SRB bi-annual reporting note to Eurogroup

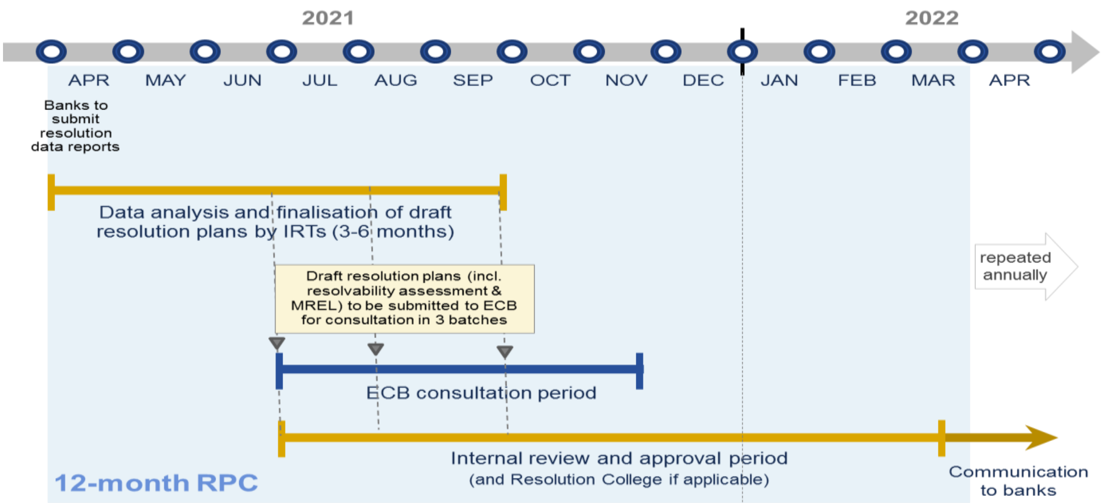
This short note is aimed at reporting to the Eurogroup of 21 May 2021 on the progress of the SRB[1] activities in the areas of (1) resolution planning, resolvability and MREL, (2) latest policy developments, and (3) the Single Resolution Fund.

1. RESOLUTION PLANNING CYCLE, RESOLVABILITY AND MREL

Resolution Planning Cycle

The SRB is in the concluding phase of the 2020 Resolution Planning Cycle (RPC). The 2020 RPC was for the first time based on a uniform 12-month cycle, from April 2020 to April 2021. Despite the challenges connected to the COVID-19 outbreak, the SRB kept the 2020 RPC on track and prepared resolution plans together with the National Resolution Authorities (NRAs) for the banking groups under its remit (106 plans)[2]. Almost all resolution plans and MREL decisions for the 2020 RPC have already been approved and adopted.[3] The SRB recently started the 2021 RPC. "Priority letters" containing the bespoke work program for any given banking group were sent in October/ November 2020 and most data reports were received end of March 2021 (see figure 1 for the main steps of the 2021 RPC).

