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Belgian Financial Forum

Auditorium of the National Bank of Belgium

rue Montagne aux Herbes Potagères, 61

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[CHECK AGAINST DELIVERY]

Ladies and Gentlemen,

Thank you very much to the National Bank of Belgium for the invitation to speak.

We are in fact almost neighbours with our new offices located close to Parc Royal - with the "minor" difference that you have been founded in 1850 and we have been up and running for just over two years now.

Like much of the EU's crisis management framework, we are indeed a new setup; resolution authorities did not exist before the financial crisis, nor did the Banking Union. Put together, the variety of new rules and regulations since 2008 form a common set of rules for all the banks within the EU, setting out enhanced prudential rules for banks, harmonised and better depositor protection, and providing for the resolution of failing banks, just to mention some key changes. In this new regulatory architecture, the Single Resolution Board, the SRB, is the resolution authority in the Banking Union and one of the pillars of the Banking Union.

Bank bashing is popular today, but banks are a necessary part of the economy. Banks improve our economies. They intermediate funds between those with excess savings to those demanding them. However, in this process discrepancies arise between the resources they have (assets) compared to the commitments they acquire (liabilities).

Quantitatively, if a bank is solvent, the value of its commitments in euros matches the value of its resources in euros. However, commitments made by a bank generally do not match qualitatively one-to-one to the resources it has available. In the process they are creating money and capital, and they are like a financial "power plant" for society. This is also why financial regulation is needed.

So far so good…in 'normal' times.

However, what happens in crisis times? Why do we say that a bank "fails"? EU legislation specifically defines what a bank failure is. A working definition, for the purposes of this speech, is that a bank fails when mismatches between its assets and liabilities are such that it can no longer honour its commitments; it will not meet the requirements for ongoing authorisation; and any private measures to return to a sound and solvent balance sheet are not, or are no longer available. It's that simple.

If a bank fails this is not a failure of the system. Banks should be able to fail; the exit of firms in a market system is a natural part of the system. Let me be absolutely clear, financial regulation is not there to avoid any failure of financial institutions. But if an institution fails this should both be manageable and well managed. History proves: bank failures do not have to be threats to financial stability.

But clearly the turmoil of the last financial crisis highlighted the limitations of the regulatory framework to handle a bank failure. During this crisis, the size, the complexity and interconnectedness of the banks, the financial situation of the markets and the necessity to react quickly forced the public authorities to inject huge amounts of public money in their banking system.

Since the crisis, supervision has been strengthened and aligned, capital requirements raised, a whole new resolution regime introduced. Central-Counterparty clearing has been put in place: derivatives are now cleared on transparent platforms to avoid widespread contagion. We are not only better prepared for a bank failure, but much more importantly, we can also confidently say that the failure of most banks today would probably not entail a threat to financial stability. We are working hard to be confident to say this applies to for all banks, including international firms.

This cannot be stressed enough. Most banks are now in such a shape that we can say with confidence that their failure would not endanger financial stability and that they can be resolved if they fail - like any other business in the market economy – through regular insolvency procedures. Indeed, here in Belgium there was the recent Optima Bank case. The bank was liquidated without needing public support or causing financial stability concerns. The same holds true for other Member States.

The extra safety net of resolution is only for the few, not the many.

But let us now look at the rules on resolution, and how these came clearly after the 2008 financial crisis.

The financial crisis demonstrated the need for better regulation and supervision of the EU financial sector, both outside and in the euro area. Rescuing ailing banks with public money shifted the burden of the failures and of the losses to the taxpayers, triggering tensions on the sovereign bond markets and more specifically, challenging the coherence and the robustness of the euro area. It stressed the need to set a new institutional and legislative framework to deal with failing banks by cutting the link between the banks and the States.

In 2011, the Financial Stability Board set out its “Key Attributes” to handle bank failure and set the basis of a new framework to resolve financial institutions in an orderly manner without taxpayer's exposure to losses while maintaining continuity of their vital economic functions. Two pieces of legislation were designed by the European institutions to incorporate the international principles in European law and build a single mechanism to manage bank failures at the level of the Banking Union:

- The Bank Recovery and Resolution Directive, the BRRD, set the new legislative framework to handle a bank crisis either in going concern (a recovery action) or in gone concern (a resolution action).

