A. Personal and professional background

1. *Please highlight the main aspects of your professional skills in monetary, financial and business matters and the main aspects of your European and international experience.*

A lawyer by training (University of Amsterdam, University of Zaragoza, and Columbia University), I joined the Dutch Central Bank (De Nederlandsche Bank - DNB) in 1999, after four years as an attorney-at-law, specializing in European competition law. Before being appointed as a member of DNB's Executive Board in 2011, I held various management positions in Banking Supervision and Legal Affairs (including as DNB's General Counsel). I served as member of the Legal Committee of the ECB for almost a decade. As member of DNB's Executive Board, my responsibilities have included bank resolution, payment systems and banknotes, pension fund supervision, ICT and human resources. I am currently responsible for the prudential supervision of banks, AML/CFT supervision and legal affairs, and I serve as the Dutch Member of the ECB Supervisory Board.

As a member of (i) the Executive Board of DNB for more than nine years, (ii) the ECB Supervisory Board, (iii) the Basel Committee for Banking Supervision, and, previously, (iv) the Single Resolution Board, I have gained experience and knowledge across a broad range of critical areas for the ECB. In these roles I have witnessed and contributed to formulating policy responses to several crises, such as the great financial crisis, the European debt crisis and now, of course, the COVID-19 crisis.

As co-founder and Chair of the Central Banks and Supervisors Network for Greening the Financial System (NGFS), I helped the NGFS to develop into a truly global initiative, with membership of 75 central banks and prudential supervisors, including the ECB, and 13 observers, including the IMF, the World Bank and the BIS. Recent achievements of the NGFS are publications on climate scenario analysis for central banks and supervisors, and a guide for supervisors on how to integrate climate-related and environmental risks into prudential supervision. I also co-chair the Task-Force on Climate-related Financial Risks (TFCR) of the Basel Committee on Banking Supervision.

2. *Do you have any business or financial holdings or any other commitments which might conflict with your prospective duties, and are there any other relevant personal or other factors that need to be taken account of by the Parliament when considering your nomination?*

No, as underlined by my Declaration of Interests which in line with the requirements of the ECB's Single Code of Conduct is published on the ECB Banking Supervision website.

3. *What would be the guiding objectives you will pursue during your mandate at the European Central Bank?*

It is important that all European institutions including the ECB – in line with their own mandate – strive to provide stability and prosperity across Europe. By delivering on its mandate, the ECB has a central role in underpinning the success of Economic and

Monetary Union in Europe. My first objective would be to ensure that the ECB delivers on its mandate, as laid down in the EU Treaties. In the short-term, my aim would be to ensure that the ECB does whatever it can, for as long as necessary, within its mandate of maintaining price stability to overcome the current COVID-19 crisis. My second objective would be to ensure that long-term challenges such as climate change, digitalization and innovation are adequately and timely addressed. My third objective would be to actively promote the benefits of the euro and advocate for a more complete Economic and Monetary Union. This notably includes a completing the Banking Union with a European Deposit Insurance Scheme and fostering a genuine Capital Markets Union. My last objective would be to contribute to the clear communication of the ECB’s policy choices, and to a dialogue with the ECB’s stakeholders that is as open as possible.

B. ECB monetary policy

4. *In your view, how should the ECB conduct its monetary policy in the current macroeconomic conditions? How do you see the ECB's performance regarding the achievement of its primary objective of maintaining price stability?*

In the Treaty price stability is clearly established as the primary mandate of the ECB. The Treaty does not, however, give a precise definition of what is meant by price stability. In 1998 the Governing Council of the ECB defined price stability as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. Following a review of its strategy in 2003 the Governing Council clarified that it aims to maintain inflation rates below, but close to, 2% over the medium term.

The ECB has been successful in meeting its price stability objective and average HICP-inflation since 1999 has moved broadly in line with the Governing Council's inflation aim. At the same time, over the last decade inflation has fallen and subsequently moved persistently below the Governing Council's aim. In this context, the Governing Council's commitment to symmetry in its inflation aim has been important to clarify that inflation that is too low can be as worrisome for monetary policymakers as inflation that is too high. The outbreak of the COVID-19 crisis represents an additional challenge and the ECB has been very decisive in its prompt adoption of monetary policy measures to mitigate the economic consequences of the crisis and its risks for price stability.

In my assessment, the monetary policy measures currently in place, in particular, the package of measures taken since March in response to the COVID-19 pandemic, have been effective in preserving favourable financing conditions for all sectors and jurisdictions across the euro area, providing crucial support to underpin the economic recovery and to safeguard medium-term price stability. The measures introduced since March contributed to the successful stabilisation of financial markets and to the easing of the monetary policy stance, helping to counter the substantial downgrade to the inflation outlook caused by the pandemic. It ensures that all sectors, including firms, households and governments can continue to benefit from accommodative financial conditions in these difficult circumstances.

Finally, I would like to note that the ECB strategy review is ongoing and it will assess, among many other issues, the definition of price stability and the Governing Council's inflation aim and the instruments that can support it over time. To make sure that the ECB best delivers on its mandate a thorough analysis and discussion of the different instruments the ECB has deployed so far is key. In particular this entails evaluating their effects, both intended and unintended.

5. *More generally, how do you view the way monetary policy decisions have been made in the past and do you think it should be changed and, if so, how? What do you see as the most important risks and challenges facing the ECB?*

Monetary policy decisions of the Governing Council are based on macroeconomic, monetary and financial data, and on the thorough analyses carried out by ECB and Eurosystem staff. A key ingredient in the decision-making process are the quarterly projections prepared by the ECB and Eurosystem staff. They provide a solid assessment of the growth and inflation outlook and the risks surrounding this outlook.

The combination of quantitative analysis and the use of economic models are crucial in the evaluation of different policy options. This data-driven process also allows the Governing Council to make decisions that are also well understood by market participants. The Governing Council should continue this practice, while ensuring that its analytical toolkit remains fit-for-purpose in an evolving macroeconomic environment and financial landscape. At the same time, it is important to acknowledge that the challenges of tomorrow are likely to be different from the challenges that we face today. I therefore support that the ongoing strategy review will include, among other topics of interest, an assessment of knowledge gaps in the main models used for monetary policy decision-making to improve the understanding of the functioning of the economy in support of the ECB's mandate. That being said, given the complexities of our modern economies the outlook for growth and inflation will always remain subject to considerable uncertainty and cannot be steered precisely by economic policymakers, including central banks.

In this context, it is at least equally important that the Governing Council takes decisions that are well understood by the broader audience of European citizens. It should continue to outline carefully how different considerations feed into its monetary policy decisions and into its proportionality assessment for deploying a specific set of monetary policy tools. It is key that the ECB keeps constantly evaluating how its monetary policy measures achieve their intended purpose, are commensurate with the risk to the price stability objective and proportionate in their execution. Finally, to enrich its monetary policy deliberations, the Governing Council should continue to incorporate into its assessment economic considerations and concerns raised by citizens, for example to be identified by listening events, such as those now being held in the context of the strategic review.

The current COVID-19 pandemic and its macroeconomic repercussions present an ongoing challenge for the ECB and for the European Union as a whole. The ECB should continue to use all its instruments to ensure that financing conditions remain favourable to support the economic recovery and counteract the negative impact of the pandemic on the projected inflation path.

At the same time, the ECB also faces medium to long-term challenges, ranging from the design of monetary policy and a central bank digital currency to climate change. These are some of the topics in the ongoing strategy review, and I would look forward to taking part in these discussions.

6. *How do you evaluate the effects of low interest rates?*

Low interest rates have to be evaluated in the context of sustained demographic shifts, global excess savings and a slowdown in productivity growth. These developments have contributed to a decline in the equilibrium rate of interest over the last decades in advanced economies. Monetary policy mirrors this development in the equilibrium rate of interest and has in recent years provided substantial policy support to the economy to ensure that inflation converges robustly to the ECB's aim.

The persistently low interest rate environment in combination with the deployment of non-standard monetary policy tools has also raised concerns about adverse side effects of monetary policy. Side effects mentioned are related to potential disintermediation in financial markets, excessive dependence on central bank funding, a compression of interest rate margins with potential implications for bank profitability, excessive risk-taking, misallocation of resources and distributional effects. Many of these side effects are also associated with the prolonged use of accommodative standard interest rate policy. Nevertheless, owing to the direct intervention in financial markets and the impact of central banks' balance sheet expansion, the side effects of non-standard monetary policy tools could in practice be more important than those associated with conventional monetary policy.

Overall, there is clear evidence that euro area citizens continue to benefit from low interest rates. The ECB's monetary policy measures since 2014 have had a substantial impact on economic activity. This has led to more jobs and higher wages, boosting household income. Lower interest rates may lead to lower interest income and pension wealth. At the same time, households are not only savers, but also borrowers and investors and in that capacity will benefit from a decrease in interest expenses (on consumer credit and mortgage loans) and an improvement in household wealth due to higher asset prices, including house prices. There is substantial evidence that the benefits of the low interest rate environment will continue to outweigh the negative side effects. Nonetheless, even when the aggregate balance of benefits and costs of monetary policy turn out to be positive, this does not relieve the ECB from the obligation to continue to monitor closely the impact of its monetary policy measures through specific transmission channels and sectors. The principle of proportionality requires that the ECB, in pursuit of its mandate, opts for the set of instruments that allows it to deliver on its mandate while producing the fewest side effects. Since the effectiveness and side effects of measures may change over time, this should be evaluated on an ongoing basis.

The September 2019 decisions showed that the Governing Council is alert to potential side effects and prepared to respond when necessary. In order to mitigate the side effects of the ECB's negative interest rate policy amid high levels of excess liquidity, the Governing Council adopted the two-tier system to support the transmission of its monetary policy.

7. *What do you think about the ECB monetary policy response to the COVID-19 crisis? Should the Pandemic Emergency Purchasing Programme (PEPP) in your view get a more permanent character?*

Whereas the primary tool to mitigate the economic impact of the COVID-19 crisis is fiscal policy, the monetary policy measures that were taken by the ECB since March have played a key part in stabilising markets, protecting credit provision and supporting the recovery. This, in turn, safeguards medium-term price stability, in line with the ECB's mandate.

The impact of the ECB's measures on the financing conditions in the economy has a stabilising effect on macroeconomic developments: investments decline by less and jobs are preserved. Without these measures to complement the measures adopted by national governments and other European institutions, the euro area would face a much worse growth and inflation outlook, surrounded by higher tail risks.

When the pandemic hit the euro area economy at the start of the year, the ECB launched the Pandemic Emergency Purchase Programme (PEPP) with the purpose of stabilising markets and supporting the euro area economy in these challenging times. The PEPP is an instrument that is temporary, targeted and proportionate with the purpose of stabilising markets and support the euro area economy in these challenging times. To fulfil its objectives as an emergency instrument, the PEPP has been designed with greater flexibility across time, across markets and across jurisdictions compared to the ECB's existing APP. The PEPP's flexibility has been critical to stabilize financial markets in the context of the pandemic.

Its temporary nature is reflected in the horizon of net asset purchases under the PEPP, which the Governing Council said will in any case last until it judges that the coronavirus crisis phase is over. Moreover, the PEPP has been designed in a targeted way to address the specific shock and associated risks the euro area is facing during the pandemic. Hence, the calibration of the PEPP is directly linked to the evolution of the pandemic and its consequences for the transmission of monetary policy and the economic outlook, as stated by the Governing Council.

8. *How do you see monetary policy evolving at the zero lower bound?*

Conducting monetary policy when the key policy rates are near the effective lower bound is certainly more challenging. However, after policy rates reached levels close to zero following the financial crisis, the ECB has been able to provide more stimulus by balance sheet policies, forward guidance and negative interest rate policies. These instruments were considered to be unconventional as central banks lacked experience in their deployment but have proven to be potent in providing further policy accommodation to the economy.

While the ECB has gained substantial experience with tools to provide policy accommodation near the effective lower bound, they remain subject to a larger degree of uncertainty than conventional interest rate policy. This relates for example to the observation that the impact of these tools depends on the prevailing macroeconomic and financial circumstances and, thus, can vary over time, both in terms of their effectiveness but also in terms of potential side effects. This calls for careful monitoring and continuous updating of the extent to which monetary policy intervention remains proportionate. In this context, I welcome that the experiences and lessons learnt with non-standard monetary policy tools are an important element of the strategy review.

