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Mr Chairman,

Honourable Members of Parliament,

Thank you for inviting me to the European Parliament today. It is my third and final appearance before ECON this year. Since my appointment I have been invited to speak fifteen times in this committee.

As the year is ending, it is important to reflect upon not only our achievements, but also our future work. Since we last met in July, the Single Resolution Board (SRB) adopted its Work Programme 2019. In my introductory remarks today, I would therefore like to touch upon our upcoming priorities to achieve resolvability. I would also like to use the opportunity and share with you my view regarding a few policy topics that affect the SRB's mandate.



Resolution planning: a process not a product

Resolution planning is an essential element for achieving resolvability of banks and without doubt, it constitutes the bulk of our activity involving concentrated efforts, resources and time.

Last month, the SRB published its 2019 Work Programme. Together with National Resolution Authorities (NRAs), it is our ambition to draft bank-specific resolution plans covering **all** banking groups under the SRB's remit. For the first time, there will be a detailed assessment for **all** banking groups within our responsibility regarding their specific critical functions and whether resolution action would meet the objective of "public interest".

When it comes to the drafting of resolution plans, we distinguish between **two types of banks** depending on whether the group is active in and outside the Banking Union, i.e. **does it have a Resolution College or not?** Due to coordination with relevant authorities, including the ECB, this results in different timelines for the drafting of resolution plans. The planning cycles are staggered and – unfortunately – exceed the calendar year. Whereas plans for so called "non-College banks" can be finalised towards the end of each year, the drafting and adoption of plans



for more complex, so-called “College banks” started only in September and ends at best after twelve to fifteen months.

In 2018, the focus has consequently been on non-College banks while our work for the most complex banks will go well into the second half of next year. The good news is that it allows for more detailed work concerning complex banks, for example in the area of enhancing MREL setting.

Resolution planning is a process, not a product. It will therefore require time. In line with the SRB’s iterative and multi-year approach, the quality of resolution plans will be improved progressively until 2020, but to be clear: The implementation of MREL and the removal of impediments will be an ongoing and ambitious task for banks and our message to banks remains unchanged: **the sooner you start, the better.**

A crucial input for this work is the development of internal policies that guide our resolution units within the Single Resolution Mechanism in the planning for resolution. We envisage finalising the bulk of our policy work next year. In the interest of transparency, the SRB expects to publish a version of the Resolution Planning Manual in early 2019. The manual aggregates the relevant SRB policies and it will clearly spell out our expectations towards banks. Nothing of this will come as a surprise for banks as we are in ongoing dialogue with them.



Joint efforts to address impediments to resolvability

Another priority next year will be the operationalisation of resolution strategies and in particular our work concerning the identification and removal of impediments to resolvability. We began working on impediments to resolvability in detail this year. We will continue this work moving forward as the implementation of corrective measures takes time. In this context, I would like to stress the role of banks. Building resolvability is a joint effort or to be clear: the SRB expects all banks to demonstrate that they are resolvable. Banks are best placed to provide information on their own structure and functioning. It is the responsibility of banks to make themselves resolvable; it is the SRB's job to set the direction and to ensure it actually happens.

It is only when this "joint approach" does not work, that the SRB would use its authority to set in motion formal procedures to remove impediments. So far our experience has been positive, but to be fair, it is early days and the heavy lifting is only just beginning.



Sizable progress defining MREL targets

2019 will also see sizable progress regarding the definition of Minimum Requirement for Own Funds & Eligible Liabilities or MREL. MREL is a key achievement of the Banking Union as it aligns risk-taking and reward-taking and it is a key tool to achieve resolvability. The enhanced and more ambitious definition of MREL targets will consequently represent a high priority next year. In the 2018/19 cycle, the SRB expects to adopt more than 100 group-level MREL decisions, and to determine MREL targets for over 500 individual entities.

In this context and in the interest of transparency, we have published in November our 2018 MREL policy for the first wave of resolution plans; this applies mainly to banks that last year did not have binding MREL targets. A strengthened policy covering the second wave - i.e. banks with Resolution Colleges that already had binding targets at group level in 2017/18 - will follow in the coming days.