Figure 1 – 2021 RPC milestones

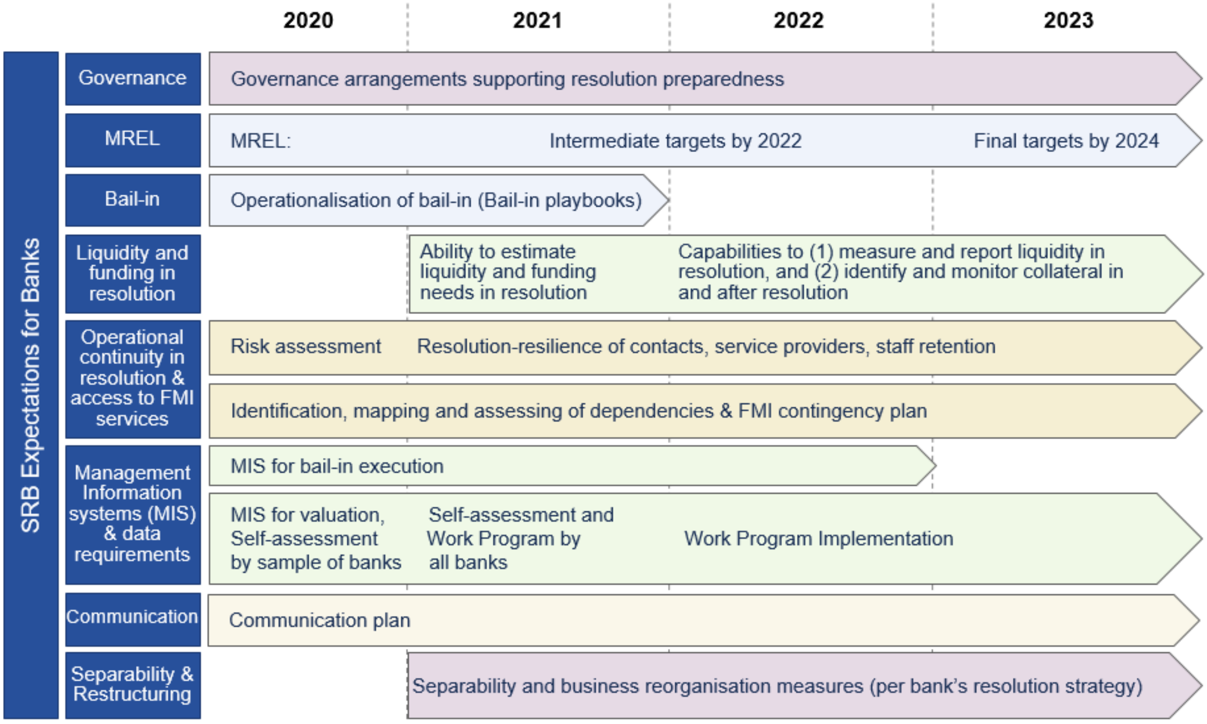


[1] While this note refers to the SRB for brevity, work is carried out in close cooperation with National Resolution Authorities (NRAs) as they are part of joint Internal Resolution Teams (IRTs) and through joint Committees and day-to-day cooperation on the development of SRB policies and on the SRF-related activities.
[2] The number of resolution plans is lower than the number of banks, due to the fact that institutions under the direct remit of SRB, which are subsidiaries of another banking group under the direct remit of SRB are considered in the group resolution plan of the parent entity (and not separately).
[3] At the time of drafting of this note, formal approval for some banks is still pending due to a delay resulting from the ongoing transposition of BRRD2 at national level, amongst others. However, this will not impact the resolution planning activities in the 2021 RPC and ongoing work on banks' resolvability.

Resolvability

In 2020, the SRB published its Expectations for Banks ("EfB"), as the key blueprint to steer banks towards resolvability. Banks are called to progress on each resolvability dimension gradually, year by year, with 2023 as the latest deadline – in line with the implementation of MREL.

Figure 2 - overview of EfB dimensions and timeline



Each year, the SRB sets common working priorities (among the EfB) for banks under its remit. For 2021, the focus is on: bail-in implementation (bail-in playbooks and data availability), liquidity and funding in resolution, and IT capabilities for valuation data.

Throughout the 2021 RPC the SRB reviews banks' progress towards resolvability, taking into account banks' multi-annual work programmes and progress reports. This provides important information for the identification of potential impediments to resolution and the formal initiation of the legal procedure to remove substantive impediments, if required.

The monitoring of banks' progress on resolvability conditions, having regard to their relative impact on the feasibility of the preferred resolution strategy (PRS), will be reflected in a horizontal resolvability "heat-map", based on harmonized horizontal criteria ensuring proportionality and level playing field across the Banking Union. This is to ensure banks focus their efforts on the areas that are most critical for the successful execution of the resolution strategy, within the timelines set by the phase-in and transitional provisions of the EfB and MREL policies respectively.

MREL

Loss absorption capacity (or MREL) is one of the key conditions to become resolvable. The SRB actively monitors the build-up of MREL across banks under its remit. The latest Monitoring Report on Risk Reduction Indicators[4] shows that the average MREL shortfall against the final target considering the Combined Buffer Requirement reduced to 0.9% TREA[5] in Q2 2020 as compared to 1.2% TREA in Q4 2019[6], as the MREL eligible resources increased more than MREL targets. The overall outstanding of MREL eligible liabilities[7] across SRB banks[8] reached EUR 2,132 bn in Q2 2020 (from EUR 2,103 bn in Q4 2019).

