Keynote Speech

EU Financial Markets: East Meets West

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CHECK AGAINST DELIVERY

[Introduction]

Good morning ladies and gentlemen,

It is a pleasure to be here with you today in the capital of Poland, one of the largest member states of the European Union.

The title of today's event reads "East meets West" and I am glad to be invited. Financial markets are deeply inter-connected in Europe. The Single Market and its extension of 2004 and 2007 certainly contributed to this step of integration.

While there are upsides and downsides of cross-border banking, we should always keep in mind that cross-border issues require cross-border solutions. The European crisis management framework is a perfect example of how the downsides of banking are mutually managed in the EU.

The SRB is directly responsible for resolution planning for over 20 banking groups with a footprint in Central and Eastern European (CEE) countries, including a large number of G-SIBs. Although you do not see me too often here in person, rest assured that close cooperation is taking place concerning these banking groups among all EU authorities.

I'd like to start my keynote today by taking stock of where we are on the road to ending too-big-to-fail and how far we still have to go in order to make our banks resolvable. It is a fitting time to take a look back, given that this autumn we are marking ten years since the financial crisis struck and large-scale taxpayer bail-outs of banks were triggered.

Finally, I would also like to touch upon the topic of home-host cooperation of EU authorities.

[Achievements to date]

The Banking Union is currently made up of 19 Member States - although any country in the EU can join it. In the Banking Union, supervision is centralised within the Single Supervisory Mechanism (SSM) – and resolution in the Single Resolution Mechanism. These two pillars are a key part of the European response to the crash of 2008. The third pillar, the European Deposit Insurance Scheme (EDIS), is still in the making.

[Ten Years Ago]

Ladies and gentlemen, the past ten years have seen a paradigm shift which has led us from the concept of bail-out due to lack of alternatives, to bail-in. Risk-taking and Reward-taking have been aligned more closely – just like in any other industry.

Indeed, ten years ago the very concept of banking resolution did not really exist. A resolution was something people made on New Year's Eve, and it had normally faded into a distant memory a month later! Banking resolution is different, it will be here next month, next year and in ten years-time.

[Priorities / Challenges to overcome]

My colleagues and I do not just sit and wait for a bank to fail or come close to failing!

Our job is to ensure that all banks under our remit are resolvable. This means that we can deal with a failing or likely to fail institution in an orderly and structured manner, while trying to limit any spill over effect of a banks' failure. Banking Union authorities are working with the industry to achieve resolvability. By doing so, we also minimise the risk of their failure.

Making banks resolvable is a journey, and it will take a number of years. It is also a joint effort. We, at the SRB, cannot build resolvability by ourselves. We work closely with the national authorities within and outside the Banking Union - such as the Polish Bank Guarantee Fund - but crucially with the industry itself. The SRB can set out a clear direction to achieve resolvability but it is banks' responsibility to make themselves resolvable.

So what are our goals and targets in achieving resolvability of the banks under our remit?

The year 2019 will see significant progress in resolution planning, both in the scope of banks covered by resolution plans and in the content of these plans.

I am pleased to say to you here this morning, that for the first time since the inception of the Board, all SRB banking groups will be covered by a resolution plan in 2019. Our tasks will increasingly focus on tailoring resolution strategies to a bank's structure and business model, and on identifying and addressing impediments to resolvability.

With regard to content of resolution plans, all plans will be further substantiated reflecting the development of new or updated internal SRB policies.

And of course, 2019 will see sizeable progress in the SRB's definition of binding MREL requirements, including the internal location of MREL and its quality. MREL is a rather technical term, and I know you are not all resolution experts here this morning, so just to remind you briefly what it means. MREL stands for Minimum Requirement for Own Funds & Eligible Liabilities and it is basically the EU standard for 'bail-in' capital. Funds that in case of failure can be quickly activated to stabilise the failing institution over a weekend.

Going forward, banks will be responsible for meeting their individual targets. And resolution authorities will be responsible for the operationalisation of the Bail-in Tool in national law, in case resolution action requires a write-down and conversion of these instruments.

A working priority also presents the identification and "obstacles to resolution" and their removal. Obstacles could include, inter alia, lack of adequate availability of data, in particular but not just detailed liability information, and inadequate IT systems, overly complex legal structures, lack of sufficient safeguards to guarantee continuity of access to financial market infrastructures, funding in resolution, etc.

