SINGLE RESOLUTION BOARD

Conference 2020

THURSDAY, 8 OCTOBER 2020 / Brussels

Banking Resolution:

firm foundations for stability

Single Resolution Board

PROGRAMME

08:15 – 09:00	**REGISTRATION AND WELCOME COFFEE**
09:00 – 09:05	**WELCOME** Speaker: Elke KÖNIG, Chair, Single Resolution Board
09:05 – 09:25	**OPENING ADDRESS** Speaker: Nadia CALVIÑO, Spanish Minister for Economic Affairs and Digital Transformation Speaker: Carlo MESSINA, Managing Director and Chief Executive Officer, Intesa Sanpaolo
	SESSION I: The Impact of the Covid-19 Crisis *Moderator: Melinda Crane*
09:25 – 10:20	• **Panellist 1:** Andrew BAILEY, Governor, Bank of England • **Panellist 2:** John BERRIGAN, Director-General, DG FISMA, European Commission • **Panellist 3:** Dorothee BLESSING, Co-Head of Investing Banking EMEA, JP Morgan • **Panellist 4:** Jesús SAURINA, Board Member, Single Resolution Board • **Panellist 5:** Isabel SCHNABEL, Member of the Executive Board, European Central Bank • **Panellist 6:** Rolf STRAUCH, Chief Economist, European Stability Mechanism Q&A with audience
	SESSION II: Resolution Planning under the Banking Package: Continuity and Innovation
10:20 – 10:30	**KEYNOTE SPEECH** Speaker: Pablo Hernández DE COS, Governor Bank of Spain & Chair, Basel Committee on Banking Supervision *Moderator: Melinda Crane*
10:30 – 11:05	• **Panellist 1:** Pablo Hernández DE COS, Governor Bank of Spain & Chair, Basel Committee on Banking Supervision • **Panellist 2:** Sebastiano LAVIOLA, Board Member, Single Resolution Board • **Panellist 3:** Wim MIJS, CEO, European Banking Federation • **Panellist 4:** Anneli TUOMINEN, Director-General, Financial Supervisory Authority, Finland Q&A with audience

SESSION III: The Future of the Resolution Framework

11:05 – 11:15

KEYNOTE SPEECH

Speaker: Jelena MCWILLIAMS, Chairman, Federal Deposit Insurance Corporation (FDIC)

Moderator: Melinda Crane

11:15 – 12:00

- **Panellist 1:** Luis GARICANO, MEP, Renew Group, ECON Coordinator
- **Panellist 2:** MONIQUE GOYENS, Director-General, BEUC (European Consumer Organisation)
- **Panellist 3:** Megan GREENE, Senior Fellow, Harvard Kennedy School
- **Panellist 4:** Boštjan JAZBEC, Board Member, Single Resolution Board
- **Panellist 5:** Erik JONES, Director of European and Eurasian Studies, Johns Hopkins SAIS

Q&A with audience

12:00 – 12:10

CLOSING REMARKS

Speaker: Pedro MACHADO, Board Member, Single Resolution Board


BANKING RESOLUTION:
firm foundations for stability


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PABLO HERNANDOS DE COS
Governor Bank of Spain
Chair Basel Committee on Banking Supervision
SRB ESTABLISHED FIVE YEARS!
ACHIEVEMENTS
GAPS
SRB
BAIL-IN
SUCCESSFUL RESOLUTION PLANNING
CONTINUITY and CLEAR PROCESSES
ACHIEVEMENT OF RESOLVABILITY
CONSISTENT FOUNDATION
Session III
The future of the resolution framework
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SINGLE RESOLUTION BOARD ANNUAL CONFERENCE 2020

Banking Resolution:
Firm Foundations for Stability

EXECUTIVE SUMMARY

On 8 October 2020, the **Single Resolution Board (SRB)** held its fifth annual conference under the title **Banking Resolution: Firm Foundations for Stability**. In light of the ongoing Covid-19 pandemic, the event was turned into a hybrid meeting, with some speakers participating in-person in Brussels, and others taking part online. Audience members watched via live-stream and submitted questions via Twitter (#SRBresolution2020) and other digital tools.

A large part of the day's discussions focused on banks' roles in addressing the economic impact of the unprecedented public health crisis. The overwhelming consensus among speakers and panellists was that banks, regulators, supervisory bodies, and other stakeholders involved had acted expediently to support the real economy during the Covid-19 crisis.

Nonetheless, conference participants flagged critical missing elements of the resolution framework. A **European Deposit Insurance Scheme (EDIS)**, the **European Stability Mechanism (ESM) backstop**, and the development of a functioning **Capital Markets Union (CMU)** were identified as points of urgency. The **harmonisation of insolvency regimes** was another unresolved issue flagged. Across-the-board confidence in the resolution framework cannot be achieved until these missing pieces of the resolution puzzle are put into place.

Despite the clear need for work to be done — and the ongoing cloud of Covid-19 hanging overhead — the conference ended on an optimistic note. Several panellists expressed the view that times of crisis are in fact the best time to push ahead with progress. One example cited was the **Next Generation EU** recovery instrument (worth €750 billion) to boost the EU budget. Such a solution would have been unheard of just one year ago. Now, however, it raises hope for a more EU-centric rather than national approaches to the remaining hurdles to resolvability.

Ultimately, the Covid-19 pandemic has made one thing clear: Proceeding together and finding common solutions to common problems remains the strongest assets the EU has. The 2020 SRB conference reflected this fact, with speakers and panellists from different stakeholder groups participating from the United States, the United Kingdom, Spain, Germany, Italy, and Greece, among others. All agreed that the firm foundations for the stability Europe needs can only be realised through such a unified approach.

Elke König, Chair, Single Resolution Board

Elke König

"What a difference a year makes." With these words, **Elke König, Chair, Single Resolution Board,** kicked off the event. One year prior, the SRB conference had been held in person. This year, König was greeting mainly online participants and just the moderator and a few Brussels based participants in person, as the ongoing Covid-19 pandemic made large events impossible. "Now, more than ever, it is vital to ensure that banking resolution is always at the ready because it provides our banking system with a firm foundation for stability. This, in turn, provides stability to our economy and for our people," König said.