9. *What are in your view the impact and side effects of asset purchases? What are in your view the risks and benefits associated with the Corporate Sector Purchase Programme (CSPP)? How will you ensure transparency regarding the implementation of the Asset Purchase Programme (APP)?*

The ECB's asset purchase programmes, including the APP and the PEPP, have proven to be highly effective in easing financial conditions. Through their effect on financial conditions, asset purchases have had a substantial positive impact on the economy and the labour market. In addition, the ECB's analyses suggests that inflation is higher than it would have been in the absence of asset purchases, even though inflation is still lower than the Governing Council's inflation aim.

Monetary policy measures can also have side effects, in particular on financial asset prices, banks, other financial institutions, the dependence on central bank funding, the allocation of resources, housing markets, and household financial positions. Such side effects can become more pronounced the longer the measures are in place and the more intensively they are administered. It is therefore important to continue monitoring the development of such possible side effects and to make sure they do not outweigh the expansionary impact of the ECB's measures on the economy.

Accommodative monetary policy generally incentivises financial investors and intermediaries to shift into riskier assets, including providing more credit to households and firms. This is an intended effect of monetary policy (often referred to as the portfolio-rebalancing channel) as it implies that the monetary stimulus is being passed-through to sectors which do not hold or issue eligible securities and therefore do no directly benefit from purchase programmes. However, if risk taking becomes excessive, it may contribute to the build-up of financial stability risks. Monetary policy, and in particular asset purchases, could also affect market functioning by distorting price formation of bonds from underlying fundamentals and affecting liquidity conditions in some market segments. So far, analyses suggest that price formation in euro area sovereign bond markets has largely remained intact and that purchases have in fact supported market functioning in times of severe stress.

Regarding the CSPP, a clear benefit is the support that these purchases have provided to corporate funding costs and thereby corporate investment and the real economy. It has also had positive knock-on effects on the financing conditions for all euro area companies, including those that do not rely on capital markets for their financing, such as small and medium-sized enterprises (SMEs).

At the same time, it is important to monitor very closely and continuously the risks associated with the asset purchase programmes. Risks should be managed to keep them at levels that do not threaten the ECB's balance sheet, thereby protecting its capacity to fulfil its mandate.

Finally, transparency has played a central role in the APP and the PEPP by allowing market participants to better understand how the programmes are implemented. Regular disclosure of information on APP and PEPP purchases and holdings on the ECB website is therefore paramount.

10. *What do you most expect of the review of the ECB monetary policy framework? What are the main challenges for the review? Should the ECB redefine its quantitative definition of price stability target and in which way? What do you think of the Fed decision of August 2020 in that regard?*

The ECB's monetary strategy review, which was unexpectedly delayed because of COVID-19, has resumed and will be an important focus over the coming year. I expect a broad and open-minded discussion, incorporating also how considerations such as financial stability and climate change may impact price stability in the medium term.

The review process is split into a sequence of debates within the Governing Council, supported by seminars prepared by Eurosystem staff, taking into account the views gathered from other stakeholders. On this I believe that the input by the European Parliament is particularly relevant and I welcome the fact that the ECB President has agreed to interact more closely in the context of the ECB's strategy review and ensure that the regular dialogues between the ECB and the European Parliament play a key role.

The Governing Council seminars will be supported by in-depth preparatory work carried out by ten dedicated Eurosystem workstreams. The workstreams cover a wide range of topics: inflation measurement, the ECB's price stability objective, Eurosystem modelling, globalisation, digitalisation, climate change, financial stability and macroprudential policies, non-bank financial intermediation, communication and the interaction between monetary policy and fiscal policies.

The aim of the ECB's strategy review is to make sure the ECB's monetary policy strategy is robust and fit for purpose, both today and in the future.

The precise definition of our primary objective will figure very prominently in the strategy review exercise. A clear formulation of what the Governing Council strives for is imperative in its pursuit of price stability. This also facilitates transparency and accountability for monetary policy decisions that have been taken.

In the light of the ongoing strategy review, it would be premature to draw conclusions on this, as well as of any of its aspects.

Finally, the recently revised Statement on Longer-Run Goals and Monetary Policy Strategy of the Fed outlines a new strategic framework that includes significant changes relating to both sides of the Fed's dual mandate – maximum employment and price stability. I have taken note of the Fed's review with great interest and look forward to engaging in the strategy review of the ECB. I should note that within its mandate the ECB conducts its own, independent review, and the strategy reviews of other central banks (including the Fed) should not be seen as having direct implications for the ECB strategy.

11. *How do you evaluate the current understanding of inflation dynamics and the main factors driving inflation movements in recent years? Do you think that inflation is under-estimated in the euro area due to an inadequate share of housing costs in the HICP basket? Would you call for a re-adjustment of the basket?*

Understanding inflation dynamics as well as the main drivers of inflation, and how they evolve over time, is crucial for the ECB. For monetary policymakers, obtaining a complete understanding of inflation dynamics has proven to be a bigger challenge than before as many different factors in addition to monetary policy are influencing inflation simultaneously. In this respect, the ECB needs to be open to different explanations for low inflation that could very well all be of relevance simultaneously but could call for a different policy response.

Let me refer as an example to the Low Inflation Report that was published in 2016. It highlights two types of forces that shape inflation dynamics. First, structural factors that change the way our economy works can explain longer term trends in inflation. Most notably, these include globalization, the declining bargaining power of labour, technological progress and demographic trends. Second, shocks – either from the supply side or the demand side – can influence inflation dynamics through different channels.

At the present moment, the challenge in understanding inflation is to gauge the shorter and longer-term impacts that the pandemic has on inflation and in particular on core inflation.

The Harmonised Index of Consumer Prices (HICP) compiled by Eurostat ensures that all the countries in the European Union follow the same methodology. HICP inflation represents a high quality price index and has performed well in many dimensions, but it is not perfect. This is why I welcome that several improvements in the HICP methodology have been introduced over the years and that the ECB's strategy review will also look into the issue of inflation measurement. Including owner-occupied housing in HICP calculations to cover all housing-related consumption expenditures could potentially be an important improvement that also better corresponds to how European citizens experience inflation in their day-to-day lives.

However, there are technical challenges to incorporate owner-occupied housing, and no first-best solution is available. I would look forward to engaging in the strategy review to exchange views on how these challenges could be addressed.

In practice, as suggested by preliminary calculations based on an experimental Owner Occupied Housing indicator, incorporating it into the HICP would have only a limited impact on average inflation.

12. *What is your view on the heterogeneity of monetary conditions and access to credit across the euro area and its impact on unitary monetary policy of the ECB, in particular following the economic divergence trends induced by COVID-19?*

Whereas there will always be some differences in financing conditions between euro area Member States, reflecting structural differences and differences in the economic outlook, after the COVID-19 crisis hit the euro area economy, there was a clear risk of fragmentation that would increase divergence to such an extent that it would no longer be consistent with a smooth transmission of the ECB's accommodative monetary policy to all sectors and jurisdictions.

The measures introduced since March, and in particular the PEPP and the TLTRO III have been designed to support transmission to all sectors and jurisdictions of the euro area economy. Estimates indicate that the PEPP, together with the additional EUR 120bn APP envelope announced in March, had a significant impact in reducing the term premium in the 10-year euro area average sovereign yield, which is an important component of long-term interest rates in general. The impact has differed across countries, with a distinctly stronger decrease for those countries that have been most severely hit by the pandemic.

Take-up in the June and September TLTRO III operations (together close to EUR 1.5 trillion) was unexpectedly high and widespread. According to the October 2020 euro area bank lending survey (BLS), banks indicated that the TLTRO III liquidity strongly supports their lending, in particular to firms. Banks also indicated that the TLTROs have a positive impact on their liquidity position and market financing conditions and an easing impact on the terms and conditions offered to borrowers. The TLTROs have thus contributed to a more uniform transmission of the ECB's monetary policy.

A more uniform recovery from the crisis would support the effectiveness of monetary policy in the euro area. The Governing Council tailors its monetary policy decisions to developments of the euro area economy as a whole, but also needs to make sure that its monetary policy reaches all parts of the economy and all jurisdictions in the pursuit of its price stability mandate.

In the pursuit of a more uniform recovery, fiscal policy is essential. The European Commission's Next Generation EU recovery plan, for instance, will play an important role in trying to re-establish a level playing field and support those that have been worst hit by the pandemic.

I therefore strongly welcome this plan, which will strengthen the Single Market and build a lasting and prosperous recovery, while supporting the EU's green and digital priorities.

13. *How in your view can the ECB contribute to economic growth, ecological transition and full employment while fully complying with its primary objective to maintain price stability? Are there in your view possible additional monetary policy measures that would improve the positive effects on the real economy?*

As enshrined in the Treaty, the primary objective of the ESCB is to maintain price stability. However, “without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2.” So clearly monetary policy can play a crucial role in supporting the real economy. In fact, in the current environment, in which demand is weak and inflation is below levels consistent with the Governing Council’s inflation aim, monetary policy is key to supporting both economic growth and inflation.

Supporting household consumption and firm investment is a crucial transmission mechanism for monetary policy to achieve its price stability objective. There is ample evidence that the monetary policy measures taken since mid-2014 have had a substantial impact on employment, incomes and growth.

Moreover, the measures taken since March 2020 on asset purchases and on the TLTRO parameters will provide significant support to the economic recovery and have mitigated worst case outcomes.

The ongoing ECB strategy review will provide an opportunity to gain a better understanding of how the longer-term trends might affect variables we monitor regularly and seek, to some extent, to control. Among these trends, demographic transition, disruptive technological change and global warming are certainly prominent.

14. *To what extent do you consider tackling climate change and other sustainability issues as being part of the ECB's mandate? What are your views on the impact of the ECB policy on climate change? Do you think the ECB should bring its asset purchases in line with the UN's sustainable development goals and the Paris climate agreement? Should the ECB's asset purchase programmes be in line with EU taxonomy framework? What role would the ECB play in the Network for Greening the Financial System (NGFS)? How can the key recommendations of the NGFS comprehensive report "A call for action Climate change as a source of financial risk" which are directed to central banks be put in practice by the ECB? To what extent do green bonds in your view contribute to decarbonisation, and how do you assess recent research by the Bank for International Settlements (BIS) in this regard (https://www.bis.org/publ/qtrpdf/r_qt2009c.pdf)?*

In order to accelerate the transition to a carbon neutral economy, it is crucial that governments, central banks, supervisory authorities and financial institutions take firm and decisive action. All these entities have a specific role to play. As the economy still largely depends on fossil fuels, a fundamental reorientation is called for. With their climate policies, governments are the driving force behind this reorientation. Europe is already at the forefront in terms of climate action. By signing the Paris agreement European governments have committed themselves to intensify policies and investments needed for a sustainable low carbon future. The EU has launched its Green Deal and delivered excellent work by introducing the taxonomy for sustainable activities enhancing the transition. Finally, the EU has undertaken crucial structural changes to restore efficient market functioning by introducing the emission trading system (ETS) and the non-financial reporting directive (NFRD).

While I praise the work done by the EU so far, I would like to emphasize that a lot still needs to be done. In order to achieve the Paris objectives, it is essential to move towards a sustainable global economy much more quickly than is currently the case. Two key factors currently slowing down the transition are firstly the fact that companies still have insufficient financial incentives to reduce their emissions and secondly that financial intermediaries face data challenges in order to optimally take climate change into account while making investment decisions.

While creating the conditions for the transition to a carbon neutral economy is first and foremost a task of democratically elected governments, and carbon pricing remains the primary tool for this, all stakeholders have a specific role to play in the energy transition, including the ECB. The starting point for the supervisory tasks of the ECB is the risk perspective. Supervisors have already widely recognised that both the transition and climate change are sources of financial risks, which should be addressed and managed. This is not only true for transition and climate-related risks, but also for broader environmental and social risks.

The starting point for the monetary task of the ECB is its price stability objective. "Without prejudice to the primary objective of price stability" the ECB shall support the general economic policies in the Union. These policies include a high level protection and improvement of the quality of the environment and the policy priorities underlined by the EU, including the Green Deal. Given the EU ambitions and commitments, the ECB has a duty to support these policies, provided that it can do so without prejudice to its price stability objective. Of course, also in this context, the ECB has to act in line with the principles of proportionality and institutional balance. Against this backdrop, I believe there are at least three angles from which climate change is of relevance for monetary policy.

First, climate change and its mitigation will increasingly affect key macroeconomic variables for the conduct of monetary policy. Moreover, climate change could affect the transmission channels of monetary policy. This may require central banks, including the ECB, to update their analytical toolkit by adding climate risks to their macroeconomic models, forecasting tools and their operations.