Though not all these obstacles are for the banks to address, banks do not have to wait for the SRB's decisions on impediments. They can and should work on making improvements immediately.

Please allow me a few words about the Single Resolution Fund or SRF: The SRF is composed of contributions from credit institutions and certain investment firms in the 19 participating Member States within the Banking Union.

It ensures that the financial industry, as a whole, finances the stabilisation of the financial system. It will be used only when bail-in isn’t enough to stabilise an institution in resolution and generally under two key conditions, namely:

- First, a minimum of 8% loss absorption took place;
- Second, a contribution from the SRF in principle cannot exceed 5% of total liabilities and own funds.

So far, we have collected through the NRAs around 25 billion euros and we expect the SRF to grow to just short of EUR 33 billion in 2019. The amounts are invested to ensure value protection and high liquidity.

The SRB is keen to see progress made on common the backstop to the Single Resolution Fund. An increase of the SRB’s financial capacity to handle bank failure will provide further confidence to markets in the Banking Union and across Europe.

In this context it must be kept in mind that the provision of the backstop is a last resort measure for the SRB in case a resolution decision can only be implemented with the means of the SRF and the backstop.

With regard to the regulatory agenda, it is important to move forward with the BRRD-II package. The finalisation will have a direct impact on day-to-day resolution planning for all resolution authorities in the EU. Legislative changes will need to be taken into account in future iterations of resolution plans.

Brexit is going to be another challenge facing many sectors in the coming year, and it will no doubt make an impact on our core business. Yesterday, we published a short guidance on our website, which includes the SRB's expectation vis-à-vis all banks active in the Banking Union to meet a specific set of resolvability conditions. The guidance focuses on six main areas: MREL eligibility, internal loss absorbency, operational continuity, access to FMIs, governance and management information systems.

Close cooperation with the European Central Bank, National Competent Authorities, NRAs, our international counterparts and last but not least, banks, will need to remain strong to absorb the impact of Brexit.

[A word on home-host specificities]

Before I end, a word on some specific files relating to the cooperation between home and host countries in Europe.

Given the cross-border nature of the financial markets in the EU, the SRB maintains very close relations with authorities within and outside the Eurozone.

An important forum where authorities of non-BU countries and the SRB work closely together are Resolution Colleges. These “Colleges” concern banking groups operating across the EU. They represent a space where resolution authorities prepare and take decisions related to resolution planning.

The BRRD requires group-level resolution authorities (home resolution authorities) to set up a Resolution College for each cross-border banking group. But how does a Resolution College work in practice?

In practice, it is the responsibility of the Group Level Resolution Authority to set up a Resolution College and prepare the group resolution plan covering the parent entity and subsidiaries that are part of the group. This is the case for the 20 SRB groups operating in CEE countries that I briefly mentioned in my introduction.

A set of written arrangements are in place between the home and host authorities on the functioning of the resolution college. These arrangements address the sharing of information, holding in-person meetings, the coordination of activities including the joint-decision timeline and procedures, as well as communication to the bank. Critically, it also includes arrangements for cooperation and coordination in emergency situations, especially of systemic nature, which may pose threats to the viability of any of the group entities.

Resolution planning is an essential element of effective resolution and close cooperation between home and host inside the EU and outside the Banking Union is absolutely necessary for significant progress.

In the next cycle, we are looking at taking individual MREL decisions for major entities. This is subject to the completion of important analytical work underway and agreements reached through the joint-decision process among all members of the Resolution College. It is vital that all resolution authorities do their utmost to reach agreement on the resolution plan and setting of MREL requirements. Otherwise, progress on the resolvability of banking subsidiaries and the risks to the local economy will remain as real risks.

[Conclusion]

Events such as today's that bring together experts from different legal jurisdiction are crucial to deliver on European objectives. That is one of the reasons I try to visit as many capitals in the European Union as I can, as regularly as I can.

We have put in place the foundations in Europe, in the Banking Union, to make banks resolvable – but there are still many areas of work. We saw the effects of a lack of an effective and efficient resolution regime right across the globe ten years ago, and we realised then that financial crashes know no borders.

Let me apologise for ending on such dramatic note. But quoting a fellow Board Member, working in bank resolution we are paid to be pessimistic. This said, let me stop here and wish you interesting discussions today in panels focusing on the prospects and opportunities of financial markets across the EU.

Thank you.