Having learned from 2007-2008, financial regulators took decisive steps to keep ahead of the looming crisis when faced with the uncertainty of economies shutting down for public health reasons this year. Nonetheless, König issued a word of caution: "Emergency measures, by their nature, are not meant for the medium- or long-term."

From the SRB's side, König highlighted two tasks. First, she stressed the need to continue the implementation of existing rules and policies. Second, she underscored the need for longer-term reforms. König noted a number of specific points on the SRB's lengthy to-do list, including **EDIS**, the **ESM backstop**, and the completion and development of a functioning **CMU**.

"All of this must be done in parallel, not instead of implementing existing rules," König stated. Ultimately, she remained optimistic. "Contrary to 2008, we can say that banks are part of the solution for economic recovery. How exactly they can play that role is up for discussion," she said. The day's discussions would explore that question, among many others.

Nadia Calviño, Spanish Minister for Economic Affairs and Digital Transformation

Nadia Calviño, Spanish Minister for Economic Affairs and Digital Transformation, spoke from Madrid via video address. "The banking sector did in fact enter this crisis with a stronger liquidity and solvency position. Thanks to this progress, the banking sector has been in a position to contribute to the solutions and support the economy," she said.

Nadia Calviño

Calviño pointed to her home country as an example. In Spain, the banking sector made a key contribution to the channelling of resources to businesses, especially small- and medium-sized enterprises, and the self-employed, with the support of the €100-billion guarantee line the Government set up in March. The banking sector has also played a key role in implementing other measures to support households and businesses, such as mortgage deferrals, she added.

But this is not the end of the road, Calviño made clear: "The sector needs to continue working to strengthen balance sheets and improve profitability." She particularly highlighted the need to complete the **Banking Union (BU)** with the missing element, EDIS, in order to preserve trust and ensure a level playing field. She further stressed the need to reach an agreement on a common backstop, and to develop effective instruments for the provision of liquidity in resolution. Finally, she stressed a need for progress in the CMU.

Calviño reiterated that in the current environment, the need for resolvability has become even more pressing. "The current situation is just another reminder that a crisis can happen, even in the most unexpected circumstances and due to external factors. We have crucial months ahead and the role of the banking sector will continue to be key for economic recovery," she concluded.

Carlo Messina, Managing Director and Chief Executive Officer, Intesa Sanpaolo

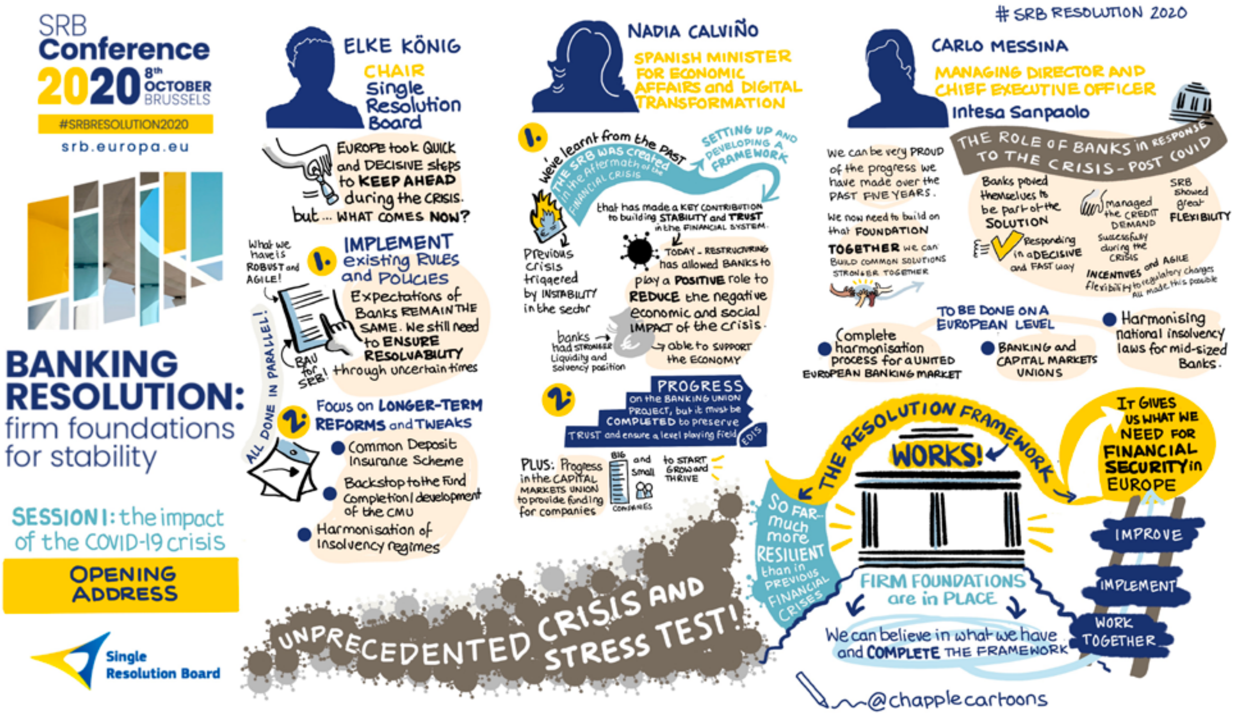
Carlo Messina

Carlo Messina, Managing Director and Chief Executive Officer, Intesa Sanpaolo, spoke from Milan via video. His institution served as the conduit of billions in credit to small and medium sized businesses at the height of lockdown, allowing for unique insights on the role of banks in response to Covid-19. "Banks have proven that they are a key part of the solution," he noted.

"Measures adopted in response to the pandemic taken by authorities and banks have been quick and effective," he continued. Regulators took swift measures to support bank lending to the real economy, while "monetary authorities and governments also launched a range of incentives for banks that were effective in keeping credit flowing to the economy."

Going forward, the impact of Covid-related measures must be carefully monitored, he cautioned. In particular, the need for a level playing field cannot be forgotten. On this point, Messina highlighted discrepancies in **MREL (Minimum Requirement for own funds and Eligible Liabilities)**: "The paradox is that banks that have already met MREL targets have less flexibility than those that have not. Banks shouldn't have to choose between supporting the economy and meeting MREL requirements."

