Single Resolution Board

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Keynote Speech

(Sveriges Riksbank, De Nederlandsche Bank,

and Deutsche Bundesbank)

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Banking Resolution – Keynote Speech by Dr Elke König, Chair of the Single Resolution Board.

[Introduction]

Good evening ladies and gentlemen,

It is a pleasure to be here, and thank you very much to the Organising committee and to First Deputy Governor Kerstin af Jochnick for the invitation to be here.

This evening, I want to start by retracing very briefly the origins of the SRB, and the Banking Union, because in what are relatively good times for the economy, there is always a temptation to take our eye off the ball and become complacent.

Ten years on, the instability of the past decade, caused by the crash, should not be forgotten. When the financial crisis hit ten years ago, all economies, but the EU in particular, were very unprepared to deal with the shocks that affected the banking system, and the taxpayer was left to foot the bill. A political decision was taken at the G20 level, and the European Union took decisive steps to better equip itself in the event of a major financial crisis in the future.

Today, we can say this: **we perhaps do not have the power to prevent a major shock**, but we have put many measures in place to ensure that the effects of such a shock can be dealt with efficiently and effectively, with reduced impact on the real economy and public budgets. Last year, we had our first resolution case in Spain. While there is always room for fine-tuning, especially as this was our first 'live' resolution case, this case was managed without any spill over impact on the real economy – **proof that the EU rules are working**.

Of course, the Banking Union is still developing, - some areas are more advanced than others - and **there is still more to do.** I'll come back to this in a moment.

[SRB Mandate – Reminder of SRB Role]

At the SRB, **our job, our mandate** is to **make every institution and every bank resolvable** and to **put in place plans for a scenario where they would fail.** Resolution plans will consider strategies and define a preferred strategy, but clearly at the point of Failing or Likely to Fail the situation might be different so some scenario planning is necessary. Of course, resolution, or a 'funeral' for a bank if you like, is the very last resort. Most of our work is in forward-looking planning and addressing topics to make banks resolvable.

Of course, we cannot do this work alone. We rely on the good cooperation with industry; the SRB will set the focus and give the impulse but it is then for the banks to do the work of becoming resolvable. We will monitor and assess the progress made.

We co-operate with the national competent authorities. This close relationship with authorities who have their finger on the pulse locally is something we appreciate at the SRB and is essential to our work. It allows us to address the specific issues related to a particular bank and adequately reflect national specificities. Please bear in mind that a lot of under-lying regulation is still national – whether we like it or not.

[SRB Progress and Achievements]

At the peak of the crisis, most of the banks were considered as **"too-big-to-fail",** too complex to fail, too interconnected to fail, which clearly raised a moral hazard issue as bail-out was chosen for lack of a better alternative.

There has been a fundamental shift and **bail-in** rather than **bail-out** is the norm now like in any other industry. According to a simulation by the European Commission the **benefits to the real economy** of the higher bank capital requirements introduced under CRD IV and the new bail-in rules deliver combined macroeconomic **benefits amounting to 0.6%-1.1% of EU GDP per year, while the macroeconomic costs of these reforms amount to a mere 0.3% of GDP.**

The regulations that have been adopted since the crisis, and the technical work undertaken on resolution, mean that many banks can now safely enter insolvency without causing disruption to financial stability. We are not only better prepared for a bank failure, but **we can confidently say that the failure of a small or medium sized bank today would probably not entail any threat to financial stability.** These banks can be resolved - like any other business in the market economy – through regular insolvency procedures, which is a welcome development. To be very clear, resolution in line with the BRRD and SRMR would only apply where the failing bank is of public interest – be if out of financial stability concerns or because of the critical functions performed by the bank in the Member State. It is for the few, not the many.

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[Good progress, but what is left to do?]

Yes, **we have made good progress, but we cannot stop there**. MREL buffers should be built in good times to avoid cyclical behaviour; if we do not adhere to this then the regulatory framework may end up being cyclical. And the same applies for other measures needed to address obstacles to resolvability.

I would now like to spend some time highlighting the core priority areas for progress going forward.