Second, given the increased presence of ECB in the financial markets the ECB should carefully assess the impact of its non-standard measures on the EU's ambition to move towards a low-carbon economy. The design of TLTROs and the asset purchase programs have important implications on the capital allocation in the economy and it is important that these policies are "future proof", without compromising the effectiveness of monetary policy in attaining the primary objective.

It would be an important step to acknowledge that acting in accordance with the principle of an open market economy, does not necessarily imply that the ECB should under all circumstances strictly adhere to market neutrality, in particular in the presence of market failures as has recently been highlighted by ECB Executive Board Member Isabel Schnabel. Moreover, the ECB could explore how within its mandate its instruments can be designed to contribute to unlocking investments that support the transition to a carbon-neutral economy. Existing EU policies, such as the NFRD and the taxonomy for sustainable activities, can be taken as a starting point in this respect.

Third, the ECB should also adequately reflect climate-related risks in its risk mitigation frameworks and should be transparent on its exposures – as recommended by the NGFS. For monetary portfolios, the ECB relies to a large extent on credit rating agencies' opinions on how to assess credit risk. Therefore, the ECB needs to engage with them to see if climate change-related risks are well reflected in their judgement. In so far as the ECB and national central banks make their own credit assessment, they need to do this themselves. Given the broad activities of the ECB, I am well aware that data availability is crucial but challenging. This also underlines the importance of the NFRD. In so far as relevant data are missing, the ECB may explore whether it can play a role in fostering the publication of climate-related data by its counterparties, for example, by making such publication by its counterparties a requirement for engaging in monetary policy operations. In this respect, let me reiterate a point that was made by both the NGFS and the Eurosystem: a green taxonomy, i.e. a taxonomy of sustainable activities by reference to climate change, biodiversity and the other environmental objectives, such as the one recently adopted and being developed in the EU, is essential to prevent greenwashing and ensuring that products such as green bonds effectively contribute to environmental objectives. In this respect, the ongoing Commission work on the development of a Green Bond Standard by reference to the EU taxonomy is also fundamental. But to properly assess the exposure to climate-related risks, a taxonomy of those activities most exposed to the transition to a low carbon economy is perhaps of even greater relevance for central banks and supervisors. In this vain I would like to praise the recent research by the Bank for International Settlements (BIS) introducing a framework for green ratings.

To conclude, I am very pleased with the fact that this topic is an integral part of the on-going strategy review of the ECB to which I expect to be able to contribute.

15. *Which role do you think the ECB should play in addressing virtual currencies? Which chances and risks do you see with regard to virtual assets? What is your view on central bank digital currencies, and associated risks and benefits? What would you consider an appropriate regulatory framework for virtual currencies (and "stable coins" in particular) to look like? Should the ECB in your view launch a digital euro? If so, what should it look like and how would you address the risks that could come with such a currency, including possible risks of bank runs and privacy related issues?*

Crypto-assets[1] that do not represent a claim on any entity are inherently volatile and do not possess the characteristics of money. Although these crypto-assets pose risks to investors and can be used for illicit activities, they do not currently pose a material risk for the EU financial system or monetary stability. The ECB should continue monitoring crypto-assets to keep this risk assessment up-to-date in light of market developments.

Crypto-assets that purport to maintain a stable value, by referencing (i) one fiat currency or (ii) several fiat currencies or one or several commodities or one or several crypto-assets, or a combination of such assets, known as e-money tokens and asset-referenced tokens respectively, under the European Commission's proposal for a Regulation on Markets in Crypto-assets, (MiCA), could theoretically be used as means of payments and even as store of value. Furthermore, some such token initiatives could rapidly achieve a global footprint by leveraging existing user-bases.

E-money or asset-referenced tokens that become significant, within the Union or on a global level, present both opportunities and challenges. They could help overcome the shortcomings in speed and costs of global cross-border payments. At the same time, they can threaten monetary and financial stability and sovereignty, affect the safety and efficiency of payment systems, as well as pose a host of other issues related to, among others, money laundering/terrorist financing, competition, data protection and consumer protection.

For its part, the ECB should play a role by ensuring that systemic asset-referenced and e-money tokens do not undermine euro area strategic autonomy and resilience of the payments system. As overseer of the payments system, the ECB should, together with euro area central banks, apply the relevant Eurosystem oversight frameworks for payment systems, payment schemes and arrangements to mitigate risks of e-money or asset-referenced tokens. Moreover, the ECB should cooperate with the EBA and the competent authorities and participate in the colleges of significant money or asset-referenced tokens.

An appropriate regulatory framework for e-money and asset-referenced tokens should be inspired by the principle of "same business, same risks, same rules". It should ensure a level-playing field by subjecting e-money and asset-referenced tokens with a potential to be used as general-purpose payment instruments to equivalent requirements. A framework should furthermore mitigate any risks for financial stability, monetary policy and sovereignty, and consumer protection, among others, that such tokens pose. MiCA

[1] A digital representation of value or rights which may be transferred and stored electronically, using distributed ledger or similar technology.

is a good first step in regulating crypto-assets, including stablecoins, which are not already covered by existing EU legislation, as they do not qualify as a financial instrument under MiFID II, or e-money under EMD, for example. It will also help in avoiding arbitrage between EU jurisdictions. The ECB also just published its new framework for the oversight of electronic payment instruments, schemes and arrangements, the so-called PISA framework, for public consultation. The new framework likewise aims at ensuring the principle of "same business, same risks, same rules" in a proportional manner and also addresses e-money and asset-referenced tokens.

As also discussed in the recent report on digital euro prepared by the Eurosystem High-Level Task Force on Central Bank Digital Currencies, the latter are a powerful tool for central banks to deal with some of the challenges and needs arising in the context of the digitalisation of our societies and economies. In particular: i) as new payment needs arise, a digital euro would provide a risk-free digital asset to fulfil these needs; ii) in the event of a significant decline in the use of cash as a means of payment, a digital euro would provide a digital equivalent of euro legal tender banknotes, complementing the role of cash; iii) in view of the possible rise of private or foreign public digital currencies, a digital euro would help preserve monetary and financial stability and sovereignty. It is important to highlight that a digital euro – if it were to be introduced - would be introduced alongside cash, it would not replace it. Moreover, it would require a sound legal basis.

In terms of the risks associated with the possible issuance of a digital euro, I see them as being very much dependent on its actual design. A digital euro should be designed in a way that avoids excessive shifts of commercial bank deposits into digital euro holdings, both as a structural phenomenon and during financial crises. A digital euro should also not crowd out private initiatives that can benefit the innovation and integration of the European retail payment sector. Also the cross-currency implications of a digital euro should be taken into consideration, including within the Union.

As for privacy, there is a clear trade-off between the right for citizens to protect their personal data and the public duty to combat illicit activities (such as money laundering). The right balance between these two fundamental values will need to be found in cooperation with the co-legislators.

I am not in a position to judge at this stage whether the ECB should issue a digital euro. I think that the complexity of this topic needs careful analysis and involvement of all stakeholders. I am therefore glad to see that the ECB is approaching the analysis of a digital euro with the warranted attention – including by involving public opinion through an open consultation and by starting practical experimentation on possible designs together with several national central banks of the Eurosystem – and especially by engaging with this Parliament and its relevant committees.

16. *Which role do you see for cash-based transactions compared to digital transactions in the future?*

Cash still accounts for the majority of transactions in the euro area, however, its share of point-of-sale and person-to-person transactions is decreasing. In terms of the volume of total transactions, it declined from 79% in 2016 to 73% in 2019. The parallel expansion of cashless transactions has been largely driven by card payments, which have increased from 19% to 24% in terms of volume. The trend towards cashless payments has been accelerated by the COVID-19 pandemic where there has been a surge in online payments by households and a shift towards contactless payments in shops. At the same time, cash serves crucial needs for citizens. For example, cash is still the only form of central bank money available for the public (despite a possible future role for central bank digital currency), cash may function as a fall-back option in case of a severe disruption of electronic payments, and is a precondition for many people in vulnerable positions (such as certain senior citizens, the disabled, and the illiterate) to have access to financial services and to be able to manage their financial affairs independently. The Eurosystem must ensure that, as digital transactions increase, consumers have access to integrated pan-European digital payment solutions that serve their needs. This is not currently the case, and Europe is experiencing the dominance of a handful of non-European players. This concentration might be exacerbated by the ability of global technology firms – the so-called big tech firms – to also offer payments services, which they do so on an increasing scale.

The Eurosystem has responded to these challenges by renewing its retail payment strategy to encourage and facilitate the development of European digital payment solutions. The Commission has also recently published its Retail Payments Strategy, with the aim of further developing the pan-European payments sector. I therefore welcome the European Payments Initiative, which is set up by a number of European banks to develop pan-European payment products, and other private initiatives that seek to offer pan-European payment solutions.

To conclude, cash still accounts for the majority of transactions in the euro area and we should continue to ensure that all EU-citizens have access to cash at all times. Digital transactions are a complement to, not a substitute for cash. Together they support financial inclusion and offer a choice to consumers. This is in line with the Eurosystem’s policy of respecting consumer preferences when it comes to means of payment.

17. *Several EU Member States are preparing to join the euro area and two Member States joined the ERM II in July 2020. How do you foresee avoiding further divergences between euro area Member States over the coming decade in light of the economic conditions in candidate states? What is the preferred economic scenario of euro area enlargement?*

Let me start by saying that I see the euro as the most tangible sign of European integration. Currently it is the official currency for 19 EU Member States. As established in the Treaty, all EU Member States without an exemption clause or an “opt-out” – notably seven non-euro area countries except for Denmark – are expected to adopt the euro sooner or later.

I believe that the picture on growing economic disparities within EMU over the past decade is more nuanced than it might appear prima facie. For instance, the low-income countries from Central Eastern Europe that have adopted the euro, especially the Baltics and Slovakia, have been actually catching up the higher income economies. Even more importantly, several studies have concluded that, to really understand increasing disparities in Europe, one should rather focus on factors other than EMU – for instance, the technology and globalisation shocks, the impact of the global financial crisis, as well as country-specific structural weaknesses. If one looks at the cyclical dispersion among euro area economies, for instance, it has actually decreased. This has allowed attaining a high degree of symmetry in the business and financial cycles of euro area members, which is a crucial ingredient for a successful single monetary policy. Yet, the impact of the ongoing COVID-19 pandemic on the economic conditions of the economies inside and outside the euro area still needs to be assessed.

In my view, the preferred economic scenario for euro area enlargement should be tailored to each individual Member State. Every country wishing to join the euro should introduce the necessary measures and reforms along with its own path, modalities and timing. The timing ultimately depends on three main factors: political will as also reflected in the national euro adoption strategies; people’s ownership of the project; and economic readiness.

The ECB and the European Commission regularly assess the progress made by each non-euro area Member State towards fulfilling the Treaty-based criteria required for euro adoption, as articulated in the convergence reports. According to the 2020 Convergence Reports of the ECB and the European Commission which were published on 10 June, none of the countries under review fulfilled all Maastricht criteria. Notably none of the seven countries complied with the exchange rate criterion, which requires the participation of a Member State for at least two years in the exchange rate mechanism, the ERM II, without devaluing against the euro.

Following the decision taken by mutual agreement of the finance ministers of euro area countries, the President of the ECB and the finance ministers and central bank governors of Denmark, Bulgaria and Croatia, the Bulgarian lev and the Croatian kuna were included in the ERM II on 10 July 2020. Participation in ERM II has to be seen as an important milestone in preparing for euro adoption. Hence, the convergence reports of the ECB and European Commission in 2022 will provide assessment of the readiness of both Member States to adopt the euro.

18. *What role do you see for the Recovery Fund? How can it best support the resilience of the euro area? Do you think that the Euro area needs a European Safe Asset not only to help stabilise the financial markets and allow banks to reduce their exposure to national debt, but also as a way to facilitate the correct transmission of the monetary policy?*

The resurgence of the virus has heightened uncertainty and requires fiscal support to continue in order to avoid ‘cliff effects’ and help bring our economies back on track. It is therefore of utmost importance that the Next Generation EU (NGEU) package of EUR 750 billion becomes operational without delay. This recovery package has the potential to significantly support the countries hardest hit by the pandemic, strengthen the Single Market and build a lasting and prosperous recovery.