Additionally, the European banking market is still too fragmented to compete on the global stage, Messina warned. He further stressed the need to complete unfinished projects like the BU, CMU, and EDIS. Ultimately, in Messina's view, the Covid-19 crisis has shown that Europe is strongest if it acts as a single entity and strives for a common European good. "Compared to the previous crisis, Europe has responded faster, with more ambition, and above all in a spirit of solidarity," he said, adding, "Now is time to make a foundation of stronger stability for the future."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BANKING RESOLUTION: firm foundations for stability
SESSION I: the impact of the COVID-19 crisis
OPENING ADDRESS
Single Resolution Board
ELKE KÖNIG
CHAIR Single Resolution Board
EUROPE took QUICK and DECISIVE steps to KEEP AHEAD during the CRISIS.
but... WHAT COMES NOW?
What we have is ROBUST and AGILE!
1. IMPLEMENT existing RULES and POLICIES
Expectations of Banks REMAIN THE SAME. We still need to ENSURE RESOLVABILITY through uncertain times
BAU for SRB!
ALL DONE IN PARALLEL!
2. Focus on LONGER-TERM REFORMS and TWEAKS
Common Deposit Insurance Scheme
Backstop to the Fund Completion / development of the CMU
Harmonisation of Insolvency regimes
NADIA CALVIÑO
SPANISH MINISTER FOR ECONOMIC AFFAIRS and DIGITAL TRANSFORMATION
1. We've learnt from the PAST
THE SRB WAS created in the Aftermath of the FINANCIAL CRISIS
SETTING UP AND DEVELOPING A FRAMEWORK
that has made a KEY CONTRIBUTION to building STABILITY and TRUST in the FINANCIAL SYSTEM.
Previous crisis triggered by INSTABILITY in the sector
TODAY - RESTRUCTURING has allowed BANKS to play a POSITIVE role to REDUCE the negative economic and social IMPACT of the crisis.
banks had STRONGER Liquidity and Solvency position
able to SUPPORT the ECONOMY
2. PROGRESS on the BANKING UNION PROJECT, but it must be COMPLETED to preserve TRUST and ensure a level playing field
EDIS
PLUS: Progress in the CAPITAL MARKETS UNION to provide funding for companies
BIG and Small COMPANIES
to START GROW and THRIVE
SRB RESOLUTION 2020
CARLO MESSINA
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER
Intesa Sanpaolo
We can be very PROUD of the progress we have made over the PAST FIVE YEARS.
We now need to build on that FOUNDATION
TOGETHER we can BUILD COMMON SOLUTIONS STRONGER TOGETHER
THE ROLE OF BANKS in RESPONSE TO THE CRISIS - POST COVID
Banks proved themselves to be part of the SOLUTION
managed the CREDIT DEMAND successfully during the CRISIS
SRB showed great FLEXIBILITY
Responding in a DECISIVE and FAST way
INCENTIVES and AGILE flexibility to regulatory changes All made this possible
TO BE DONE ON A EUROPEAN LEVEL
Complete harmonisation process for a UNITED EUROPEAN BANKING MARKET
BANKING and CAPITAL MARKETS UNIONS
Harmonising national insolvency laws for mid-sized Banks.
UNPRECEDENTED CRISIS AND STRESS TEST!
So FAR... much more RESILIENT than in PREVIOUS FINANCIAL CRISES
THE RESOLUTION FRAMEWORK WORKS!
FIRM FOUNDATIONS are in PLACE
We can believe in what we have and COMPLETE THE FRAMEWORK
IT GIVES US WHAT WE NEED FOR FINANCIAL SECURITY in EUROPE
IMPROVE
IMPLEMENT
WORK TOGETHER
@chapplecartoons

THE IMPACT OF THE COVID-19 CRISIS

Melinda Crane, John Berrigan and Jesús Saurina

Melinda Crane, Chief Political Correspondent, Deutsche Welle TV, reprised her role as moderator in this year's SRB conference. The first session of the day focused on the impact of the Covid-19 crisis. Panellist **Andrew Bailey, Governor, Bank of England,** noted that what sets this economic downturn apart is its distinctive cause, namely the fact that it had an idiosyncratic pattern across sectors. While the summer saw some recovery, this has been fragmented and partial.

Andrew Bailey

Asked about the UK's exit from the EU, he acknowledged that Covid-19 had complicated talks. He stated, "I believe that it's in the interests of all sides to reach a deal. Open economies and free trade are in everybody's interests. Nobody benefits from a protectionist point of view."

Rolf Strauch

Rolf Strauch, Chief Economist, European Stability Mechanism, echoed Bailey's cautionary tone: "What we have experienced is the deepest contraction in our lifetime. A rebound began in April. That rebound is now flattening out, and the consensus is that we will probably not have recovered our losses or returned to the level of 2019 GDP by the end of next year (2021)."

Strauch highlighted two major risks going forward. First, a "K-shaped" recovery, which leaves some behind. The factors determining who is left behind may be sectoral, regional, or social. Such uneven recovery inevitably leads to tension. Additionally, he noted, overall growth will be lower in the long run, for various reasons including demographics, pushback against globalisation, and climate change.

John Berrigan, Director-General, DG FISMA, European Commission, spoke on the level of preparedness among European authorities in addressing the pandemic's economic fallout. "Having started badly, we have come back pretty strongly," he said. He noted that all Member States went into emergency mode, resulting in uncoordinated responses. Since then, however, the EU has made a strong comeback.

"On the economic side, the **European Central Bank, ECB,** spurred action. This was followed by actions from bank supervisors to help lending. Then, the Commission made changes to the regulatory framework that assisted banks to lend to the economy. The EC also relaxed state aid and fiscal rules, allowing Member States to offer the necessary massive fiscal support," he explained. These efforts culminated in joint instruments, notably Next Generation EU.