[Adding flesh to the bones of resolution plans]

As I have said on many occasions, **resolution is a process not a product**, and so, our work must go on. We are now in the phase of perfecting and adding to our resolution plans – putting some flesh on the bones if you like. There will always be a need to update these plans periodically, and I must stress that European resolution plans are just that – plans. They serve as a solid foundation, but in real 'live' cases, we must always have the flexibility required to adapt them.

So, this work on resolution planning will continue and deepen for the foreseeable future. The SRB is focusing on the operationalisation of resolution plans to make banks truly resolvable. This includes more analytical work on the preferred resolution strategy and tools, on critical functions and identifying material impediments to resolvability. It also includes operationalising bail-in or write-down. As part of this work, the SRB will move beyond the consolidated level to also consider institution-specific requirements, which will account for the specific structure of the banks and banking groups.

But this is not just work for the SRB. The banks must also play their role in this work – I said at the outset that we rely heavily on the close cooperation we enjoy with the industry. The banks know very well what needs to be addressed to make themselves resolvable. Banks do not have to wait for regulators' instructions in order to start getting their house in order. **Responsible bank management teams will already be working on these areas** and for those lagging a little behind, I would urge you to follow the lead of others in the industry and begin to get your house in order.

The political focus is on MREL, and indeed MREL is key to make banks resolvable and end bail-out. However, resolvability goes beyond these issues to also include, amongst others, the ability to provide timely and accurate data, a structure aligned to resolvability and operational continuity in resolution. Only if all these issues are addressed will we reach our goals.

[Completing the Banking Union]

Completing the Banking Union is a priority for the European Union in the months ahead. It has been a long process but we are going in the right direction. We started with record speed but now we seem to have lost some traction. The results of the June Ecofin summit will be decisive.

[Banking Package]

I welcome the general approach agreed late last month by finance ministers on a package of measures to reform bank regulations in the EU. The SRB is of the view that the current Council compromise would indeed reduce risks in the Banking Union. Putting an end to the uncertainty of this file and having more clarity, particularly on MREL, is surely a positive step. In that sense we also hope that the European Parliament can make rapid progress on this file so the trilogues can begin soon.

We appreciate the transposition of TLAC and expansion of a Pillar 1 requirement to all banks with assets above €100 billion, supporting the level playing field between G-SIIs and other relevant institutions. More generally, we note the progress made on the rest of the package, in particular the development of a dedicated pre-resolution moratorium tool. The SRB also supports the Commission’s Intermediate Parent Undertaking proposal, which would improve coordination across institutions in the EU, and welcomes the continued support for this proposal in the Council general approach.

We would however note that complexity should be avoided where possible. Transparency and predictability are of utmost importance for the institutions and for investors.

Furthermore, the integrity of the Banking Union should be preserved. The SRB should retain discretion and flexibility for the purpose of MREL setting and calibration to ensure a level playing field for credit institutions in the Banking Union. In a similar spirit, the need for internal MREL within banking groups is undisputed but it should also be closely monitored that the resolution strategy is not contradicted by measures creating barriers.

Of course, when the trilogue is finished and the package is adopted, the SRB will adapt its policies to the revised legislative framework and the work of implementation will begin in the Banking Union.

[Common Backstop]

We hope that progress on the risk reduction package will help reaching a solution on a **Common backstop** for the SRB's bank-rescue fund. It is key to have such backstop in place by 2024, and that the backstop is designed in an effective way. While other options have also been considered, more detailed analysis has been undertaken on ESM credit lines as Backstop provider. Based on those discussions, access to the Backstop should be aligned with the rules for the use of the SRF and it should take full advantage of synergies with the existing framework. It will be critical that the provider of the Backstop is able to make loans within a short timeframe and that the conditions around access are clear and simple. A duplication of tasks between the SRB and the Backstop provider should be avoided.

A well designed Backstop, available as a last resort, will give markets the confidence that resolution will work even for large, complex banks, and reduce stress on the financial system in the event of a bank failure.

