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An den
Präsidenten des Deutschen Bundestages
Herrn Dr. Wolfgang Schäuble, MdB
Platz der Republik 1
D-11011 Berlin

Parliamentary question addressed to the Single Resolution Board (SRB) - Your letter from 19 November 2020

Honourable President of the Bundestag, Honourable Dr. Schäuble,

Thank you very much for your letter from 19 November 2020 regarding the set of parliamentary questions by the member of the German federal Parliament, Frank Schäffler, to which the SRB replies in the following manner.

Naturally, the SRB is closely following the developments of the current COVID-19 pandemic and its potential repercussions for the economy and the financial sector. Regarding the non-performing loans (NPLs) the SRB is in close and regular contact with the supervisory authorities, which provide relevant prudential data on NPLs, as well as with the banks directly. Monitoring the NPLs is clearly first and foremost a task of the supervisory authorities, in this case the European Central Bank (ECB) and also the national authorities, which are competent for the less significant institutions under their remit. Therefore, the SRB would kindly suggest to request the detailed information regarding the NPLs from the aforementioned authorities.

This unprecedented health crisis resulted equally in large-scale interventions from governments and competent authorities, in order to support the real economy. Due to interventions such as the public guarantees for loans and the regulatory relief measures, many loans have not yet materialized as non-performing, but may do so in the future. At the same time, the support given to the real economy will “shield” the financial sector to some extent from the impact of the pandemic.

In light of the uncertainty about the duration of the pandemic, the need for mitigating measures, their eventual impact and the speed of the recovery, any assumption about the eventual impact this will have on bank balance sheets and potential bank failures is highly speculative. The ECB’s COVID-19 Vulnerability Analysis, published on 28 July, is at this stage still valid. The SRB will continue to closely monitor the situation, in order ensure crisis preparedness as the SRB does at all times. For that purpose, the SRB strongly encourages

banks to identify and address potential NPLs at an early stage and to adopt sufficient provisioning in order to ensure their resolvability.

In the meantime, the SRB will abstain from commenting on policy initiatives by the ECB or the European Commission, which are currently under development. As a more general remark, the SRB supports any initiative that will credibly and effectively reduce the NPLs, will improve the efficiency and professionalism of NPL secondary markets, and will help to mitigate the possible impact of the crisis, while protecting financial stability and taxpayers' money. Such initiatives must however also provide clarity on the associated risks and the allocation of costs. For that reason, the SRB engages for example in roundtables organised by the European Commission, which bring together key stakeholders to discuss the merits and risks of the Asset Management companies at EU level as part of a comprehensive policy response.

It is important to state that some of the tools mentioned in the public debate already exist in the current resolution framework. For instance, the provisions of the SRM-Regulation include the "asset separation" tool, which gives the power to strip bad loans from failed banks, so that they can be transferred to an asset management vehicle. Other options are the total or partial "sale of business" tool and the "bridge institution" tool. In line with the SRB's work programme 2021¹, the SRB will continue to work on the operationalisation of resolution tools other than bail-in to make sure they are available when and if necessary.

Yours sincerely,

Dr. Elke König
Chair

¹ Multi-Annual Work Programme 2021-2023 available at:
<https://srb.europa.eu/en/content/work-programme>