John Berrigan

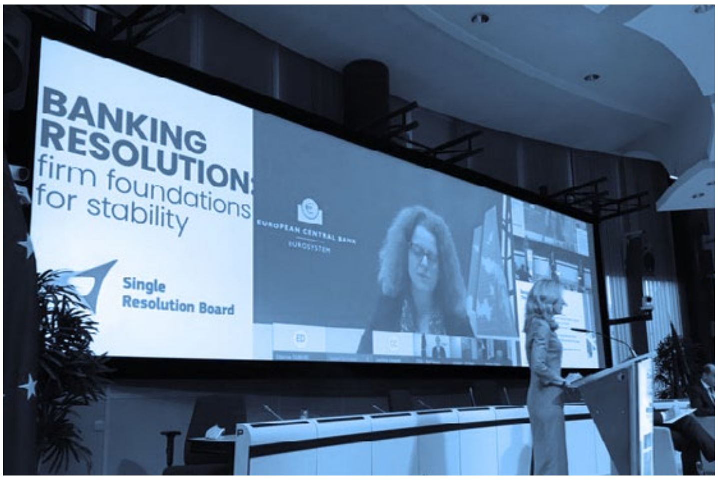
Dorothee Blessing

Dorothee Blessing, Co-Head of Investing Banking EMEA, JP Morgan, spoke on how the crisis may impact banks' business models structurally. From a practical standpoint, Blessing flagged the increasingly important role of technology in creating a sustainable banking sector. "How do we train the next generation of people in our industry?" she asked. In a post-Covid world where internships are virtual, training future generations of professionals will rely critically on technology.

Looking at the larger picture, Blessing highlighted the need for a continued focus on international agreements on bank safety and soundness. A robust financial system is necessary not only to weather a crisis but also to be able to continue to support growth in the economy, she stated.

Such considerations become even more critical in a "second wave" of Covid-19 infections.

Isabel Schnabel, Member of the Executive Board, European Central Bank, noted that financial markets had so far proven quite resilient although infection numbers in many European countries had recently started to increase again. She attributed this in part to the decisive policy responses in the fiscal, monetary and supervisory spheres, which collectively had proven policy-makers' commitment to combatting the economic fallout from the pandemic.



Isabel Schnabel

"This time euro area banks have acted as a shock absorber, not an amplifier," Schnabel said. "This is due to the fact that they have entered the situation with high capital and liquidity positions. Further, they were supported by supervisory relief measures, ECB liquidity provision at highly favourable rates and public guarantee programs. These measures have contributed to the rise of significant institutions' capital ratios in the second quarter of 2020." However, she added that such improvements might prove temporary as **non-performing loans (NPLs)** tend to lag recessions by several quarters, for instance.

Crane next turned the discussion to **Jesús Saurina, Board Member, Single Resolution Board,** asking what measures the SRB is taking to mitigate the economic impact of Covid-19. Saurina pointed to the SRB's willingness to show flexibility in light of the pandemic, highlighting MREL targets as an example: "When a bank has approached the SRB to discuss rapid increases of its balance sheet to sustain the economy, we have provided flexibility where reasonable and duly justified, and in a consistent way across all banks and jurisdictions."

The SRB requested all banks to submit updated key metrics (TREA, LRE, TLOF) and MREL capacity with reference date June 2020 in order to assess material balance sheet changes due to Covid-19. In the calibration of requirements, the SRB also took into account relief measures extended by supervisors in terms of capital requirements.

Bailey likewise stressed the importance of balancing flexibility with accountability. The Bank of England had cancelled its annual stress tests, for example. "What we've done instead is institute a more high-frequency series of shorter, faster, and more focused stress tests," Bailey explained. The ability to take such measures depends on the credibility of the underlying system, he added. He pointed to the unease surrounding the use of capital buffers and called for more confidence in this regard: "The capital buffer is precisely for circumstances like the one we're in today."

Berrigan explained that Europe has taken a similar approach with shorter and lighter vulnerability assessments. "These assessments have provided comfort that the situation is not as bad as in 2008, although we can't rule out that there will be problems with individual banks," he said. Speaking on the unprecedented number of government interventions, rescue packages, and guarantees provided in light of the Covid-19 downturn, Berrigan noted that such support couldn't continue indefinitely: "The support will end at some point. There will be insolvencies. These will likely appear as NPLs on balance sheets."

Speaking on the ESM's role, **Strauch** reiterated the unprecedented nature of the policy response to the first Covid-19 wave in Europe. While the first line of defence came in the actions of national governments, by early April, the Eurogroup had decided on the first European support package of €540 billion. The package consisted of three distinct components, one to support workers, one to support firms, and one to support sovereigns — this last component being under the ESM's remit. "We have come up with a credit line to finance healthcare expenditures for 2% of GDP per Member State," Strauch explained, totalling €240 billion worth of support.

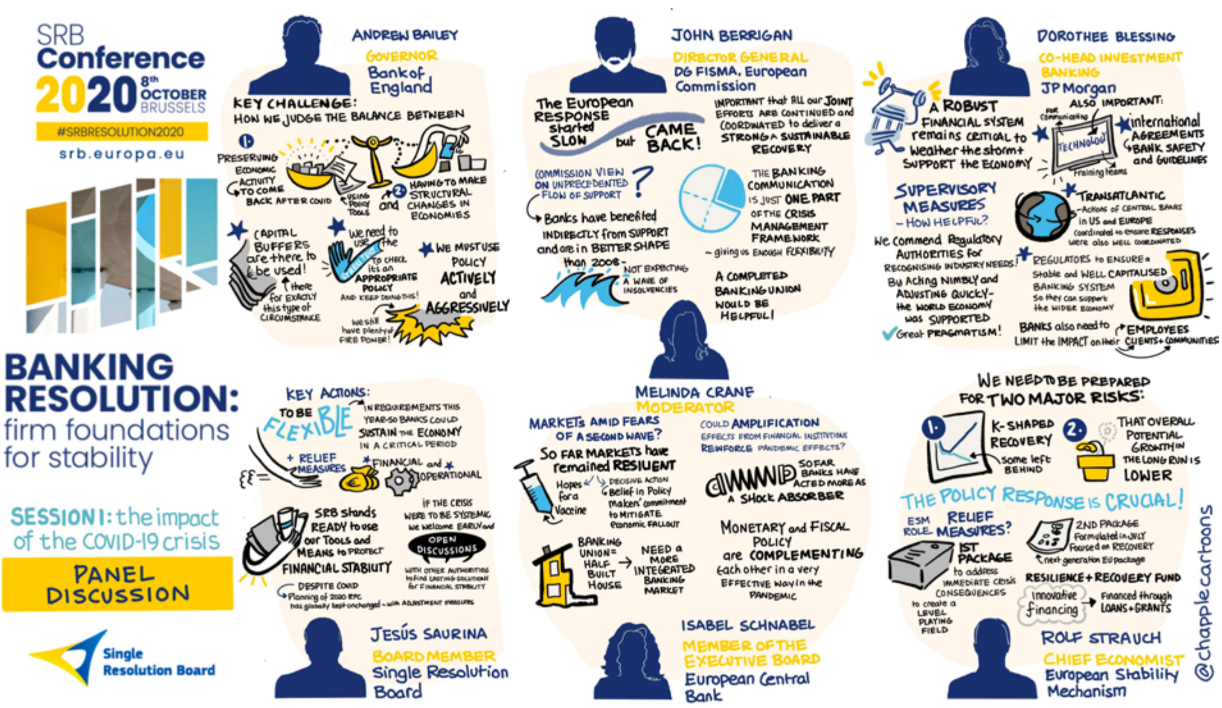
Asked what the line is between providing relief and a regulator neglecting its mandate, **Blessing** emphasised the importance of avoiding procyclical outcomes. So far, an overarching pragmatism supported "the ability to act nimbly and adapt quickly, ensuring that the world economy was supported," she said. Going forward, she underscored the importance of measures and standards being implemented across the board to avoid market fragmentation and the build-up of risk concentration.