The impact of NGEU – and its central programme, the Recovery and Resilience Facility – will depend on how fast the funds are disbursed, and how effectively they are channelled to productive uses. It is therefore important that all policymakers reach agreement on the outstanding details of the package by the end of the year, and that Member States make the appropriate arrangements to allow for sound and effective spending of recovery funds. As stressed by the Governing Council after its recent monetary policy meeting, provided the funds are deployed for productive public spending and accompanied by productivity-enhancing reforms, NGEU will contribute to a faster, stronger and more uniform recovery in the euro area, while supporting the EU’s green and digital ambitions.

Even though these are challenging times, the ECB has been able to effectively transmit monetary policy since the outbreak of the COVID-crisis. That said, debt issuance under NGEU will take the form of EU-level bonds with different maturity dates between 2028 and 2058 and can certainly help in developing a European term structure. Such a term structure could serve as a benchmark for EU capital markets and thus facilitate further capital market integration and thereby risk-sharing. NGEU bonds could also provide a contribution to diversifying sovereign exposures of banks, thereby reducing the sovereign-bank nexus.

19. *What is your view on the growing nexus between fiscal and monetary policy following the COVID-19 crisis? What is the risk of fiscal dominance occurring in the euro area? How to safeguard the ECB's independence in a situation where a blurring of boundaries is occurring between fiscal and monetary policies?*

The Treaty on the Functioning of the European Union (TFEU) clearly states that the ECB’s primary objective is to pursue price stability. It also provides for strong safeguards to protect and ensure the ECB’s operational, financial, institutional and political independence.

These strong institutional safeguards notwithstanding, among economists there has been increasing appreciation for the relevance of interactions between monetary and fiscal policy. In the current macroeconomic circumstances, both policy areas complement each other in terms of providing indispensable policy support to the euro area economy in response to the crisis. In the aftermath of the pandemic other questions may emerge, including how to set monetary policy in a world of possibly permanently higher levels of public debt.

Since the strategy review has resumed the Governing Council has established a new workstream on monetary-fiscal interactions that takes stock of the fiscal policy landscape in the euro area and assesses the implications for monetary policy.

20. *What are your views on the criticism that the ECB's collateral framework is not gradual enough and relies too much on external credit rating agencies (CRAs)?What is your opinion on the temporary collateral easing measures as adopted by the ECB in the context of the COVID-19 crisis? In the future, how should the ECB use its discretionary authority under Article 18 of the Statute with respect to defining collateral eligibility?*

In line with its statute, the Eurosystem provides credit only against adequate collateral. It accepts a broad range of different assets as collateral, applying valuation haircuts duly graduated according to differences across maturities, liquidity categories and credit quality. To assess the credit quality of eligible assets, the Eurosystem relies on multiple sources: Credit rating agencies are among these, but so are national central banks' in-house credit assessment systems (ICASs) and counterparties' internal ratings-based (IRB) systems. All sources undergo a regular performance monitoring to ensure that all sources meet high regulatory, operational and information requirements. Recent collateral easing measures have shown that the Eurosystem does not mechanistically rely on external credit rating agencies, but is able to adapt its framework to reduce procyclicality and to avoid cliff effects.

The collateral measures have to be seen in connection with the other policy measures in response to the coronavirus emergency, including the Pandemic Emergency Purchase Programme (PEPP), the pandemic emergency longer-term refinancing operations (PELTROs), and an easing of conditions for targeted longer-term refinancing operations (TLTRO III). The collateral easing measures are a crucial component, as they ensure the availability of eligible collateral for all eligible Eurosystem counterparties to participate in these liquidity providing operations. Thereby, these collateral measures ultimately support the provision of bank lending to the real economy.

The Eurosystem should continue to define its collateral framework in a way that ensures efficient access to Eurosystem liquidity against adequate collateral. Some of the recent collateral easing measures provide – on a temporary basis – flexibility to individual NCBs to accept additional types of collateral in order to address country-specific market conditions, while a comprehensive set of eligibility criteria and risk control measures remain applicable. Also in the future, the acceptance of collateral should in any case be based on a stringent set of transparent rules, which are in line with the Eurosystem's risk tolerance.

21. *How do you assess the recent evolution of the EUR/USD exchange rate? To what extent should trade considerations play a role in the conduct of monetary policy and its forward guidance?*

The spread of the coronavirus pandemic has sparked strong movements in global financial markets, including in foreign exchange markets, with the euro weakening in an early phase and then strengthening sharply over summer.

While the exchange rate of the euro is not a policy target for the ECB – and therefore I will not comment on its level – it is clear that the external value of the euro is an important determinant of price setting in the euro area.

Any significant change in the euro exchange rate will likely have a material impact on the euro area inflation outlook.

It is therefore important to assess exchange rate developments from the perspective of their implications for the medium-term inflation outlook, and hence the achievement of the ECB's mandate.

Similarly, global trade is an important factor determining foreign demand for euro area goods and services and, hence, plays a key role for euro area growth and inflation developments. Global trade is clearly an integral part of the ECB's economic analysis, which shapes the Governing Council's assessment of the economic outlook and the balance of risks. Therefore, to the extent that global trade developments impact the medium term outlook on inflation, they are also taken into account when taking monetary policy decisions.

22. *Should the ECB take concrete steps to boost the euro as an international currency? If so, what measures do you envision? How do you evaluate the interaction of the ECB's public sector asset purchases and the availability of euro area safe assets for foreign private and public sector investors?*

A greater international role for the euro would ultimately be the outcome of a demand-led process and would be a reflection of increased confidence in the Union, potentially allowing greater financial and economic autonomy. As such, it can be supported by the Union in various ways that make the European financial infrastructure more resilient and the euro more attractive as a result, also beyond its own borders. The ECB can further support this process to the extent that this is consistent with its mandate and wider EU objectives.

First and foremost, the international role of the euro will be supported by a deeper and more complete Economic and Monetary Union, including a completed capital markets union. Similarly, the successful implementation of Next Generation EU can also help to instil investor confidence in the euro. Pursuing sound economic policies in the euro area is desirable in itself, but also crucial for the euro's global attractiveness.

Relatedly, the euro's appeal could be strengthened by further developing financial areas where the EU has a head start, such as sustainable finance. The euro is already the currency of choice in global green bond markets: In 2019, the euro was the main currency denomination for the issuance of green bonds worldwide.

Finally, and more directly related to the ECB, the international role of the euro is further supported by smooth and efficient payment systems and could also be potentially enhanced through a digital euro. By facilitating the efficient use of a form of the euro in cross-border transactions, a digital euro could increase the role of our single currency in the international monetary system.

23. *What do you see as the main challenges and opportunities for central bank communication in the period ahead? How important do you consider that Governing Council members speak with "one voice" following monetary policy decisions?*

An open debate is essential and a difference of views is normal and healthy in every organisation. The breadth of views of Governing Council members is reflected in the account of the monetary policy meetings, which the ECB has published since 2015. The ECB strives to take decisions by consensus and collegiality is important. When it comes to communicating the outcome of policy deliberations, explaining the rationale with one voice, while acknowledging the wide range of all considerations and concerns, strengthens the message.

Moreover, it is important that the ECB continues to strive to improve its communication and its ability to reach all euro area citizens. I would thus welcome a focus on clear and simple messages on the broader economic outlook and prospects, targeting more than for instance policy decisions and inflation expectations. In this light I also welcome the recent "ECB listens" initiative. This virtual event, which brought together a range of European-level civil society organisations, gave the ECB an opportunity to hear the views of citizens on the impact of monetary policy and communication, and on the global challenges ahead.

Finally, I do think that the European Parliament can play a key role when it comes to central bank communication. The EP can help better connecting the ECB to euro area citizens, making sure that the ECB learns what matters to people the most and, at the same time, making sure that the ECB policies are better understood by them. This, in turn, will strengthen citizen's trust in the ECB and the effectiveness of its policies.

24. *How would you assess the monetary policy spillovers, in particular from the United States, for the conduct of monetary policy in the euro area?*

Every central bank conducts monetary policy according to its own mandate and for the benefits of its own jurisdiction.

The monetary policy measures taken by the Federal Reserve affect euro area inflation dynamics through numerous channels, for instance a strong US economy fosters global demand which is ultimately beneficial for the euro area economy. Moreover, US monetary policy also affects global financial conditions which are an important determinant for price setting in the euro area.

It is therefore important to monitor developments in the global environment with regard to their possible implications for the euro area inflation outlook.

C. Financial stability and supervision

25. *What are your views on the need to ensure a strict separation between monetary policy and banking supervision, and what are in your view the reforms that would enhance and favour such separation? Where do you see potential to increase the efficiency and effectiveness of supervision through the SSM?*

I fully subscribe to the principle of separation between the monetary policy and the banking supervision tasks at the ECB. This is working well in practice in terms of the operation of the SSM. At the same time, there are obviously important gains to supervisors and central banking officials being part of the same organisation. In one direction, the exposure to the macroeconomic expertise of the ECB central banking staff helps supervisors to assess credit risks; in the other direction, the analysis of aggregated bank data helps monetary policy officials better understand the financial transmission channel.

I consider the recent organisational changes to ECB Banking Supervision valuable, as they have three objectives: (i) strengthen cooperation between bank-specific and thematic supervisory teams, (ii) ensure consistency of supervisory outcomes by reinforcing the supervisory strategy and risk functions, and (iii) foster transparency and predictability of supervisory actions. By realising these objectives, the SSM would further improve its performance and enhance its effectiveness.

26. *What is your view on the current institutional set-up of the ESRB under the roof of the ECB with regard to its concrete achievements in macro-prudential oversight?*

In principle, I support maintaining the current level of proximity between the ESRB and the ECB and do not see a material conflict of interest between the ESRB's financial stability assessment and the ECB's monetary policy function. Rather, the two functions are complementary. Macroprudential policies mitigate financial stability risks at national and area-wide levels, which allows monetary policy full freedom to pursue its own distinct objective, which is maintaining price stability. Additionally, given the expertise of ECB staff, there are advantages in terms of costs and efficiency to cooperation and collaboration between the ESRB secretariat and the ECB. At the same time, the decision-making procedures and bodies of the ESRB (General Board) and ECB (Governing Council) are clearly separated by EU law.

This all being said, I recognise that the ESRB was put under the roof of the ECB before the ECB was also assigned responsibility for micro-prudential banking supervision. While so far the responsibility for micro and macro-prudential supervision have not interfered with each other, I am aware of literature which argues for their separation.

27. *How do you see the development of asset quality of banks in the context of the COVID-19 pandemic? How can the issue of non-performing loans be addressed? How do you assess the problem of non-performing loans in the balance sheets of medium and small credit institutions? How do you see the ECB's/the SSM's role in addressing this issue? How do you judge the pre-crisis levels of the capital adequacy ratios and leverage ratios of European banks?*

Banks have entered this crisis with much more robust balance sheets, capital, liquidity and leverage ratios than in 2008, thanks to the post-crisis reform efforts and the strengthening of the regulatory and supervisory framework. Looking ahead, it is important that banks prepare for the likely deterioration of banks' asset quality as a result of the economic shock triggered by the COVID-19 pandemic.

Since the inception of the SSM, the volume of non-performing loans (NPLs) declined from more than EUR 1 trillion in 2014 to just above EUR 500 billion in 2020. This is also thanks to the enormous effort of the SSM, which made addressing the problem of NPLs its top priority. Regulators and supervisors have developed an extensive toolkit over the past years and now is the time to use it, in order to ensure that banks recognise and deal with bad loans sooner rather than later. For me, this is one of the key lessons from the past.

It is even more important that banks now actively prepare for the likely deterioration of asset quality, while support easures such as payment moratoria and state guarantees still apply. Banks should improve their policies for identifying and measuring credit risk, build up sufficient operational capacities to manage a surge in NPLs, but also increase provisioning levels where necessary. If they act now, they can avoid possible cliff edge effects later on, when public support measures expire. It will be the ECB's role as supervisor to closely monitor banks' practices in this regard, in order to ensure that banks are adequately prepared for a highly likely wave of non-performing loans.

As regards the impact on specific business models, the nature of this crisis implies that banks exposed to vulnerable sectors such as tourism, transportation or entertainment will be more affected than others. As shown by the ECB's vulnerability analysis, the impact of loan losses is likely to be strongest for diversified lenders. While G-SIBs and universal banks can partially offset their loan losses via higher operating incomes, small domestic and retail lenders tend to have below-average net interest and net commission/fees income and thus cannot compensate these losses.