[Funding in resolution]

However, I must be clear that this will not solve by itself the issue of **funding in resolution**, which needs to be addressed jointly with other authorities. Funding in resolution is a key issue on which work remains.

To be clear, the SRF can contribute to the provision of funding in resolution. However, considering its capacity, articulation with other sources of funding is required for the success of the resolution scheme of a large complex bank.

While the resolution framework provides for powers and tools to restore the solvency of failing institutions, even if the bank is well recapitalized after the resolution week-end, it is expected that it will still experience liquidity stress as market confidence might take some time to reappear.

Further work is required across the authorities to anticipate how to safeguard the provision of adequate funding to implement a viable resolution scheme. A common understanding and available funding in resolution are required in order to ensure the success of resolution actions. Developing an effective solution, which markets understand addresses this risk, and may limit the need to access such facilities, by giving market participants the confidence to provide funding to banks soon after the resolution weekend.

[EDIS]

Political agreement is also needed on a **European Deposit Insurance Scheme:** EDIS. It is time to move forward and complete the Banking Union with its third pillar.

I am as keen as you are to see what the outcome of discussions will be. Now, in times of economic stability and growth in the euro area, **this is the right time to continue to push for completion of the Banking Union – and of course, I am sure this will be of great interest to Sweden in its deliberations on joining the Banking Union!**

[Other challenges]

I have said that the SRB and other resolution authorities are advancing our work based on the current standards like on MREL, while being mindful about the potential changes to come.

However, beyond the work being done by the SRB and the banks, I will also briefly highlight some other areas.

Insolvency procedures in the EU are still very much national. Bank insolvency procedures are not equally structured in all EU Member States and should be elevated to a common best standard and practice. The ideal solution would be EU wide rules on insolvency proceedings for the banking sector, but I am a realist. **The development of national handbooks is a very good 'second best' option – for now at least.**

Currently we are faced by 19 insolvency regimes in the Banking Union alone. As you can imagine, this makes analysing the insolvency counterfactual for a cross-border bank in resolution highly challenging, and results in diverging outcomes depending on the home country of the institution.

Legacy issues are another area that needs to be addressed by European banks and by our Member States. We therefore support the ECB's and the EC's current efforts to tackle the persisting problem of NPLs in the balance sheets of certain banks. The economy of Europe is strong now, so '**Let us make hay while the sun shines!'** Certainly, we would not want to still be addressing the legacy of past crises if future risks materialised.

[International Cooperation]

Last but not least, I want to stress the **importance of global cooperation, especially with our partners in the US and the UK.** The EU does not exist in isolation, so we must work closely with our international partners to ensure stability in the financial system. Since the crisis, we have worked to strengthen international co-operation, and I hope you will agree that we can be optimistic that our enhanced co-operation will enable us to work together more effectively to address issues that arise in the future.

[European and Nordic Cooperation]

Resolution colleges are the European dimension of this international cooperation, allowing member states to co-ordinate effectively and develop a resolution plan which preserves financial stability and critical functions across member states in which a particular bank has operations. At CMGs, the SRB represents members of the Banking Union; here international authorities meet to agree on resolution strategy, address barriers to resolution, and set a common approach ahead of resolution.

Of course, many of the broader issues around European co-operation also affect the Nordic region, and some issues are specific to the area. Crucially, the Banking Union is a fundamental piece of infrastructure for the safety and protection of taxpayers and banks. We all know how interconnected the Nordic markets are. Therefore we very much appreciate the close co-operation between our teams. It is needed to ensure the resolvability of the Nordic banks in and outside the Banking Union. This is in addition helped by the crisis exercise in which the SRB participates with the Nordic NRAs.

[Conclusion]

There are many items still to be completed and dealt with. Given the nature of the constantly evolving financial market, there will always be new challenges to deal with on the road to ensuring we have financial stability across the European Union and further afield. That said, we can be certain about one thing, compared with this time ten years ago, the EU is far better equipped to deal with shocks, and the SRB has a very important role to play in ensuring the financial stability of the European financial system. I want to thank you for your continued cooperation and thank you for your time today.