While the Covid-19 fallout has shown how much progress has been made in building resolvability since the 2007-2008 crisis, it has also highlighted gaps in the system. **Schnabel** noted that a more integrated European banking market is needed: "We need to solve the home-host problem. Banks' liquidity and capital, including MREL, should be allowed to flow freely within cross-border banking groups, with appropriate protective measures for the host countries." She stressed that one key element of a more integrated banking market is a well-designed EDIS.

Saurina concurred that we should take this crisis as a reminder that essential components of the BU are pending, as the much-needed EDIS. "However, we should not forget why the resolution framework and the Banking Union have been created in the first place," he added, pointing back to the 2007-2008 crisis. Faced with Covid-19, governments had to adopt rapid measures like public guarantees to support citizens, companies, and thus indirectly also banks and the economy. "The SRB stands ready to use its tools and means to protect critical functions of banks under its remit, to protect financial stability, covered deposits as well as public funds, at a time were its opportunity cost is probably even higher than in the former financial crisis given the health emergency we are in" he said, adding that this line of reasoning is valid for idiosyncratic crisis. If the crisis were to be systemic, he welcomes an early open discussion with other authorities on measures to be taken, so that a lasting solution could be found to protect financial stability.

The panel concluded with a Q&A, including audience questions submitted online. The audience broached the topic of establishing a European "bad bank," a single entity to house COVID-19 distressed assets. **Berrigan** responded, noting that using an **Eu-level Asset Management Company (AMC)** is difficult because of the heterogeneity of assets that would have to be included. However, he suggested that it might be worth considering the use of networks of AMCs instead and agreed such schemas are worth thinking about due to the inevitable NPL issue looming on the horizon.

Schnabel was asked about the future of the PEPP, the pandemic emergency purchase program. She affirmed that the PEPP had been successful in stabilising financial markets. However, the effects of the pandemic on the inflation outlook remain clearly visible. "According to our most recent projections, headline inflation will only be 1.3% in 2022," she explained, adding, "this implies that our policies, including the PEPP, need to remain geared towards ensuring financial conditions that are consistent with a return of inflation towards our aim in the medium term." She also reiterated the significance of the Next Generation EU instrument and the importance of spending the funds to sustainably increase countries' growth potential.



Pablo Hernández De Cos, Governor Bank of Spain & Chair, Basel Committee on Banking Supervision

Pablo Hernández De Cos, Governor Bank of Spain & Chair, Basel Committee on Banking Supervision, lauded the progress made towards improving bank resolvability in the five years since the SRB's establishment — but like those who spoke before him, also pinpointed areas in need of improvement.

Pablo Hernández De Cos

One gap identified by De Cos was the issue of liquidity in resolution: "Experience shows that market confidence in **failing or likely to fail (FOLTF)** banks can only be restored upon the basis of external support or eventual acquisition, as was the case with Banco Popular and Santander. The question remains, what if there is no acquisition possible?"

He added that the SRF's resources may be insufficient to provide the amount of liquidity that a systemic firm could need and praised the paramount importance that proposals such as the ECB's Resolution Liquidity could provide in this context.

De Cos also flagged the unique hurdles for small- and medium-sized institutions. High MREL levels would be very difficult to achieve for these institutions, he noted, emphasising the need to strike the right balance between internalisation of losses and collective industry funding.

This brought De Cos to the issue of the level playing field in an incomplete BU. "We know that failing banks that don't satisfy the public interest test are subject to insolvency procedures in accordance with national regulations that vary substantially across borders," he said. He called for a new European approach to smaller institutions in terms of supervision and resolution and urged for consistency in completing the BU, covering EDIS and smaller institutions, to avoid the current disconnection between pan-European supervision and national burden should problems arise.

Ultimately, the gaps identified in the current framework, from harmonisation of procedures to bail-in and SRF, are not new, he added. The Covid-19 pandemic has, if anything, highlighted existing issues and made it even clearer that adjustments are still needed so the current framework will be better equipped to handle a systemic crisis in future.