28. *What's your view on the role of the ECB/ the SSM in mitigating the economic effects of the COVID-19 pandemic? Does the current supervisory framework provide sufficient instruments to the SSM to deal with such a crisis?*

ECB Banking Supervision published its first set of mitigating measures on 12 March, the same day as for example the Netherlands announced restrictive measures for public gatherings and events. Considering that these supervisory measures apply to 19 different Member States, I think this is a remarkable achievement, showing how far we have come in just six years since the establishment of the banking union. Such a strong and united European supervisory response would have been unimaginable beforehand.

The aim of the supervisory measures was twofold: to help maintain the flow of credit to the real economy and to conserve capital in the system. In particular in the early phase of the crisis, it was important to avoid a sudden credit crunch and pro-cyclical effects. For this reason banks were supported by several relief measures. If banks had suddenly stopped lending to viable business and households, this would have done immense damage to the European economy. Thus, the first goal was to put banks in a position that allowed them to continue fulfilling their vital function of funding the economy. Second, in order to conserve capital in the system the ECB also asked banks and their shareholders not to pay out dividends or buy back stocks during the pandemic and to show extreme moderation when it comes to paying bonuses. Finally, it is important to note that the ECB continuously encourages banks to keep up proper risk identification, measurement and management practices in order to avoid as much as possible a build-up of non-performing loans later on.

I think it is too early to draw any definite conclusions as regards lessons for the broader supervisory and regulatory framework. However, my preliminary views are more on the positive side. The Commission's 'Quick Fix' made some welcome adjustments to the CRR to increase the capacity of the banking system to support the recovery, while preserving the key elements of the prudential framework. Looking ahead, any further adjustments should not fundamentally alter the prudential framework but continue to respect agreed Basel standards and avoid fragmentation of the European single rulebook.

29. *How do you assess the high level of level 2 and level 3 assets in many bank balance sheets? Are these assets properly taken into account by the current supervisory framework?*

Level 2 or level 3 assets are assets that are measured at fair value (i.e. the price a willing buyer would theoretically pay) on a bank's balance sheet but where no directly quoted price in an active market exists. They are valued either using observable data other than directly quoted prices, such as published interest rate curves used to value swaps (level 2) or using models where significant inputs are not based on observable data (Level 3). Particularly for Level 3 assets, the absence of market data points leads to greater valuation uncertainty and therefore the risk that assets are overvalued and/or liabilities undervalued on a bank's balance sheet.

According to the ESRB, European banks held around EUR 7,279 billion of financial assets measured at fair value in December 2018 (accounting for around 25% of total assets), with EUR 2,379 billion in Level 1, EUR 4,600 billion in Level 2 and EUR 300 billion in Level 3 assets. There can be various reasons for banks to hold such assets, for example for hedging purposes, which explains why many banks engaging in trading activities hold such assets. However, it should be noted that the volume of fair value assets and liabilities has decreased markedly for euro area banks over the last years.

While the accounting framework provides the principles for the accounting classification of those assets to the Level 2/Level 3 categories, it also leaves some room for interpretation, which can result in different outcomes across banks. Therefore, there is an inherent risk that such assets are overvalued and are worth less than expected, in particular, in stressed market conditions. Trading risk and asset valuation have been a supervisory priority for the SSM in 2019 and 2020. This means that specific on-site missions have been and will be carried out at banks which are exposed to complex instruments marked at fair value. The aim of these missions is to assess the soundness and effectiveness of the bank's valuation framework and the governance and controls around it, and also to check the correct classification of positions – for example as level 2 or level 3 – and testing this for specific transactions. These on-site missions are complemented by deep dives and focused analyses.

30. *How do you see the supervisory challenges for the ECB/ the SSM from technological innovation in the financial sector? What's your view on prudential treatment of crypto- assets? Are risks arising from crypto-assets properly taken into account by the current supervisory framework?*

Technological innovation carries both opportunities and risks for established and new institutions, as well as the financial sector as a whole. For example, innovation can increase efficiency and diversity by boosting competition in the financial sector. On the other hand, new technologies could have unexpected challenges to the stability of IT systems of financial institutions while intensified competition put pressure on earnings. Especially when innovation goes hand in hand with automatic decision making, ethics and fair treatment of clients become important elements for supervisors to assess. These key elements fall within mandates of separate supervisory authorities, thus good cooperation between these authorities is essential for proper supervision. Furthermore, as financial institutions become more digitalised, the potential operational risks stemming from IT-systems and dependencies on digital third party providers intensify. The consequences of operational problems, especially when they occur at systemic institutions, can be enormous. I therefore welcome the legislative proposal by the Commission for a Regulation on digital operational resilience in the financial sector. This also means that the ECB/SSM should have enough capabilities to deal with IT-risks within the financial sector.

Regardless of the nature of the impact, technological innovation is one of the most influential developments affecting the financial sector in the near future.

This implies that supervisory authorities, including the ECB/SSM, need to step up their game and realign its supervisory approach as necessary. This is for example done via discussions within ECB/SSM expert groups and through international cooperation with authorities in other jurisdictions. It also means that supervisors need to start an early dialogue with the institutions under supervision, since technological developments can progress much quicker than a change in high level regulation. Therefore a first fintech industry dialogue was organised by the ECB in 2019. Both the understanding and use of technology among SSM supervisors needs to increase. The ECB/SSM is actively exploring use of technologies to upgrade supervisory practices, so called "SupTech". Since technology is sector-neutral, here again, there is an increased need to cooperate with other supervisory agencies, e.g. with insurance supervision to learn from other experiences and remain effective and efficient.

The role of non-financial technology companies, especially those with an established large customer base, (i.e. bigtechs), should also be taken into account. Over the last years bigtechs have increasingly engaged with existing financial institutions, ranging from the provision of certain critical IT-services to effectively offering financial services, such as payments, based primarily on the infrastructure of an incumbent financial institution. As we have seen in other sectors, these bigtechs can, in a short time, grow and expand exponentially also in financial services. For the financial sector this could mean that these bigtechs can become systemically critical for financial stability as well as for the safety and soundness of individual financial institutions. The ECB/SSM should have an eye for the risks that could arise from these developments, and interact with other supervisors and legislators when more action is needed to curb these risks.

I share the view that crypto-assets in general currently do not pose a material risk to the financial stability of the EU financial system. However, the ECB should continue monitoring the risks of crypto-assets. Work is also under way at international level to establish a rigorous prudential treatment of banks’ exposure to crypto-assets. So-called (global) stablecoins could have the more imminent potential to undermine financial stability, unless appropriate safeguards are put in place. In this respect, the Commission’s recent proposal for a Regulation on Markets in Crypto-Assets (MiCA) is an important step as it aims to hold the providers of new products to the same standards as functionally-equivalent existing products. Moreover, a harmonised framework at EU level is critical to prevent fragmentation in the Single Market.

As these developments have the potential to touch many aspects of the work of the ECB, close monitoring of developments and analysis of the implications for financial stability and monetary policy is needed. New technology plays an important role here, making “real time” monitoring and analyses of these developments possible. This will allow us to act in a timely manner to any adverse developments.

31. *What are your views on if - and if so, how - the ECB/ the SSM should integrate climate-related and environmental risk in banking supervision? Are these risks properly taken into account by the current supervisory framework?*

Climate-related and environmental risks are a source of financial risk and it therefore falls squarely within the mandate of the ECB to ensure the financial system is resilient to these risks.

Although methodologies for estimating the magnitude of climate-related and environmental risks for banks are still in their infancy, available estimates suggest that the impact of these risks could be significant. A transition risk stress test in the Netherlands conducted in 2018 showed that the banking sector's Common Equity Tier 1 (CET1) ratio could drop by over 4 percentage points in a severe but plausible transition scenario. Similar conclusions were also reached in preliminary ECB research in the Financial Stability Review report of May 2020 on the euro area banks' sensitivity to corporate decarbonisation: in a severe scenario banking system losses are estimated to increase by up to 60%, potentially lead to financial instability. The number of catastrophes caused by natural hazards are already trending upwards since the 1980s and so are the ensuing economic losses.

Identifying and assessing the risks faced by supervised banks is therefore crucial for both banking supervision and financial stability monitoring. As argued in the NGFS publications, climate-related and environmental risks should be in incorporated in day-to-day microprudential supervision as well as assessed for the financial system as a whole through quantitative risk analysis and stress testing.

In this regard, the ECB and the national central banks of the SSM have been at the forefront of the efforts to integrate climate and environmental risks in their practice. The ECB Banking Supervision has recently published for consultation the "Guide on climate-related and environmental risks": it explains in detail how the ECB expects institutions to consider climate-related and environmental risks in their business strategy and in their governance and risk management frameworks. It also explains how the ECB expects institutions to become more transparent by enhancing their climate-related and environmental disclosures. All these expectations already fit within the current supervisory framework, the CRD, the CRR and the EBA guidelines. I understand that the Guide will be applied in the supervisory dialogue already as of 2021, requiring banks to comply or explain any possible divergences in institutions' practices. On top of that, both the ECB and myself have been strong supporters of the mandates that were given to the EBA in CRD V – CRR II that allow for further research and analysis on how to integrate ESG risks in the prudential risk framework.

The ECB Guide is an important milestone, but it should be understood as the start of a journey, rather than a conclusion. There is still much to do to better understand climate-related and environmental risks, their potential impact on financial stability and most importantly to ensure that financial institutions take the right steps to be prepared for the inevitable transition to a carbon neutral and sustainable economy.

32. *What are your views on the regulation of shadow banking entities? Do you see regulatory and supervisory loopholes that should be addressed by legislators in the short term?*

Already before the outbreak of the COVID-19 pandemic, there have been concerns about the growing risks in the non-bank financial sector (formerly referred to as the shadow banking sector) and insufficient policy tools to address these risks.

Liquidity mismatches, the use of leverage and the interconnectedness within the non-bank financial sector, as well as interlinkages with the banking sector and the asset management sector in particular, are key vulnerabilities that need to be addressed. In recent years, liquidity management tools (LMT) have been developed, and were used by fund managers to cope with liquidity strains in March. Still, risks remain.

In the recent stress experience of the COVID-19 pandemic, a number of these risks materialised, as for example, certain money market funds and other investment funds suffered from a high degree of cash withdrawals in the midst of market volatility at the beginning of the pandemic. As money market funds (MMFs) are crucial for the provision of short-term liquidity, this was a troubling development, which underlined the importance of strengthening the resilience of the non-bank financial sector. In addition, the role of margin calls of CCPs and clearing members has been given particular attention in Non-Bank Financial Intermediation-related meetings recently, focusing on ways to address the pro-cyclical nature of global margin requirements.

To address risks in the sector in a pre-emptive manner, and also given the high uncertainty regarding further COVID-19 developments, the regulatory framework for the non-bank financial sector needs to be enhanced. This requires the development of a comprehensive macroprudential approach for non-banks, which could ensure that the non-bank financial sector is better able to absorb shocks in the future rather than relying on central bank interventions to stabilise the system.

Regulatory gaps could be closed by ensuring further coherence of the regulatory frameworks, for example with regard to the own fund requirements for the MiFID activities of fund management companies.

I believe that this is especially important given the growing role of non-bank financial institutions in financing the real economy and their interlinkages with the rest of the financial system.

33. *Fit-and-proper assessments are an important tool in the supervisory toolkit. How could this instrument be further developed, and applied by the ECB?*

Fit and proper assessments are the cornerstone of good governance in banks. However, the European supervisory framework would benefit from further harmonisation. There are a couple of key points I would like to make.

First, currently CRD requirements allow for ex-post fit and proper assessments. For ex-post assessments, an appointee takes up a position and only then is subject to a fit and proper assessment. In case the assessment result is negative, the appointee has to be removed from their position. This is different for those countries that have an ex-ante system in place and approval is required before the initiation of functions. My experiences with the ex-ante assessments have been largely positive, but most of all I believe that the regulatory framework deserves more harmonisation to ensure a real level playing field.

Second, we can further develop fit and proper assessments by improving communications regarding supervisory expectations. Enhanced transparency helps to ensure that the outcome of the suitability assessments is more predictable for banks.

Lastly, I believe that the supervisor should use fit and proper assessments as a supervisory tool to ensure effective management, a sound governance and a balanced decision-making by board members. Specifically, the ECB could devote more intense scrutiny regarding those members of the board who were in position at the time that a significant event occurred in the bank – for example, if the bank breached a regulatory requirement. In this line, both individual and collective accountability are important and indispensable to prevent unsuitable decisions being taken to timely tackle important failures.

