



[CHECK AGAINST DELIVERY]

## 1. Introduction

Dear Chair, Honourable Members, Ladies and Gentlemen,

Thank you once again for the invitation to be here before your committee. It is hard to believe it, but this is the sixteenth and last time I will be here in front of you in this European Parliament period – tempus fugit!

## 2. A brief look back at the main achievements

In the past five years, we have made good progress. Too much for me to mention in one speech, but I'd like to touch briefly on some of the highlights.

In May 2014, the **BRRD** came into being, putting in place a framework to allow bail-in to replace bail-out in case of bank failure. In July 2014, the **SRMR** came into effect, laying the ground for the establishment of the

SRB. The adoption of the Banking Package just before Christmas last year is another important milestone.

For the SRB itself, we too have been busy over this past parliamentary mandate. We successfully dealt with our first Resolution case in **Banco Popular** – protecting the Spanish taxpayer and ensuring stability in the financial system, while ensuring that critical functions continued unhindered.

But let me be clear here. In any resolution or insolvency, losses have to be allocated. It is always going to cause some people to lose money, and in this case, concretely shareholders and bondholders. But we can say that we have dealt with Spain's sixth largest bank very effectively and without an impact on financial stability.

The SRB is steadily building up **the SRF** and it is well on the road to reaching the target of 1% of covered deposits by 2023.

Over the past few years, we have developed **resolution plans** for all the banking groups under our remit and we continue the work to strengthen those plans.

The SRB itself has grown from zero staff to hopefully close to 400 full-time staff by the end of this year.

### 3. Implementing the Framework

The focus of the SRB has moved gradually from policy development to implementing the framework that has been put in place. We have been working closely with the NRAs and with the Banks on developing a **number of polices** in order to make the resolution framework a reality. Banks know very well the direction of travel and responsible management teams are already doing the work to make themselves resolvable.

However, where banks are not cooperating as they should, **I have a clear message**: the SRB will intervene if it has to. No one can avoid the task of making their bank resolvable, postponing is not an option.

### [MREL]

MREL is possibly the most well-known condition to making banks resolvable by ensuring they **have**

**sufficient funds to absorb losses and be recapitalised** - thereby replacing the need for a taxpayer-funded bail-out with a privately financed “bail-in”. That is why it is one of our most important policies. The SRB has taken a gradual, **multi-year approach to MREL**. We also strive to facilitate the transition for banks towards the upcoming new rules, which provide for a minimum statutory requirement for subordinated liabilities and a framework for setting internal MREL.

The **latest SRB policy**, published in January, enhances the quality and quantity of MREL by introducing a series of new features to strengthen banks’ resolvability.

The lack of sufficient **MREL could, of course, be an important barrier to executing the resolution strategy**, but it is **not the only one**.

The findings from **our first resolution planning cycles** have revealed the following areas as potential obstacles to resolution:

- (i) group structures and operations, (ii) management information systems; (iii) operational continuity; (iv) communication.

Let's take them one by one:

**(i) Group structures and operations**

Banks, and particularly large cross-border ones, are characterised by complex group structures, which can pose barriers to their resolvability. A resolution authority must, therefore, ensure that these would not hinder but rather facilitate the execution of the preferred resolution strategy.

The funding structure is equally a key element, which links back to MREL. Plans to meet MREL targets need to be developed by banks, and there should be no barrier to the down-streaming of resources and upstreaming of losses within the group. These two things are needed: **National handbooks and Playbooks for bail-in.**

## **(ii) Management information systems**

A key resolvability element is the ability of banks to deliver complete and accurate information in a timely fashion. This is the case for resolution planning purposes - but even more importantly in a crisis scenario, with tight timelines and more data needs.

In February this year, the SRB published its **Framework for Valuation**, which describes our expectations regarding the principles and methodologies for (the so-called second and third) valuation reports to be carried out by independent valuers as set out in the legal framework. This Framework is not directed at banks, but it **should already be useful for them as an indication of the information that the valuer may need to conduct any valuations**. Further work is ongoing by the SRB, together with the European Banking Authority, to define the expectations for valuation information.

## **(iii) Operational continuity**

Another important aspect for achieving resolvability is ensuring operational continuity in resolution and

maintaining access to financial market infrastructures or FMIs and FMI intermediaries ahead of, and during resolution. This requires banks to identify and map all services necessary for the provision of critical functions and critical business lines.

#### **(iv) Governance and communication**

As a further aspect, banks need to have clearly defined governance procedures to support timely decision-making in resolution and a clear plan to communicate to internal and external stakeholders.

### **4. The SRB's key priorities for 2019**

Dear Chair, Honourable members,

Let me briefly mention our **internal priorities** for this year, bearing in mind that resolution planning remains our core task. The SRB continues to work hard on its **2019 resolution planning cycle**. Our resolution teams have of course already communicated the 2019 individual priorities for each bank.

We have been working internally on updating – or rather collating – the various policies in an updated resolution planning manual to be used by our IRTs and the NRAs. This autumn, we also expect to set out a more comprehensive outline of what are our resolvability expectations towards all banks, which should help public understanding. And last, but not least, we are preparing for the implementation of **BRRD II and SRMR II**.

### [ “Requests” for changes – food for thought ]

When I look to the wider context, let me recall that the SRB’s purpose is to **promote financial stability, while protecting the European taxpayer**. We want to continue that work, and play our part to ensure Europe develops, deepens and strengthens the **Banking Union** and the **Capital Markets Union**.

### [Completion of the CMU]

From the SRB’s perspective it is evident that the EU needs a stronger and more harmonised capital market. Banks need to strengthen their capital as well as issuing



and maintaining the needed MREL. This should be doable in a deep and liquid European capital market in Euro, not just US Dollars.

### **[Implementing EDIS & completing the 3<sup>rd</sup> pillar]**

The much discussed EDIS project remains a priority for the SRB. I share with many of you the frustration in the Banking Union still not being complete. That said, it remains on our 'shopping list' and so we continue to highlight its benefits and hope it will come into being. **The third and final pillar of the Banking Union is vital, let's hope we see movement on it as soon as possible.**

### **[Insolvency law harmonisation]**

This is not the first time I have raised the issue of insolvency laws, although it may be the last time I raise it in this current Parliament cycle.

**The divergence of national insolvency laws is a major obstacle towards a fully-fledged Banking Union.** The safeguard that no creditor shall be worse off in resolution than in insolvency is an important

protection provided for in the regulation. However, there might be different results in different countries depending on the national insolvency regime, which could negatively impact on the resolution procedure.

### **[Liquidity and the Fund]**

Dare I mention the word '**backstop**' in Brussels these days! I am of course speaking of the SRF backstop, not the Irish one. This will be an important buffer in giving the markets confidence in a time of crisis or resolution.

**Liquidity in resolution is a key gap in the framework.** The SRF could play a role in liquidity provisioning as a last resort, but this role will be limited due to the SRF's size both during the transitionary period and after the target level is reached, even when we add the Common Backstop. Addressing this issue will materially enhance financial stability. **Let's hope for progress in the Council discussion.**

## **5. Conclusion**

Dear Mr Chair, Honourable Members, I am drawing to a close. Together, we have achieved a lot, but there is much more to come.

It goes without saying that the Banking Union has made a difference. Banks are sounder and safer than some years ago, with better quality and quantity of capital. Also the work on making them resolvable is progressing – but this is a marathon, not a sprint.

I want to thank each of you, and your teams for your cooperation and support during this mandate of Parliament. I wish all those running for the European elections the very best next month.

I now look forward to questions from the Honourable Members.