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SESSION II: Resolution Planning under the Banking Package: continuity and innovation
KEYNOTE SPEECH
Single Resolution Board
PABLO HERNÁNDEZ DE COS
GOVERNOR
Bank of Spain
CHAIR
Basel Committee on Banking Supervision
Congratulations for significant contributions!
SRB RESOLUTION 2020
SRB ESTABLISHED FIVE YEARS!
SIGNIFICANT PROGRESS
ACHIEVEMENTS
Fostered their RESOLVABILITY
SRB HAS FINALISED RESOLUTION PLAN FOR SIs
PUT IN PLACE COOPERATION MECHANISMS with NRAs
HARMONISATION OF PROCEDURES
SRF
BAIL-IN
CONTINUE TO DRAW LESSONS and INCORPORATE in ONGOING LEGISLATION!
GAPS
NEW EUROPEAN APPROACH NEEDED
AVOIDANCE OF UNLEVELLED PLAYING FIELDS in an INCOMPLETE BU
ADEQUATE TREATMENT OF SYSTEMATIC SITUATIONS
LIQUIDITY in RESOLUTION (SRF, ESM and PROPOSAL by the ECB)
WHAT alternative arrangements are Available?
RESOLUTION OF SMALL and MEDIUM-SIZED institutions
BALANCE
internalisation of losses
and COLLECTIVE INDUSTRY FUNDING
SUCCESSFUL RESOLUTION PLANNING
ANNUAL SRB PRIORITY LETTERS
PUBLISHING SPECIFIC GUIDANCE FOR BANKS
TWO CORNERSTONE STRATEGY
EXPECTATIONS FOR BANKS
PUBLISHED APRIL 2020
one-year resolution PLANNING CYCLE
FIRST APPLIED 2020
VEHICLE
MAP 2021-2023
PUBLISHED NOV 2021
EXPECTED by END 2023
REFINE RESOLVABILITY ASSESSMENT
GOING FORWARD
CONTINUITY and CLEAR PROCESSES
ACHIEVEMENT OF RESOLVABILITY
CONSISTENT FOUNDATION to ensure CONTINUITY and PROPER EXPECTATION MANAGEMENT
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RESOLUTION PLANNING UNDER THE BANKING PACKAGE: CONTINUITY AND INNOVATION

Following his keynote speech, **Pablo Hernández De Cos, Governor Bank of Spain & Chair, Basel Committee on Banking Supervision,** joined the second panel of the day to discuss continuity and innovation in resolution planning. Asked when we need to start moving back to strengthening capital once more, he emphasised the importance of avoiding procyclicality. The banks have accumulated capital and liquidity, some of which was precisely created to be used in a crisis. "That was the intention of creating these buffers, to help avoid a credit crunch, and this is the reasoning behind decisions made by the authorities," he explained.

"While releasing these funds and using this buffer is perfectly justified, there remains a stigma around using this buffer," De Cos went on. To mitigate those concerns and convince banks to use the buffers, "we must emphasise that we will allow banks sufficient times to restore their buffers, taking into account economic market conditions and specific circumstances of individual banks."

Wim Mijs, CEO, European Banking Federation, turned the conversation to MREL and TLAC — specifically, the need to ensure that these requirements don't endanger bank profitability and thus harm financial stability. While supportive of the **Bank Recovery and Resolution Directive (BRRD)** targets on MREL and TLAC, Mijs issued a word of caution: "These high targets affect the way (EU) banks fund themselves. We need to avoid putting them in a situation of competitive disadvantage with other parts of the world and avoid constant low profitability."

Mijs highlighted a few other issues that could potentially harm the strength of banks, including the need for a Union-wide liquidity backstop, particularly necessary in case of a systemic crisis. He also praised the solution proposed by the EBA in the RTS on the prudential treatment of software, arguing that EU banks, under the previous regime, were discouraged from investing in digital services and cyber security. Mijs finally underscored the unique challenges faced by midsized banks that rely primarily on deposits and capital as sources of funding. According to Mijs, these firms may be forced to correct their funding models in order to issue sufficient MREL-eligible debt. As a result, "in their look for profitability, they may be forced to pursue riskier strategies that may be counterintuitive to resolvability."

Wim Mijs

Anneli Tuominen

In June 2020, the SRB said that it would use the full flexibility possible under BRRD2 to adapt transition periods for banks. **Anneli Tuominen, Director-General, Financial Supervisory Authority, Finland,** spoke on how this was working out in practice and whether she saw it making a difference in banks' ability to contribute to economic recovery. Tuominen noted that a transition period gave banks the possibility to postpone senior non-preferred issuances, which proved very important under the unique circumstances imposed by Covid-19. However, she was also quick to note that many authorities adopted all kinds of flexibilities in light of Covid-19 — but that these flexibilities were not always used. "This could be for many reasons already mentioned, including the 'stigma effect,'" she acknowledged.

Regarding the future, Tuominen made it clear that too much flexibility in capital and liquidity requirements could backfire. "We have to shift focus swiftly from the recovery of the real economy to ensuring the banking sector is adequately strong enough to face the potentially deteriorating outlook in the financial sector," she said.

Sebastiano Laviola, Board Member, Single Resolution Board, likewise spoke on the need to balance flexibility and resolvability. "The SRB has continued to conduct its work towards the path of resolvability for banks," Laviola asserted. Nonetheless, the SRB has remained flexible, he noted. He elaborated on Saurina's example regarding MREL targets. The metrics obtained from the banks with reference date June 2020 were compared to information gathered in December 2019, "in order to see whether the material balance sheet changes would affect the first requirement in the 2022 transition period," Laviola explained. As a result, "this first requirement, which is binding, has been recalibrated for a limited number of banks."

Concerning MREL, **De Cos** praised the BRRD2 allowing a longer period to fulfil MREL requirements. Asked whether this prolonged period of building up the necessary buffers now poses a risk to resolvability during the Covid-19 crisis, De Cos reiterated his argument that MREL should not be fast-tracked. "At all costs, financial policies should avoid being procyclical. This also applies to capital, accounting rules, and resolution. We should stress that acceleration of MREL requirements would impact buffer stability, creating more procyclicality and offsetting policy efforts in the other areas of financial policy," he explained.

Mijs agreed on the need to strike the right balance of flexibility and stringency. "I'm glad that EU authorities and Member States were approachable, swift acting and flexible in March, for example in giving state guarantees that enabled us to support the economy," he stated, concluding that this shows that the BU works. However, too much flexibility will undermine the system, he acknowledged. "Looking at market conditions, there is, of course, visible uncertainty — and a deep increase in the cost of subordinated and senior debt, especially around March," he explained. Also given the low number of bankruptcies in this period, he suggested that "we are looking at an unnatural economy."

Mijs finally referred to the fact that banks have submitted their liability data reports on time so the SRB could calculate MREL requirements, but pointed out that, due to the current circumstances, a sensitive topic is represented by the way the new MREL targets will be set: "To end with the quote of Carlo Messina's speech, banks should never have to choose between financing the economy and meeting high MREL requirements".

