draft financial legislation at the EU and Member State levels,³ and promotes the safety and efficiency of payment, clearing and settlement systems.⁴

Article 127(5) of the TFEU states that the ECB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the

¹ Article 127(1) of the TFEU.

² Since December 2004 the ECB has been publishing its "Financial Stability Review" (FSR) on a semi-annual basis, which provides an overview of potential risks to financial stability in the euro area, with the aim of promoting awareness in the financial industry and among the general public of euro area financial stability issues. Since March 2007 the ECB has also been publishing an annual report entitled "Financial integration in Europe", which analyses and promotes European financial integration.

³ On the basis of Article 127(4) of the TFEU, the ECB issues opinions when consulted (i) by the EU legislator on any proposed Union act in its fields of competence, including opinions on EU draft financial legislation falling within such fields; and (ii) by the national legislators of the EU Member States (excluding the United Kingdom) on draft legislation falling within the ECB's fields of competence, including legislation applicable to financial institutions insofar as it materially influences the stability of financial institutions and markets.

⁴ In accordance with Article 127(2) of the TFEU.

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financial system. However, prior to 2010 the ECB had no competences in respect of prudential oversight, which remained within the purview of the Member States. Indeed, a common European macroprudential surveillance framework – including pre-emptive macroprudential policies at the Member State level – and a common European microprudential surveillance framework have only emerged in recent years, owing to the experience from the financial and economic crisis.

As you point out in your letter, the institutional banking architecture was reformed on the basis of the so-called “de Larosière Report”.⁵ This led to the establishment of the European System of Financial Supervision in 2010. First, the European Systemic Risk Board (ESRB) was set up by Regulation (EU) No 1092/2010,⁶ with responsibility for macroprudential oversight; and Council Regulation (EU) No 1096/2010⁷ conferred specific tasks upon the ECB concerning the functioning of the ESRB, among them ensuring the ESRB Secretariat. Second, the European Banking Authority was set up by Regulation (EU) No 1093/2010,⁸ with the role of promoting regulatory and supervisory convergence in the EU banking sector. The European Insurance and Occupational Pensions Authority (EIOPA)⁹ and the European Securities and Markets Authority (ESMA)¹⁰ were also created and tasked with promoting convergence in their respective fields.

Moreover, the establishment of the Single Rulebook¹¹ in 2013 and 2014 provided a single set of harmonised prudential rules, with the aim of ensuring a consistent EU regulatory framework. With the implementation of the Single Supervisory Mechanism (SSM) Regulation¹² in 2014, the ECB became the authority in charge of microprudential supervision in the euro area, with particular responsibility for the direct supervision of all institutions considered significant. The SSM Regulation also conferred specific macroprudential tasks and tools on the ECB. These include cooperation with national authorities in addressing systemic or macroprudential risks, which are inextricably linked to financial stability.

⁵ Report of the High-Level Group on Financial Supervision in the EU, Brussels, 25 February 2009.

⁶ Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board, OJ L 331, 15.12.2010, p. 1.

⁷ Council Regulation (EU) No 1096/2010 of 17 November 2010 conferring specific tasks upon the European Central Bank concerning the functioning of the European Systemic Risk Board, OJ L 331, 15.12.2010, p. 162.

⁸ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), OJ L 331, 15.12.2010, p. 12.

⁹ Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), OJ L 331, 15.12.2010, pp. 48–83.

¹⁰ Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), OJ L 331, 15.12.2010, pp. 84–119.

¹¹ The Single Rulebook refers to the set of banking sector rules laid out in Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the Capital Requirements Directive, or CRD IV), OJ L 176, 27.6.2013, pp. 338-436; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the Capital Requirements Regulation, or CRR), OJ L 176, 27.6.2013, pp. 1-337; 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 (the Bank Recovery and Resolution Directive, or BRRD), OJ L 173, 12.6.2014, pp. 190-348; and Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (the Deposit Guarantee Schemes Directive, or DGSD), OJ L 173, 12.6.2014, pp. 149-178.

¹² 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.

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Considerable progress has been made since 2008 towards creating an enhanced regulatory framework and stronger institutional architecture. At the same time, we should not be complacent. The instruments of the EU – including those of the ECB – have to be reviewed on a regular basis to ensure that the tools intended to address existing and emerging risks are available when necessary.

Yours sincerely,

[signed]

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