



EP Hearing

Elke König, Chair of the Single Resolution Board

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Mr Chairman,

Honourable Members of Parliament,

It is a pleasure to be here to address you and to talk with you about the achievements attained by the SRB so far under my chairmanship and the elements that I consider important for the SRB going forward. Transparency and public responsibility are key for the work of the SRB. In my role as the SRB Chair I have attended several closed and open hearings here in the European Parliament and have always valued the opportunity to work closely with you, as well as with the Commission and Council.

I have also held introductory visits in the participating Member States and I have attended meetings with some national parliaments, upon their invitation. Overall, it is critical for legislators across the EU to understand the work of the SRB in making banks resolvable and its challenging nature, given the direct positive impact the execution of the SRB's mission can have on the EU and its citizens.

Ladies and Gentlemen, we have just published our first multi-annual programme for the next three years, including our work programme for 2018 today and already we can say that the second pillar of the Banking Union stands on solid ground, but we have to keep up the momentum and deliver the ambitious objectives set out by the co-legislators. By no means can we declare “mission accomplished” yet.

Since the inception of the Banking Union a lot has been achieved and among those achievements there was the establishment of the SRB. The SRB has come from being a start-up with a very small number of diverse staff, to today’s situation of an independent EU-agency with around 300 staff. The first three years in the SRB’s life represent a very challenging period, not least for the SRB’s staff members that contributed to meeting those challenges and made the SRB’s mission become a reality. Today, I see the SRB moving to become a solid and mature institution. As any new organisation we are still facing a number of issues to address, but we can now say that, having managed successfully our first resolution, we are up and running.

Over the next years and beyond, the SRB will continue to set the conditions for ensuring an orderly resolution of failing banks with minimum impact on the real economy, the financial system and public finances. This is our mission and it is in every sense a multi-year project given its many angles and complexities.

Concretely, by the latest by 2020, the SRB will have developed complete resolution plans for all its banking groups, plans with

the highest degree of sophistication under our framework. The SRB envisages intermediate stages for resolution plans which will be gradually refined until they reach this ultimate stage. Let me be clear that we already have plans for the vast majority of our banks – it is now about enhancing and enriching them with more detail. We must tackle for example possible impediments in more detail, and like elsewhere in life – a plan is only as good as far as it is able to accommodate an unknown reality. Plans are forward-looking, but inevitably need to be adapted to the circumstances of each concrete situation if and when they need to be turned into a resolution scheme.

Over the coming cycles and by the latest in 2020, our resolution plans will comprise binding targets for minimum requirements for own funds and eligible liabilities (MREL) at consolidated and solo level and – another important aspect – they will reflect our findings about the removal of impediments to resolution.

For banking groups with a resolution college, the plans for 2017 will comprise binding MREL targets at consolidated level as well as an initial discussion of MREL targets at individual level. For banks without a resolution college, we will determine MREL targets at consolidated level for most of them. We held extensive workshops / hearings with the individual banks and have proactively communicated our general approach to the market, through two industry dialogues in 2017.

The SRB has taken a proportionate, multi-year approach to MREL setting, and will continue to enhance its MREL policy in 2018, in

line with the rules set out in the SRMR and the Commission's Delegated Regulation on MREL. We are completely transparent in our approach to setting MREL, following the legal framework and providing relevant information to the industry and the general public.

In 2018, for those banks for which binding targets have already been set at consolidated level, the SRB will determine targets at individual level. For other banks, we will set binding MREL targets at consolidated level. The approach being taken ensures that banks are able to manage the transition to meeting MREL requirements without significant impact on financial stability or the real economy.

When the resolution framework was designed, there was a general consensus to rule out a repetition of what happened in the financial crisis: using taxpayers' money to rescue banks due to lack of better options. Therefore the BRRD and SRMR were designed as an appropriate way to allocate the costs of failure. The resolution framework provides for the general principle - in resolution and insolvency - that shareholders bear losses first and creditors should bear losses after shareholders, in the order of their priority. This general principle is based on the principle of acknowledgement of risk in the purchase of such instruments, namely shares and debt instruments.