SRB banks are making progress in issuing new MREL eligible liabilities. In 2018, the seven largest Banking Union banks – which qualify as G-SIIs – issued EUR 53bn of TLAC like instruments, coming closer to full compliance with their international commitments.



With regard to MREL, the SRB back-tested its MREL policy like in previous years. In this context, a global shortfall of around €170bn for SRB banks has been estimated. These figures were assessed under a strengthened policy with conservative assumptions and a wider scope compared to 2017. The increased requirements were largely compensated by new issuances. Overall, this is reassuring. The shortfall remains concentrated within five Member States counting for almost 80 percent of the shortfall.

MREL-gaps will need to be closed going forward to ensure resolvability. To this end, the SRB will actively engage with relevant banks. It is the banks' responsibility to build up sufficient bail-inable instruments within the timeframe defined by the SRB and NRAs. There is no alternative if we want to create resolvable banks.

Leaps forward for resolution planning of LSIs

Next, allow me a short outlook on resolution planning of Less Significant Institutions or LSIs. Here primary responsibility rests with NRAs, whereas the SRB maintains an oversight role.

Here too we are starting to see progress. While clearly work focused on Significant Institutions in the beginning, NRAs are now also preparing for LSIs, where in the vast majority insolvency would be the primary route to take, if a bank fails.



Fully operationalising the SRF

Let me now turn to the Single Resolution Fund (or SRF). The SRF is a last resort measure and an important line-of-defence when it comes to protecting EU taxpayers from the costs of bank failure. The SRF stands at EUR 25 billion now and is expected to reach a financial capacity of just under EUR 33 billion next year. The fund will be gradually built up until 2023 to reach the target level of at least 1% of the amounts of covered deposits within the Banking Union or approximately EUR 60 billion.

Completing the Banking Union & the banking package

Before ending, let me briefly mention some policy dossiers, which are important since they will directly affect our work in the medium-term. We have made extraordinary progress to date establishing the Banking Union with the Single Supervisory Mechanism & Single Resolution Mechanism in place and the EU crisis management regime applied successfully into practice already.

We need to maintain this momentum. The SRB and National Resolution Authorities will need to continue their work to achieve



resolvability. On the regulatory agenda, we must build on our achievements to complete the Banking Union.

There are still missing elements necessary to underpin the credibility of the resolution regime: While the backstop to the SRF is now agreed in principle, a framework for liquidity in resolution still needs to be developed. And of course the third pillar of the Banking Union, the **European Deposit Insurance Scheme** is missing. Another area of policy work, which will likely take a longer perspective, relates to the improvement and harmonisation of insolvency laws in the EU. Just to reiterate: we need a harmonised as well as efficient and effective insolvency regime for financial institutions in the Banking Union.

Finally, a few words on the banking package. First of all, I would like to start by congratulating this Committee for achieving a political agreement on the package.

A stable regulatory framework is key for the authorities as well as for the banks that need to apply the rules. Let me add that we consider the efforts to polish the legal texts also very important, to improve legal clarity and avoid ambiguities: this will ease the application, and increase predictability for investors and the public.

Regarding the content, it seems regrettable that the package does not reflect all of the progress made in the Banking Union.



The so-called “fishing option” and the provisions on internal MREL risk to lead, respectively, to fragmentation of powers within the Banking Union, and the potential ring-fencing of loss absorption capacity within banking groups. It will be important to monitor the impact of these provisions and consider, in the future, whether they warrant revisions. We are fully aware of the necessary balance between home and host countries; it should however be for the SRB to address these.

On a more positive note, we believe the overall package will indeed contribute to reducing risk in the banking sector, particularly insofar as it introduces a solid minimum amount of subordinated debt for the most systemic banks. This should be appreciated when discussing the need to progress in parallel on risk reduction and risk sharing.

Concluding remarks

Finally Honourable Members, I want to thank the European Parliament for their continued support and cooperation. I will end my opening remarks at this point and look forward to answering any questions you may have.