In December 2020, the SRB urged all banks to take a prudent stance on their early redemption of MREL instruments in light of the "Banking Package" MREL requirements and also explained how the transition to the new procedure will work (coming into force in January 2022)[9].

As for instruments issued in the UK, the SRB will consider liabilities governed by UK law without a contractual bail-in recognition clause as eligible for MREL, if they (i) otherwise satisfy applicable MREL criteria; and (ii) were issued on or before 15 November 2018[10]. This exemption will apply until 28 June 2025 to ensure alignment with the prudential grandfathering of the requirement to introduce contractual recognition clauses in own funds instruments (as per Article 494b CRR). The volume of the concerned instruments will gradually decrease over time as they reach their respective maturity dates. The SRB will closely monitor the resolvability of banks whose liabilities include such instruments and decide accordingly[11].

2. LATEST SRB POLICY DEVELOPMENTS

The SRB develops policies to support high-level standards in the work of Internal Resolution Teams, and to steer consistent implementation by banks of the EfB.

In January 2021, the SRB published a Checklist for Reporting Liabilities, as a guide for banks officers and a Sign-Off Form for banks CEOs (or responsible board members). This aims to ensure that data reported by banks in the Additional Liability Report correspond to liabilities meeting MREL eligibility criteria.

[4] Under BRRD II framework.
[5] Total Risk Exposure Amount.
[6] Considering a common sample of 75 banks, which does not include banks earmarked for liquidation and four resolution groups in BG and HR.
[7] Including own funds.
[8] Considering the abovementioned sample.
[9] https://srb.europa.eu/sites/srbsite/files/2020-12-18_srb_permissions_regime_communication_final.pdf
[10] I.e. when the SRB published its resolvability expectations for banks in the context of Brexit and noted the potential consequences of Brexit for banks' existing stock of UK law governed MREL instruments.
[11] I.e. the SRB may review the considerations expressed if changed circumstances affecting the resolvability of those bank materialise.

In March 2021, the SRB published a Resolution Dossier for Financial Market Infrastructures ("FMIs"), which outlines the Banking Union resolution framework and tools, their impact on a bank's ability to maintain access to FMI, and the relevant legal provisions supporting continued access to FMI services in resolution.

In April 2021, the SRB published a new guidance on liquidity and funding in resolution. This guidance focuses on the estimation of liquidity needs, and aims to enhancing banks' resolvability and preparedness. Banks will be assessed on this element in the 2021 RPC.

Within the existing legal framework, the SRB has enhanced its approach to the Public Interest Assessment (PIA) by the consideration of systemic-wide events in resolution planning, which will be applied in 2021. Further to this, the SRB will work to deepen the analysis on the PIA dimensions related to (i) critical functions at regional level, and (ii) the protection of covered depositors: the work on these areas will be completed before the 2022 RPC.

3. SINGLE RESOLUTION FUND (SRF)

The SRB launched a consultation in March 2021 for the 2021 ex-ante contributions to the SRF, allowing the banks to review the SRB's preliminary master decision for the 2021 ex-ante contributions before its adoption, and to comment on pertinent aspects of the calculation exercise.

The SRF received data from DGS showing a significant increase of covered deposits during 2020. The yearly average amount for institutions in scope increased by 7% (quarterly), whereas the year-end evolution for all credit institutions is of 8.9%. The exceptional increase of covered deposits is partly associated with the COVID-19 outbreak and related lockdown measures.

Overall, the SRF is expected to attain in July 2021 an increase of EUR 11 bn from 3018 institutions for the year 2021, bringing the total amount in the SRF to approximately EUR 53 bn. To recall, the SRF now holds around EUR 42 bn and in January 2024 it should be reaching at least 1% of covered deposits of the banks authorised in the Banking Union as required by the current legal framework.

Following the Eurogroup's agreement in November 2020, which marked a key step towards the completion of the Banking Union and enhanced confidence in the resolution framework, the SRB is implementing the agreement on early introduction of the SRF. The SRB is preparing, among others, the Backstop Facility Agreement, the Parallel Facility Agreement, and the termination of the Loan Facility Agreements. Finally, the SRB developed a collateral policy for the purposes of liquidity support if the common backstop is used (to be presented to the ESM), and the ESM and SRB are working to conclude the methodology to assess the SRB repayment capacity of the borrowed amounts under the ESM credit line.