34. *How do you assess the implementation of the bank resolution mechanism in the EU? What specific steps would you take to close existing loopholes? What are your views on 'too-big or interconnected to fail' institutions, savings and cooperative banks, and the overall issue of the profitability of the banking sector in the EU, and what is your view on the way forward for its architecture in order to fulfil the needs of the real economy and long term financing? Should the pandemic result in a European banking crisis, what could in your view be the source of capital to recapitalise and/or restructure banks? Could an EU bad bank be put in place, the ESM be used or would the injections be taken up at the national level?*

A new bank resolution framework was set up in Europe after the 2008 global financial crisis. I had the honour of being a member of the SRB from its very start. The said resolution framework is crucial to ensure orderly bank crisis management and avoid costs for taxpayers. The assignment to the ESM of the task of providing the common backstop of the Single Resolution Fund will further strengthen the effectiveness and the confidence in the resolution framework.

The new regime has proven to be a significant improvement. However, further improvements of the resolution framework could be considered. Furthermore, the resolution authority should have an adequate toolkit to deal with the failure of smaller and midsized credit institutions that are mainly deposit-funded, as these banks face challenges in raising adequate levels of MREL. A possible new tool would be to fund limited resolution actions with national DGS resources to enable a deposit transfer. This could be achieved by further clarifying the existing BRRD and DGSD framework, as the European Commission has put forward in its 2021 work programme. Moreover, I think that improvements to the liquidation regimes would be necessary to ensure an effective winding up of failing banks which do not enter resolution.

In addition to the cyclical challenges resulting from the COVID-19 pandemic, banks also face material structural challenges that have a negative impact on profitability. While structural change is necessary in response to these structural challenges, there is no "one size fits all" solution for banks to ensure that they can optimally fulfil the needs of the real economy. Many banks will need to rethink their business models in order to become profitable. Moreover, banks will need to find ways to cut costs, for example by streamlining distribution channels, cutting expenses, and improving IT systems as well as measures aimed at expanding fee-based income streams. Further consolidation could remove a structural impediment to the profitability of some parts of the euro area banking sector, as this would remediate excess capacity and fragmentation along national lines. Increased cross-border provision of services with euro area M&A, accompanied by downsizing, coupled with a further strengthening of the banking union, are important conditions for consolidation in the banking sector. However, consolidation proposals should be assessed on their individual merits, also taking account potential downsides such as overestimated synergies, decreased resolvability and financial stability risks. It is therefore of importance to apply a 'case-by-case' approach to potential M&A in the banking sector. In this context, I welcome the recently ECB published guide on consolidation to clarify its approach.

To ensure an effective response to the impact of the COVID-19 pandemic, supervisors should explore different policy options. First and foremost, it is up to the banks themselves to take appropriate measures, and supervisors can play an important role in incentivising banks to follow best practices here. For instance, large banks have refrained from distributing dividends, in line with ECB recommendations. Also, supervisors have a toolbox of measures to enable banks to support financing of the real economy, for example through temporary relief measures in the capital regime. However, should banks prove unable to manage these choppy waters, we have the resolution framework in place. Third, in resolving banks we should look beyond the strategy of recapitalisation through bail-in. For example, asset management companies could be one of the potential solutions. Also at national level, asset management companies have been created in the past in some countries and have a proven track record in making a significant contribution to the clean-up of banking sectors. They are of course not an all-encompassing solution to all asset quality problems, and they would be an appropriate solution only if set up in line with the best international practice.

35. *What is your view on the implementation of the Emergency Liquidity Assistance (ELA)? What could be improved in the decision-making process on granting ELA, particularly by foreseeing a more prominent role for the ECB?*

The responsibility for the provisioning of ELA, including the costs and risks associated to this provisioning, is currently with national central banks which act on the basis of the relevant national legislation. Article 14.4 of the ESCB Statute grants the ECB a possible veto right in order to ensure that an ELA provision does not interfere with the ESCB's tasks and objectives (most notably with the implementation of monetary policy in the euro area).

Going forward, I believe that the governance of ELA should develop in line with the progress in completing the banking union, possibly converging towards a more unified approach of deciding on ELA.

36. *What are your views on the steps towards the completion of the Banking Union with a European Deposit Guarantee Scheme and a fiscal backstop, including the necessary implementation of existing Banking Union legislation? What complementary measures would you take to reduce market fragmentation, reduce regulatory and supervisory arbitrage opportunities, maintain a level playing field and tackle ring-fencing most notably in the banking sector?*

The establishment of the banking union was a crucial step for our Economic and Monetary Union and the integrity of the single currency.

The importance of the project was once again demonstrated by the fast, decisive and coordinated supervisory response to the unfolding COVID-19 crisis.

At the same time, the banking union is not complete yet and progress is needed to unlock the benefits from a full banking union.

The commitment to establish the common backstop to the SRF at the latest in 2024 is a step in the right direction. Work on a common European Deposit Insurance Scheme (EDIS) should remain one of our top priorities. Starting with a so-called 'hybrid model' for EDIS would already be a major improvement, but we have to keep the final goal in mind. Uniform depositor protection in the banking union would enhance the confidence in the banking system. If well-designed, it would preserve financial stability and further sever the link between banks and sovereigns.

Ring-fencing of capital and liquidity within subsidiaries of banking groups within the banking union reduces the benefits we can reap from the banking union in terms of financial integration. I welcome the proposal by the Supervisory Board Chair to explore options within the current legal framework that would allow us to make progress on this issue. However, for more substantial steps forward, legislative measures would be key to reduce fragmentation, while providing Member States with the necessary safeguards to facilitate a compromise.

37. What risks related to securitisation products and leveraged loans do you see for financial stability and how should they be addressed by the ECB/ the SSM?

Like many other asset classes, global leveraged loan markets have shown significant turbulence during the March 2020 COVID-19 related market turmoil. Systemic risks stemming from leveraged loan markets are potentially high, due to: the outstanding amounts, as the market has grown considerably in recent years, especially in Europe; the relatively high leverage and low credit quality of issuing firms, which makes these firms vulnerable to adverse shocks; the trend of decreasing investor protection by virtue of the popularity of the covenant-lite standard; the decreasing credit quality; and the high degree of interconnectedness across investors.

It is therefore important to closely monitor developments in leveraged loan markets and assess potential risks arising from direct and indirect exposure under different scenarios. The ECB published a Guidance on leveraged transactions in 2017, which contains important supervisory expectations towards banks. Benchmarking exercises, as well as off-site and on-site supervision, have revealed shortcomings in the risk management frameworks of banks. These shortcomings were taken into account in the 2019 Supervisory Review and Evaluation Process (SREP). It is important to pay particular attention to the most highly leveraged transactions, to assess their compliance with the guidance.

Overall, there is a need to keep assessing the situation actively, to ensure that banks have an adequate risk management framework in place. At the same time, it is important to contribute to the work carried out in international fora to develop a comprehensive view of trends and risks of global leveraged loan markets. Due to the interconnectedness of this market and, thus, potential indirect risks for banks, a better understanding of exposures to leveraged loans by non-bank financial institutions would also contribute to a comprehensive risk assessment.

The exposure of banks to securitisations of leveraged loans, so called collateralized loan obligations (CLOs), is relatively small and thought to be limited to tranches with higher credit quality. Nonetheless, the deterioration of the credit quality of underlying loan tranches requires a careful assessment of risks. Also, due to the larger exposure of non-banks to CLOs, counterparty and indirect risks exist for banks.

Looking now beyond CLOs and more generally at all forms of securitisation, the new EU securitisation regulation (finalised in 2017) has dealt with the weaknesses and excesses that contributed to the financial crisis of 2008, but it has not proven fully effective in reviving the EU markets. Targeted amendments to the EU securitisation framework recently proposed by the Commission can support the recovery by facilitating lending to the real economy. However, a fully-fledged review should be conducted by January 2022 to explore how existing rules could be improved, so as to genuinely revive EU markets. At the same time, as mentioned in the ECB Opinion published in September, it should be noted that the ECB is responsible for ensuring that significant banks adjust their capital requirements in a way that is commensurate to the credit risk effectively transferred to third party investors.

38. *Which role do you attribute to financial market discipline in pricing sovereigns? Which challenges would you foresee for the ECB if the European Stability Mechanism (ESM) was to be transformed into a European Monetary Fund (EMF)?*

Financial markets have tended to behave in a pro-cyclical way during the EMU period, with spreads having been extremely low in the pre-2008 period, only to rise abruptly and disruptively in the aftermath of the Great Financial Crisis.

Several, non-mutually exclusive explanations have been advanced for the lack of disciplining effect of financial markets: (i) lack of credibility of the no-bail out clause and ambiguity as well as several surprises over time caused by policy announcements on the euro area's approach to sovereign debt restructuring, (ii) ambiguity on the role and remit of monetary policy as a lender of last resort, and (iii) inherent biases in financial market participants' behaviour such as herding phenomena.

Strengthening the institutional framework of Economic and Monetary Union (EMU) is something the ECB can strongly benefit from. The discussions around the ESM reform have moved from the possible set up of a "European Monetary Fund", proposed by the European Commission in 2017, to a reform of the ESM Treaty focused on targeted changes, agreed in principle in 2019.

Looking back at the EMF proposal, I would have welcomed bringing the ESM under the Union framework. But, I very much welcome the ESM Treaty reform agreed in principle last year and I hope that it will be possible to proceed soon with the final political endorsement and with the ratification process.

I would like to stress that, among several other important improvements to the ESM framework, the targeted changes agreed in principle in 2019 include a provision that was also part of the EMF proposal in 2017: the assignment to the ESM of the role of common backstop to the Single Resolution Fund. This is a key element for the completion of the banking union, in particular to strengthen the credibility and the confidence in the bank resolution framework.

39. *How could money laundering, tax avoidance and terrorist financing be addressed more effectively across the Banking Union? How do you see the role of the ECB/ the SSM in combating money laundering? How should money laundering risks be taken into consideration when the ECB assesses banks financial stability? What should be the role of a centralised anti-money laundering (AML) EU agency?*

First, let me reiterate that the ECB's supervisory tasks exclude the AML/CFT supervision of banks and that the ECB has no competence with regard to tax avoidance. This notwithstanding, I welcome that the ECB takes the prudential implications of ML/TF risks very seriously, within the remit of its supervisory mandate. This means that the ECB, as a prudential supervisor, can consider the impact of ML/TF risks on the prudential profile of banks. In order for the ECB to be able to do this, an adequate information exchange with AML/CFT supervisors is essential. The agreement between the ECB and national AML/CFT supervisors on the exchange of AML/CFT related information provides for such information exchange. The assessment of the information received from AML/CFT authorities can lead the ECB to impose prudential measures if necessary, for example by using its Pillar 2 powers in the yearly Supervisory Review and Evaluation Process (SREP). The ECB contributes to the ongoing development of important EBA guidance documents which are intended to further enhance cooperation with AML/CFT supervisors and to ensure a consistent consideration of AML/CFT aspects in SREP across the Banking Union. Moreover, it is foreseen that the ECB will participate as an observer in AML/CFT supervisory colleges which are currently being set up by national AML/CFT supervisors for all banks operating across borders within the EU.

Yet, as long as AML/CFT regulation and supervision remain predominantly organised at the national level, causing AML/CFT norms to be implemented and enforced differently across the EU, there will be serious limits to what we can expect to achieve through better cooperation only. Money laundering and terrorist financing are often cross border in nature, and cross-border issues require cross-border tools. Therefore, I strongly believe that a more robust, European approach is needed to tackle the risks that these crimes pose to the sustainability and stability of the EU banking sector. Further harmonisation of the AML/CFT regulatory framework should be considered, as well as reducing supervisory fragmentation by conferring AML/CFT supervisory tasks onto an existing or a new EU authority. Making the necessary assessments and proposals in this respect is of course first and foremost the competence of the European Commission. The Commission recently published the Action Plan for a comprehensive Union policy on preventing money laundering and terrorism financing, and intends to table relevant legislative proposals early next year.