- The Single Resolution Mechanism Regulation, the SRMR, set up the specific institutional framework for resolution action at the Banking Union level.

The SRB, as I have said in my introduction, is one of the pillars of the Banking Union, next to the Single Supervisory Mechanism, in the European Central Bank.

We, together with the National Resolution Authorities (the NRAs), form the SRM. The role of the SRM is not limited to acting in case of a bank failure. Its objective is to anticipate possible difficulties in handling a bank failure, and to restore the viability of the bank after a resolution action to maintain the critical functions. The SRM is primarily focused on preventive and preparatory measures through drawing up resolution plans.

The BRRD gave new powers to resolution authorities, in particular the bail-in tool. This tool allows the absorption of the losses beyond the own funds through the write-down of certain liabilities in order to stabilise or restructure a bank and rather than just winding it down or sending it into insolvency. Once the losses are absorbed, the bank's capital could be reconstituted by the conversion of all or part of the remaining eligible liabilities into equity.

All these measures mean that the European financial system is more resilient to economic shocks and EU citizens are better protected.

Since 2008/9 a lot of real change has happened as a result of these reforms… banks are stronger, safer, less leveraged today.

The establishment of the Banking Union was deemed the best way to address one of the key challenges in Europe: weakness and mistrust in the banking sector. And I firmly believe that creating the Banking Union was a step in the right direction. Now we need to complete it. Like when rowing upstream on a river, letting up now would mean moving backwards.

The SRB is the resolution authority for the significant and cross border banking groups established in participating Member States. In the context of the SRM, it works in close cooperation with the NRAs. Within the Banking Union, the SRB cooperates, with the European Central Bank, the European Commission, as well as other European and international institutions. Its mission is to ensure an orderly resolution of failing banks with minimum impact on the real economy and on public finances of the participating Member States and beyond.

The SRB is continually coordinating effectively with other resolution authorities, both within the EU and globally, and will act to ensure that G-SIBs, and other international banks, operating in the Banking Union can fail without major systemic consequences. For participating Member States, a centralised power of resolution is entrusted to the SRB, with resolution schemes executed by its partners, the NRAs.

In just two years after our set-up - following the newly implemented rules such as the BRRD and the SRMR - we at the SRB have truly come a long way. The full set of rules under the BRRD became effective in January 2016, giving resolution authorities the needed toolkit.

By the end of 2016, we had developed around 65 Resolution Plans and around 30 so-called Transitional Resolution Plans – which include a less detailed analysis - for banks, meaning that these plans were prepared, both internally and in resolution colleges, and are now in the final process of being approved. This was a huge step forward, but this is does not yet mean "mission accomplished".

I have stated numerous times, the SRB's work is forward-looking: thanks to our planning, banks will be resolved without having significant adverse impact on financial stability. The SRB's work will not just end bail-outs, but also incentivise private sector creditors to find a solution without use of public funds. This is clearly starting to happen. In the UK, which is subject to the BRRD, the Co-operative Bank restructured its balance sheet in the market, rather than using public sector support. Other cases could also be cited, including the Atlante initiative.

Setting Minimum Requirement for own funds and Eligible Liabilities or MREL, is an integral part of the SRB's work on resolution planning. MREL is the SRB's key tool to achieve resolvability of banks. Only by setting an adequate MREL we can ensure that banks will have sufficient loss-absorbing capacity at the point of resolution to enable resolution authorities to effectively protect critical economic functions without use of taxpayers' money.

In 2016, we made progress on enhancing resolvability by identifying barriers to resolution and by starting to provide guidance on ways to remove them, as well as starting to develop guidance on MREL.

There is no "one size fits all". MREL is a bank-by-bank decision and the SRB follows the methodology spelled out in the recently adopted Delegated Act. Let me stress the importance of the resolution authority being able to apply sufficient discretion and judgement when determining MREL.

MREL of not less than 8% of total liabilities - but on a case-by-case basis possibly well above – will generally be required for the largest banks in the Banking Union. In case of a resolution the Single Resolution Fund requires a minimum level of burden sharing and none of us wants to be in a position of realising when entering into a resolution that there are simply not enough bail-inable liabilities left to attain the required level of burden sharing.