Shifting topics, **Tuominen** spoke on provisions in the Banking Package that have been included by "host countries" as a safeguard, increasing the complexity of the system as a whole. Are there other measures that could alleviate the concerns of these countries and also overcome the risk of ring-fencing within the BU? Ultimately, it takes time to harmonise legislation, she noted. It thus may be necessary to look at interim solutions, such as more streamlined enforceable intra-group parent support, she added. Alternatively, subsidiaries might be treated as branches — a more revolutionary idea, she acknowledged. Ultimately, she concluded that there was a need to "better integrate the assessment of capital and liquidity risks and needs for all group entities in recovery plans."

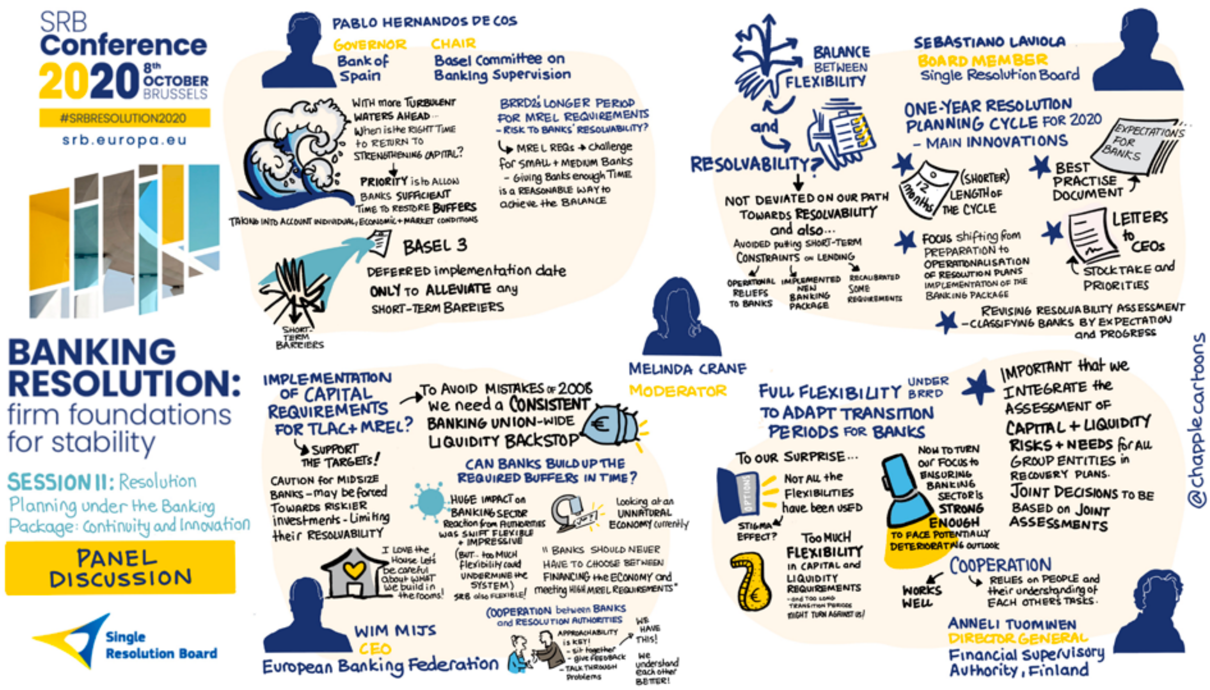
Innovation and continuity is critical. **Laviola** made this clear when the SRB has made in the one-year resolution planning for 2020, which has proceeded despite the crisis. Laviola noted that the reduced length of the cycle is a benefit itself "because you can use more current information, ensuring more continuity and security for banks." He also noted that the Expectations for Banks document is being tested in terms of a phased-in implementation and that some priorities that banks had to implement this year will be checked in the resolution assessment. The SRB is also revising the resolvability assessment to classify banks according to the Expectations for Banks.

The panel concluded with a Q&A, including audience questions submitted online. Asked about the one-year postponement of the implementation of Basel III and a potential change in capital requirements, **De Cos** acknowledged that the work of the Basel Committee was affected by the crisis. However, he underscored the motivation for the postponement, noting, "The sole objective of this deferral was to alleviate operational barriers. This isn't about reopening standards or questioning our commitment." He further pointed out that the Governors and Heads of Supervision, in the same press release that communicated the deferral, affirmed the expectation to implement all standards fully and consistently based on this revised timeline. On other areas of the Committee's work in response to the pandemic, he highlighted, among others, the publication of technical clarifications on the prudential treatment of extraordinary support measures introduced by various jurisdictions as well as others to avoid excessively procyclical outcomes from expected loss accounting frameworks, such as taking into account the mitigating effect of extraordinary support measures.

Asked about the cooperation between banks and SRB, **Mijs** praised the approachability showed by the SRB Board, and underlined the constantly improving level of cooperation between banks and respective IRTs. He also expressed some remarks on the policy of public consultations, mentioning that a higher degree of preparatory communication between parties would enhance the quality of the industry responses. Finally, Mijs referred to the fact that resolution planning involves numerous actors, and it is extremely important to coordinate among different agencies to avoid the duplication of information requests.

Asked about the collaboration between supervisory and resolution authorities under the new Banking Package, **Tuominen** flagged the need for more far-reaching cooperation. "It's also important to cooperate with countries outside of the SSM. Most of our member countries to the West aren't part of the SSM," she noted. Cross-border cooperation in particular, which can involve legal and other impediments, is problematic. She further flagged the utility of simulations in enhancing collaboration: "Cooperation relies on people understanding their own and others' tasks. Crisis simulations can help in that regard… I can recommend what we did last year with Nordic-Baltic supervisors and authorities, the SSM, and the SRB."