It is particularly important that a future EU-level AML/CFT supervisor can first and foremost focus its resources on the AML/CFT supervision of those particular banks that expose the EU financial sector to the highest risks for abuse by criminals and reputational damage, and for which a European supervisory approach has most added value (e.g. banks that operate across borders within the EU, handle transactions for clients which pose increased ML/TF risks and do business in third countries with poor AML/CFT standards). If and when EU AML/CFT supervision over banks is established, strong synergies can be created with the work of the ECB. At the same time, cooperation between ECB and national AML/CFT supervisors will remain crucial in such a revised supervisory architecture, as not all banks in the Banking Union would be expected to fall under the remit of an EU AML/CFT authority. This proves the continuous relevance and importance of the ongoing initiatives to improve this cooperation which I mentioned before. Furthermore, it should be kept in mind that there are many different types of businesses and services that can be misused for purposes of money laundering and terrorist financing. Hence, in the longer run, a centralised AML/CFT EU authority would potentially cover a broader set of financial and non-financial sectors than the banking sector only – sectors for which the ECB has no mandate and no role to play. Finally, in light of the type of risks that are at play, it is important that a centralised AML EU agency will have adequate tools to cooperate not only with prudential supervisors but also and very crucially with Financial Intelligence Units and law enforcement authorities.

40. *Do you think the ECB should apply the standards of the Directive on the protection of persons reporting on breaches of Union law internally?*

The ECB recently significantly enhanced its internal whistleblowing policy; this new policy seems to fully respect the basic principles of the relevant EU Directive. It complements the existing and well-tested breach reporting mechanism for supervisory matters and allows anyone to report anonymously. The policy also establishes a strong set of rules and related processes to effectively protect staff reporting breaches from retaliation. I am aware of these developments since the Governing Council has expressly decided to extend the scope of the new policy to also cover all members of the Governing Council and the Supervisory Board.

I consider this new policy to be a marked improvement, clearly demonstrating the commitment of the ECB leadership to best ethics and governance standards. However, a well-functioning whistleblowing policy is not merely a matter of a proper rules; the policy and supporting tools have to be complemented and incentivised via the right ethics and value culture – something that cannot be prescribed but needs to be lived and built over time to be sustainable.

These are themes I can easily associate myself with because I consider them to be essential for achieving and maintaining our stakeholders’ trust. I am a strong advocate for matters of good conduct and good governance and, should I be confirmed in the role of Executive Board Member, would try to further improve the ECB’s policies if and as needed.

41. *What are the risks related to Brexit for financial stability? How do you view the ECB's role in addressing those risks?*

The outcome of the Brexit process is still highly uncertain. A sudden shift to World Trade Organisation trading rules for EU-UK trade after the transition period at the end of the year would be an additional risk for the euro area economy. The impact would likely be contained, albeit not negligible. In addition, current macro-financial risks could be intensified if a no-deal Brexit scenario interacts with the ongoing global economic shock related to the pandemic. However, the impact would be greater for the UK than for the euro area. A no-deal scenario would probably also trigger substantial financial market volatility and an increase in risk premia. This could become a source of concern before the end of the year as financial markets start to price in the most likely outcome of negotiations between the UK and the EU.

Other financial stability risks related to a possible no-deal Brexit at the end of the year are mostly contained and EU and national authorities have prepared for this scenario. Cliff-edge risks in the area of centrally cleared derivatives have been addressed via the time-limited equivalence decision of the European Commission for UK central counterparties. In addition, the private sector has means at its disposal to mitigate outstanding risks related to the end of the transition period in a number of other areas, such as the continuity of uncleared derivatives contracts.

The ECB's role should be to ensure that banks are prepared for all possible outcomes unfolding at the end of the transition period, as well as to closely monitor macro and financial sector risks as the end-of-year deadline looms. In this respect, the SSM has recently intensified the supervisory dialogue around Brexit preparations with banks (both outgoing and incoming institutions). Considerable supervisory attention is also being expended on ensuring that supervised banks achieve their end-state Target Operating Models (TOMs) within the previously agreed timelines.

42. *Do you think that non-euro area Member States should fulfil additional conditions before becoming members of the euro area and thereby members of the Banking Union, such as controlling money laundering risks effectively, demonstrating comparably stable property markets, controlling corruption effectively?*

Every country that intends to adopt the euro has to comply with the four Treaty-based criteria for economic convergence (which includes e.g. join the Exchange Rate Mechanism II for a duration of two years without any difficulties) and align its national legislation with the EU legal framework. I see no need to formally add another convergence criterion to the four above mentioned criteria which are regularly assessed by the ECB and the European Commission. Moreover, in the latest convergence report by both EU Institutions, a number of the structural conditions required for a smooth participation in banking union are monitored under “other relevant factors”. While ECB and European Commission analyse independently, both focus on institutional quality and governance as well as the outcome of the macroeconomic imbalance procedure aiming at preventing macroeconomic and macro-financial imbalances.

At the same time, I believe that as much as new Member States have to prepare for euro adoption they also have to prepare for joining the banking union, and hence to participate in the Single Supervisory Mechanism and the Single Resolution Mechanism. Against this backdrop, I welcome the participation of Bulgaria and Croatia in close supervisory cooperation with the ECB. As part of the process towards close cooperation, ECB Banking Supervision conducted the required comprehensive assessment of the countries’ banks. Following a positive decision by the Governing Council, early this year Bulgaria and Croatia entered simultaneously the Banking Union and the ERM II.

In addition, Bulgaria and Croatia took a number of country-specific commitments before they entered ERMII, which also included macroprudential and structural policies, such as anti-money laundering risks. Further, both countries have pledged to implement several post-country commitments pertaining to structural policies that aim at ensuring sustainable economic convergence by the time the two countries adopt the euro. The ECB and the European Commission will carefully monitor the implementation of the commitments.

43. *Is deeper financial integration always consistent with the objective of financial stability? Do you believe potential cross-border bank mergers reinforce the too-big- too-fail problem? What should the strategy of the SSM be vis-à-vis the future of the European banking sector in terms of mergers and acquisitions, consolidation and 'national champions'? What should be the goals of the Capital Markets Union (CMU)?*

The “financial trilemma” states that financial stability, financial integration and national financial policies are incompatible. Only two out of three objectives can be chosen while a third must be dropped.

This implies that deeper financial integration and financial stability go hand in hand when combined with a common regulatory and supervisory framework, and a central bank that is capable of acting in support of financial stability during crisis episodes.

In this regard, a new push is needed towards the long-term ambition of creating a genuine single European capital market that is deeply integrated and highly developed. It will mobilise the resources needed to reboot the euro area economy, help in tackling challenges such as Brexit to contribute to shock resilience of the EMU, and accelerate the transition towards a digital and low-carbon economy.

Regarding cross-border bank mergers, we should bear in mind that too-big-to-fail at European level is not the same as too-big-to-fail at Member State level. Integrating the European banking market is a way of mitigating this concern, while not losing sight of potential financial stability concerns.

In my view, supervisors should assess consolidation projects purely on prudential grounds. Their role is neither to push for particular consolidation nor to stand in their way, nor to favour a specific business model over another one. It is a process which needs to be promoted and initiated by the market.

In this context, I welcome the ECB’s publication of a guide on consolidation to clarify its approach. Greater transparency makes supervisory actions more predictable and avoids misperceptions of supervisory expectations.

44. *A number of significant private and public sector bonds in Europe are characterised by negative yields. Does this have any financial stability implications and if so how should they be addressed?*

Given their large corporate and sovereign bond portfolios, the investment income of financial institutions in general, and investment funds as well as of insurance corporations and pension funds more specifically, could deteriorate further in case of a growing number of debt securities with negative yields.

As a consequence, these non-bank financial institutions may “search for yield” and continue to take on more credit, duration and liquidity risks on their balance sheets.

An obvious example of this is the build-up of exposure to leveraged finance products over recent years, such as leveraged loans, CLOs and high-yield bonds. These growing risks call for the introduction of an enhanced macroprudential framework also for the non-bank financial sector, and options for this framework are currently being discussed within global (FSB) and EU (ESRB, ECB) institutions.

45. *What are your views on the current ECB policies with regard to the prevention of conflicts of interest within the ECB? Are any changes necessary?*

The ECB Ethics Framework is covering the handling of actual, potential and perceived conflicts of interest in an effective and proportional way. Moreover, it stipulates not only restrictions during ECB employment but also for the pre-employment and post-employment phase. These restrictions are firm but they are fair too. I consider the prevention of even perceived conflicts of interest to be very important because of the accountability of ECB employees and high-level ECB officials towards the EU citizens. For example, strict cooling-off periods for staff members leaving for new - related or conflicting - professional assignments help to avoid even the perception of a conflict of interest. The ECB closely monitors the implementation of these rules and has proper procedures and mitigation mechanisms in place to properly follow-up. Thus, in my view no major improvements are needed on this framework since it is both effective and proportionate.

The ECB single Code of Conduct for high-level officials (2019) is applicable to the Governing Council, Executive Board and Supervisory Board members. All members are bound by the same Code – this is a significant achievement. Management has an exemplary function in this matter. The rules for high-level officials are stricter in certain areas than for employees, for example. This also contributes to build an ethical culture. I believe that the current compliance guidelines and rules on this matter are firm but proportional.

The Code manages conflicts of interest by introducing specific rules for post-employment activities (cooling off), private financial transactions and relations with interest groups. It also foresees the publication of Declarations of Interest and monthly calendars, and includes measures for pursuing cases of non-compliance.

Following recommendations by the European Parliament, the annual Declarations of Interest of high-level ECB officials are published on the website of the ECB. I believe transparency is crucial for avoiding potential or perceived conflicts of interest.

Article 11 of the code stipulates that high-level officials must perform their duties by avoiding any appearance of conflicts of interest. As mentioned in the Code, this does not only include the close family circle, but is more far-reaching. Potential conflicts of interest must be reported in writing to both the President and Chairman of the Supervisory Board and the independent Ethics Committee which advises on these matters.

In addition to transparency and a Code of conduct, I believe it is important that the ECB's management is approachable for employees. This stimulates and contributes to an Ethical Culture with employees who are not afraid to speak up and thus not only strengthen the governance of the institution but also its resilience and sustainability.

D. Functioning of the ECB and democratic accountability and transparency

46. *How do you think the accountability of the ECB towards the European Parliament could be strengthened, in particular taking into account the increased scope and complexity of monetary policy following recent crises?*

The increased role of the central banks in general, and the ECB in particular, during the recent crisis has fostered a growing public interest in central banking. This has resulted in an intensified public debate on the ECB's role and actions, focussing especially on the growing complexity of its measures and the ECB having taken on additional tasks since the global financial crisis.

It is thus very healthy that the ECB's accountability arrangements vis-a-vis the European Parliament have developed significantly over the years. Importantly, the frequency of interactions has increased (more hearings, more written questions and replies) and innovations on the format were made (publication of the ECB's written feedback to the ECB Annual Report). Moreover, also following European Parliament demands, in 2015, the ECB started publishing the accounts of the monetary policy meetings of the Governing Council.

The accountability practices go beyond the requirements laid down in the Treaty and are comparable to those of other major central banks, such as the US Fed or the UK BoE.

Going forward, it would be important to retain a sufficient degree of flexibility in the accountability relationship so as to be able to best respond to the demands for scrutiny.

Recent ad hoc exchanges with the ECB President and ECB Executive Board Members on topical issues, including on the evolving economic situation and the ECB's initial crisis response, as well as the international role of the euro and the ECB's work on a central bank digital currency, are a good example of effective accountability and should continue to be used.

Another aspect where close interactions with the European Parliament will be important is the strategy review. As representatives of euro area citizens, Members of the European Parliament have valuable insights to bring to the discussions. I welcome that the ECB President has announced that the European Parliament will play a central role and have read with great interest the contributions the European Parliament has made to the review thus far by making the review a topic of ECON hearings and commissioning expert papers on the topics covered in the review.

Finally, I believe the ECB should continue on the path of strengthening its communication. Clearer and more transparent communication is crucial for effective accountability and to enhance euro area citizens' trust in the ECB and its policies.

47. *How do you assess the evolving interaction between the ECB with national Parliaments?*

The Treaty defines that the ECB is primarily accountable to the European Parliament, as the representative of EU citizens.

When it comes to the interaction with national parliaments, it is important to distinguish between the supervisory and non-supervisory tasks of the ECB.

With regard to the latter, the ECB over the years has engaged in exchanges with national parliamentary committees and members of national parliaments. As constantly communicated by the ECB, this has been done on a voluntary basis and in the form of an "exchange of views", thus in full respect of the ECB's independence and the exclusive role of the European Parliament.