The main take-away from the SRB's work on MREL so far is clearly that, as of today, following detailed analysis based on a sample of banks, the Euro area banks show a significant, though manageable, shortfall. It will be by no means as high as some experts have estimated. The "8%" – considered as a benchmark - would be a real issue for less than a handful of banks. In most cases, the application of the delegated act would get you to higher requirements based on the underlying capital requirements.

We are aware of the challenges related to meeting the MREL targets in certain markets and for certain banks and we will take them into account, in particular when determining the timing for implementing MREL. Setting MREL and implementing Total Loss-Absorbing Capacity (TLAC) in the EU must lead to a stronger, more credible resolution regime; it is not the time to weaken the MREL framework.

The SRB will continue to refine its policies on consolidated MREL targets in 2017 and will start developing MREL at entity level within banking groups in the SRB's remit. At the same time we will also start to address the quality and location of MREL within banking groups.

We are also currently analysing the European Commission's proposal on the implementation of the TLAC international standard into EU legislation. Until that proposal is finalised and passed into law, the current legislative framework stands and we will implement the key features of TLAC in our coming binding MREL targets. And let me reiterate that this is possible in the current legal framework.

One of our Board Members keeps saying that setting MREL is a journey or a process, not a product – and he is entirely right. This holds true for resolution planning in general. Sufficient loss-absorbing capacity - that is all MREL is meant to be - is central to changing the answer to the "who pays?" question from taxpayers …. to shareholders and creditors.

Going forward, bail-in rather than bail-out will be the rule of the game.

However, beyond MREL setting and the implementation of the bail-in tool, the resolution authorities will have to work on other aspects of resolution planning. Resolution planning is not limited to the assessment of loss absorbing capacity.

The resolution authorities will also have to take care of the operational continuity of critical services after the resolution. The banks' capacity to raise funding, the access to financial market infrastructures or the mere restoration of the market confidence in the resolved banks are also key elements to take into consideration. And these topics are definitely on the SRB's agenda for this year.

On top of resolution tools, as last resort, the SRB also has financial resources available, the Single Resolution Fund or SRF. The SRF is financed from ex-ante contributions paid annually by all banks and some investment firms established in the 19 Member States that have adopted the Euro as currency. The SRB is responsible for calculating these ex-ante contributions in accordance with legislation ensuring harmonised rules; they are collected by the NRAs.

The SRF is being built up during eight years starting from last year: it is going to represent at least 1% of Euro area banks' covered deposits, which, of course, are a fraction of total liabilities.

But keep in mind: it can only be accessed after at least 8% of total liabilities of a failing bank have been bailed-in. We have collected so far a little over 10 billion euros to the SRF, with the next annual contribution due on the first of July.

A lot has been achieved up to now, and the SRB's focus on addressing "too big to fail" will remain unchanged for 2017. Sound resolution planning and resolution readiness, as well as an efficient management of the SRF, remain key priorities.

We have to make progress on developing bank specific preferred resolution strategies; we need to operationalise the identified strategies and ways forward for banks.

In addition, the oversight function of the SRB over Less Significant Institutions (LSIs) will also gradually be developed.

The regulatory framework is still developing and the SRB will – just like in the past - contribute to all policy and legislative initiatives that can potentially impact on its activities. More concretely, the SRB will: (i) contribute to the revision of the BRRD and SRMR, (ii) contribute to the transposition of TLAC into EU legislation, (iii) provide expertise in the European Deposit Insurance Scheme discussion and (iv) contribute to the development of a resolution framework for financial market infrastructures – just to mention the most important topics.

Since the crisis a vast amount of work has gone into ensuring that banks are no longer too big to fail. And a lot has been achieved. We have a realistic chance to make bail outs a thing of the past. Through effective planning and resolution work, we can make sure that we continue to strengthen the Banking Union and contribute to financial stability.

A well-developed and fully functioning Banking Union with operational resolution tools such as bail-in will ensure the overall stability of the financial system in the euro area and will help rebuild confidence in banks, with a positive impact on the real economy and citizens' welfare.

Thank you for your attention.

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