It is important that we acknowledge that credible and sufficient MREL is part of the *cor cordium*, the very heart of what we have been trying to achieve since the financial crisis of 2008. We can

choose to make a future crisis less likely OR to keep the level of bail-in-able capital at banks low. Both are not possible at the same time. And the developments in the banks vindicate our approach: even without having taken any formal MREL decision so far, Banking Union banks issued significantly more Additional Tier 1, Tier 2 and Senior Unsecured bonds in the first half of 2017 (around 86 bn EUR) than in the second half of 2016 (around 32.5 bn EUR).

The SRB will advance its common resolution policies and standards in key areas throughout 2018. We will for example develop policies on internal MREL, MREL calibration under transfer strategies, and liquidity in resolution. A policy on identifying and addressing substantive impediments to resolvability is also in the pipeline and, next year, we will conduct an identification of such impediments in parallel to our work on policy development. Further guidance will have to be developed on the use of the different resolution tools and on the assessment of public interest in resolution. More can be found in the just published Multi Annual Programming document.

Carrying out resolution action requires a master plan for varying scenarios. We just had our first case last June, when, following the ECB's assessment that Banco Popular is failing or likely to fail, the SRB, together with Spanish National Resolution authority, unanimously decided to take resolution action with regard to Banco Popular. This decision was then endorsed by the European Commission. The SRB will, together with the European

Commission and the ECB, take account of the lessons learned from this experience.

However, whatever crisis model the best experts may elaborate – and it is indispensable to do so – the reality will always be different and in any case, the SRB will be ready to act with skill and flexibility. When it comes to resolving failing banks, there is no second chance!

Take the case of Banco Popular as an example. Of course the resolution strategy foreseen in the resolution plan cannot assume the availability of a potential buyer for the entire bank, but if, as was the case here, this is the most effective solution for the preservation of financial stability and indeed the protection of investors then we must do our utmost to enable such a favourable outcome. Deviation from the plan must always be considered if it delivers a better outcome.

Resolution inevitably results in losses for equity holders and potentially bondholders. It is, as we can see now, also a feast for lawyers, who challenge not only the actions of the EU and national authorities involved in the adoption of such decision but also the legality of the EU resolution framework as a whole.

Let me now briefly turn from our operational objectives to the regulatory framework that is guiding our daily work. As you will be aware, the BRRD and the SRMR are currently undergoing a thorough review and will see some crucial changes in the next years – changes that you will decide on.

Indeed, bank resolution is still a rather novel concept and it can be useful to amend the applicable rules, taking account of the experience and insight gained as long as it does not lead to a regulatory backslide.

Given this, 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.

Regarding the risk reduction proposals launched by the European Commission in 2016, we welcome the political decision to fasten the introduction of a common and comprehensive creditor hierarchy. This will create a level-playing field and provide legal certainty across the European Union.

In this spirit, we also look forward to a decision on the other parts of the risk reduction package as it is of such importance for our mandate and work. We hope it will reinforce the resolution framework and provide clarity for the years to come.

Let me just recall that implementing the Common Backstop for the Single Resolution Fund is of course important, and to that end we are supporting the efforts of Member States to put in place an effective common backstop. And last but definitely not least, the completion of the Banking Union requires it also to address the third pillar, EDIS. More broadly, I would also remind Member states of the needed work to address legacy issues and enhance their legal framework, in particular their insolvency laws.

As the Chair of the SRB, I view it as critically important to consolidate the work already done in resolution planning, and to further deepen our analysis – both on resolution planning and policy development.

To sum up, a huge amount of work had been done within a short period of time, and yet much work remains still ahead of us before we can declare “mission accomplished”.

I look forward to continuing this work together with the SRB Board Members and the dedicated SRB staff and to strengthening our contributions, in collaboration with our national and international partners and, of course, with the European Parliament and the other European Institutions.

Thank you very much for your attention!