These public appearances in national parliaments have helped in bringing the ECB's arguments into the national debate and in conveying Dutch political and public opinion to the ECB. This was certainly the case when Mr Draghi visited the Dutch Parliament's Finance Committee for an exchange of views on the ECB's monetary policy. This triggered a healthy – although challenging – debate in Netherlands on the ECB's actions.

Moreover, Executive Board members have regularly participated in the European Parliamentary Week (EPW). This set-up is particularly important as it provides a transnational forum for exchanges on the ECB's monetary policy and fosters common understanding on the various national perspectives.

With regard to the ECB's supervisory actions, the SSM Regulation includes a specific provision on the relations of the SSM with national parliaments. While it is clear that ECB Banking Supervision should be primarily accountable to the European Parliament for exercising its supervisory tasks on significant banks, ECB Banking Supervision could also be subject to hoc reporting to National Parliaments in addition to the submission of its Annual Report to them.

The approach followed by ECB Banking Supervision so far strikes a good balance considering the potential impact that European supervisory measures may have on public finances, on credit institutions, their customers and employees and the markets in the participating Member States.

48. *What do you think of the German Federal Constitutional Court judgement of 5 May 2020 on the PSPP, and the ECB's subsequent decision to disclose non-public documents related to the public sector purchase programme (PSPP) to the Bundestag via the Bundesbank?*

The ECB is exclusively subject to the jurisdiction of the Court of Justice of the European Union (Court of Justice) and not to the national courts of the Member States. Moreover, in the area of monetary policy, the ECB is accountable to the European Parliament within the limits laid down in the Treaties and not to the national parliaments of the Member States.

In December 2018, the Court of Justice ruled unambiguously and finally on the legality of the ECB's public sector purchase programme (PSPP). It found that the PSPP falls within the ECB's monetary policy mandate and complies both with the principle of proportionality and the monetary financing prohibition. In particular, the Court of Justice held that the ECB had provided sufficient proportionality considerations.

As it emerges not only from the wording of the legal acts but also from various documents published by the ECB, especially the published accounts of the monetary policy meetings of the Governing Council, the ECB constantly evaluates the potential side effects of its monetary policy instruments, including the PSPP. This is a key and healthy exercise.

Building on its accountability prerogatives, the European Parliament has also often quizzed the ECB on its proportionality assessment during the regular quarterly hearings, in the written questions submitted to the ECB and in its Resolutions on the ECB Annual Reports. This is a healthy activity, as it gives the ECB the opportunity to better explain how its proportionality assessment is conducted.

In this context, I welcome the fact that the follow-up to the judgement of the German Federal Constitutional Court has been pursued in a manner which is consistent with the independence of the ECB and of the Deutsche Bundesbank, with the fact that the Deutsche Bundesbank is an integral part of the Eurosystem, and with the primacy of EU law and the binding nature of judgements of the Court of Justice.

I find it particularly important that the ECB has been very transparent to the European Parliament, to which it is exclusively accountable, and to the larger public, on its decision to accommodate the request of the Deutsche Bundesbank to authorise the disclosure of non-public documents showing how the ECB has conducted its proportionality assessment. This process is in line with the principle of sincere cooperation established in the Treaties.

49. *What do you think about the fact that the Council in the past once ignored the opinion of the European Parliament regarding the appointment of a member of the Executive Board of the ECB? Will you accept your appointment as Executive Board Member if the European Parliament were to vote against it?*

The respective roles and competences of the Council and Parliament in the appointment process have been laid down in the EU Treaties and are not for me to discuss. I however truly hope that the two institutions will find an agreement that is in the best interest of the European Union and its citizens.

The accountability relationship between the European Parliament and the ECB is central for the ECB's legitimacy and its independence. I deeply value the role of the European Parliament and in particular the ECON Committee in this process and see this questionnaire and my upcoming hearing as key elements of the European Parliament's assessment of whether I fulfil the Treaty requirement of being a person of recognised standing and professional experience in monetary or banking matters. I sincerely hope that you will consider me on the basis of my qualifications.

50. *What will the ECB concretely do to have gender-balanced shortlists for ECB top positions in the future and enhance overall more gender diversity in the ECB, given that at present only two out of 25 Members of the ECB governing council are female? How do you personally intend to improve gender balance within the ECB? When do you expect first results of your actions in this regard?*

I fully share your concerns regarding the gender imbalance on the ECB Governing Council.

The ECB itself only plays a very minor role in the appointment of the Members of the Executive Board. This role is confined to the Governing Council being consulted on the professional qualifications of the proposed candidate.

As regards the other members of the Governing Council, they are appointed by their respective national governments and their appointments are thus outside the sphere of influence of the ECB or the Governing Council.

The ECB has recently upgraded its gender strategy and in this context extended its gender targets to non-managerial staff. The objective is to fill at least half of new and open positions with women on all levels, and to increase the share of women at the different levels to between 40% and 51% by 2026. The aim is and has to be gender equality.

Personally, I have been committed to promoting gender diversity at DNB, for example as Executive Board Sponsor of DNB's network on diversity, DiverseDNB. Currently the most relevant percentages are the following: the Supervisory Board of DNB: 57% women, the Executive Board: 40% women, DNB total: 40.4% women, total management positions: 36.1% women, Management Talent programme: 50%, Traineeship: 50% and the Data and Tech Talent Programme: 50%. DNB has the aim of gender parity. Should I be confirmed in the role of Executive Board member, I intend to continue to actively support the promotion of female talent and ambitious gender targets within the ECB. Public institutions have not only a leading role but also an obligation to promote gender equality and I advocate that the ECB – and the Eurosystem to this effect – should aim for gender balance throughout its salary bands.

51. *The (2020) EBA Report on the benchmarking of diversity practices at EU level under Article 91(11) CRD (EBA/REP/2020/05) found inter alia that two thirds (66,95%) of the credit institutions and investment firms the EBA collected information from have Executive directors of only one gender. Do you see ways in which the ECB through its supervisory arm could contribute to a higher (gender) diversity in the managing bodies of the banks under its supervision?*

Diversity is a key dimension of effective governance. As a part of this, fostering gender balance in the boards of banks has been on the agenda of supervisors for some time.

The existing legal framework, also thanks to efforts from the European Parliament, requires banks to have a diversity policy in place for both management bodies and staff at large.

More specifically, on the basis of art. 91(10) CRD and the EBA/ESMA Guidelines *on the assessment of the suitability of members of the management body* institutions under the supervision of the ECB are required to have a diversity policy, including with regard to gender.

This legal basis is being further strengthened at the moment, for example by the EBA integrating gender diversity in a number of its Guidelines. I also fully support the principle of gender neutral remuneration policies and practices which have been introduced by CRD V.

Although the ECB already takes gender as one of the diversity aspects into account in its supervision, I am convinced further steps can and should be taken. The ECB can contribute to enhance (gender) diversity in the management bodies of the banks under its supervision through the fit and proper assessments of board members and key function holders. Currently, wherever applicable, suitability decisions make reference to any findings on lack of gender diversity in bank governance assessments. Wherever the national legal implementation of gender diversity rules allow, the ECB makes a recommendation or addresses an obligation to the supervised entities to respect gender quotas set out for the members of the managing bodies in the current or upcoming appointments. Moreover, in coordination with the Joint Supervisory Teams, the importance of gender diversity is being brought to the attention of the supervised entities in ongoing supervision.

However, as the EBA benchmarking report which is referred to in the question shows, as of September 2018, still many institutions, 41.61% out of 834, have not adopted a diversity policy. The representation of women in management bodies is still generally very low and two thirds of the institutions do not have a gender diverse board.

So I am convinced that more can and should be done, also in our supervision. The ECB, through its supervisory arm, could contribute to a higher (gender) diversity in the managing bodies of the banks under its supervision. I would therefore seek to pursue the following measures, if appointed:

I would support conducting a thematic review, with the aim to assess the quality of the gender diversity policies and their effective implementation. This could be done by looking at the application of the policy in practice, in particular in recruitment and succession planning. The outcomes of this thematic review could be raised with the institution in the context of ongoing governance supervision. They could also feed into Fit and Proper assessments, where collective suitability is one of the aspects that is considered. The results of this review could be published as part of promoting a social dialogue on gender diversity.

Partly based on the results of the thematic review, I would work towards publishing supervisory expectations regarding gender diversity. These would set expectations regarding the implementation by institutions of the requirements to take into account, such as the aspect of gender diversity for the composition of management bodies, in order to establish policies and to set and achieve targets for the underrepresented gender. Besides showing real commitment from the ECB, such supervisory expectations would also provide a concrete reference point in our supervision of the banks.

Initial steps have been taken in recent years to integrate gender diversity into the Supervisory Review and Evaluation Process (SREP). I would seek to build on this. More specifically, section 105 of the EBA/ESMA Guidelines on the assessment of the suitability of members of the management requires institutions to have a diversity policy which includes a quantitative target for the representation of the underrepresented gender in the management body. It also requires institutions to specify an appropriate timeframe within which the target should be met and how it will be met. We should apply this legal basis more actively in our supervision. Also, the focus in the SREP assessment should not solely be on diversity in the management bodies, but staff at large.

Part of our focus should also be on equal remuneration in the sector. Data from Eurostat show that the financial services industry is the worst performing in terms of equal pay between men and women. The legal framework provides a basis to also incorporate this into our supervisory practice (art. 74(1) CRD V).

At the same time, the ECB should set itself a bar as high as it sets for the institutions under its supervision. I fully embrace the targets the ECB has set itself to increase the share of female staff members. If appointed, I will actively work towards ensuring that these targets are met.

In addition, while recognizing that appointments at National Central Banks and Authorities are made at a domestic, political level, I would further explore with the other members of the Executive Board, the Governing Council and the Supervisory Board ways in which we could collectively promote the publication, implementation and monitoring of diversity policies at the ECB, National Central Banks and the National Competent Authorities.

Finally, I would like to emphasise that, while it is very important, my focus on diversity is not limited to gender diversity. I fully support diverse management bodies and diverse organisations at large, in the broadest possible meaning of the word.

52. *How do you see possible improvements to the ECB's accountability vis-à-vis the European Court of Auditors (ECA) in terms of its operational efficiency? Where do you draw the line for the ECA's mandate?*

Operational efficiency of the management of the ECB is a key factor for ensuring that the ECB delivers on its mandate in an efficient manner. The role given by the EU Treaties to the European Court of Auditors to independently assess and provide advice in this respect is thus very welcome.

I understand that the ECB has come to meaningful agreements with the ECA, by committing to provide access to all information required for the performance of its tasks as defined by the Treaty. The ECB should continue doing that and follow-up on the performance of audits covering the operational efficiency of the management of the ECB, as appropriate.

At the same time, the ECB's independence enshrined in the Treaties should be respected too. This means that the ECA can judge whether a set objective was achieved with the fewest resources, but not whether the objective set was adequate or legal.

When it comes to ECB Banking Supervision, I welcome the fact that a Memorandum of Understanding with the ECA was signed in 2019. This Memorandum is an important sign of the goodwill between both parties. It will also allow the two to cooperate smoothly in the context of ECA audits of ECB Banking Supervision, thanks to the established channels for sharing information. This new system of information sharing respects both the ECA's need to access the relevant information for performing its tasks and the need to protect sensitive bank-specific information.

Finally, let me also recall that the European Parliament, as the institution to which the ECB is accountable, also has an important role to play. The findings of the ECA's reports can inform the discussions between the ECB and the EP thus leading to an improvement of the ECB's operations.

53. What will be your personal approach to social dialogue at the ECB?

Social dialogue is an important element to ensure the good functioning of every institution and especially one as crucially reliant on its staff as a central bank. Also I believe thorough engagement and discussion with staff representatives to ensure views are fully heard and understood is an important element in building a sustainable and fulfilling work environment.

Over recent years, I understand that the ECB has made significant progress in areas such as workload, working time and flexibility, notably by introducing a flexible working time regime in 2018. Also drawing on the DNB experience where we too have flexible working time arrangements, I consider these crucial steps to attract and keep talent, ensure work-life balance and support the long-term well-being of staff.

Work-life balance is also an important point in the current circumstances caused by the coronavirus pandemic. Moreover, the pandemic raises several new challenges with regard to engagement with staff that need to be considered, including how to best support staff in what can be psychologically challenging times and ensure that staff views continue to be heard in a virtual working environment. In this regard, I value clear and open communication with employees. I believe regular surveys on remote working conditions, as I understand have been conducted at the ECB over the past half year, are instrumental to gain a better understanding of employees' situations and stay in touch with their concerns.