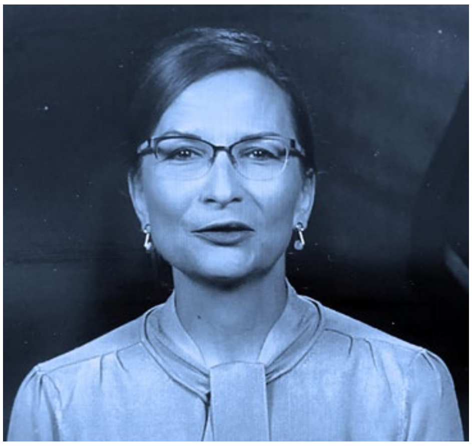
Finally, **Laviola** responded to an audience question regarding the publication of resolution plans. What was the argument against publication? "In Europe, there has never been a deliberation about imposing banks to publish their resolution plans," he said. Further, he noted that the plans often contain confidential information. Any discussion of publication, as seen in the United States, for example, must acknowledge that only non-confidential parts of a resolution plan can be made publicly available.



Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation (FDIC)

Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation (FDIC) provided fresh perspectives from the U.S. as she spoke on adapting resolution readiness to the uncertain world of Covid-19. "Because of strong capital and liquidity positions, financial institutions have served as sources of strength in this crisis," she stated, adding that firms and policymakers took quick, decisive actions, and adapted well to this unprecedented challenge.

Although McWilliams acknowledged the success stories of the past year, she warned that the issues of economic contraction and unemployment related to the pandemic remain matters for continuing vigilance and adaptation. Looking ahead, she emphasised the need to move past the last crisis to address the next one. She particularly underscored the importance of collaboration going forward, highlighting the FDIC's own experiences of 2020 as an example.



Jelena McWilliams

In 2019, the FDIC created the Division of Complex Institution Supervision and Resolution, merging all supervisory and resolution functions for banks with assets above $100 billion for which the FDIC is not the primary regulator. When the COVID pandemic hit, the FDIC was in the midst of a reorganisation. McWilliams explained that the organisational synergies paid huge dividends. "For years, supervisory and resolution functions were split among separate offices, creating silos and inefficiencies," she said. "We could act quickly. For the first time, we could pull together – *almost* seamlessly – a market-based, institution-based, and resolution-based perspective on what was happening and how to respond."

Finally, McWilliams highlighted the significance of technology. Thanks to previous investments in collaboration technology and file-sharing tools, the FDIC was able to complete almost all scheduled examination activities during the pandemic, as well as three successful resolutions (the institutions failed due to pre-existing financial challenges unrelated to the pandemic). With many people still working from home, IT will remain essential.

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BANKING RESOLUTION: firm foundations for stability
SESSION III: The Future of the Resolution Framework
KEYNOTE SPEECH
Single Resolution Board
JELEN MCWILLIAMS
CHAIRMAN
Federal Deposit Insurance Corporation (FDIC)
in the PAST FEW MONTHS
MUCH HAS CHANGED
MUCH HAS BEEN ACCOMPLISHED
MUCH IS BEING LEARNED
SRB RESOLUTION 2020
BUT... MUCH STILL TO BE DONE
MANY PEOPLE ARE STRUGGLING
We must CONTINUE TO ADAPT QUICKLY to serve our COMMUNITIES and NATIONS
WHAT HAS CHANGED?
Many of the changes are critical to our thinking about RESOLUTION READINESS
WE NO LONGER START the CONVERSATION TALKING ABOUT the 2008 CRISIS!
This time the VOLATILITY didn't START with the BANKS or come from FAILED FINANCIAL MANAGEMENT PRACTICES
INSTEAD... thanks to STRONG CAPITAL and LIQUIDITY POSITIONS
SERVED AS SOURCES OF STRENGTH IN THE CRISIS
WHAT HAS BEEN ACCOMPLISHED?
POLITICAL and REGULATORY AUTHORITIES acted SWIFT DECISIVE ACTION
ENCOURAGING BANKS TO USE THEIR CAPITAL + LIQUIDITY BUFFERS
FLEXIBILITY FOR BANKS TO MEET NEEDS OF CUSTOMERS
These actions have helped to MAINTAIN STABILITY in FINANCIAL MARKETS
OUR FINANCIAL SYSTEM REMAINS STRONG!
MORTGAGES CONTINUED
BUSINESSES CONTINUED TO HAVE ACCESS TO FINANCE
Financial Institutions FOUND HOW TO TURN ON A DIME! in a PANDEMIC!
working REMOTELY
REGULATORS worked together CREATIVELY and FLEXIBLY
Resolution AUTHORITIES played a CONSTRUCTIVE role
Continuing to monitor and PREPARE...
LESSONS LEARNED
1. MOVE PAST THE LAST CRISIS TO GET TO THE NEXT ONE
2008
CHANGE ADAPTABILITY FLEXIBILITY
PROVED TO BE ESSENTIAL TOOLS
WORLD IS NOT STATIC
2. ONE TEAM BEATS FOUR
ORGANISATIONAL SYNERGIES helped
SPEED Situational awareness Crisis Readiness
Automatic Conversations
WORKING TOGETHER as ONE TEAM
Pulling together on WHAT was happening and RESPONSE
3. FOCUS ON SCENARIOS - BUT... MIND THE GAP!
DOOM LADEN
USEFUL (of course) but can get stuck in familiar or overly doom-laden ones
TIP
SAMPLE, but don't get ADDICTED!
IF we see the same GAP we know where to look!
4. CAPABILITIES ARE CRITICAL
Focus on SPECIFIC ORGANISATIONAL CAPABILITIES
IDENTIFY SHARED SERVICES
Key personnel, LIQUIDITY needs
Many of the CAPABILITIES DEVELOPED for RESOLUTION PLANNING
Really helped in the REAL WORLD!
CREATING FLEXIBLE IT SYSTEMS critical for NEW WAYS OF WORKING
5. TECHNOLOGY IS A LIABILITY AND A SOLUTION
We've learnt about OPERATIONAL RISK + IT
We all went home + WORKED from home
AND IT WORKED!
credit to IT teams!
Financial markets continued to perform their critical function
TECHNOLOGY is an ENABLER as well as a RISK
WE MUST FOSTER INNOVATION
6. USE CAPITAL AND LIQUIDITY BUFFERS WISELY
BANKS' CAPITAL + LIQUIDITY STRENGTH
+ REGULATORY FLEXIBILITY
SOURCE OF STRENGTH
7. RELATIONSHIPS IMPROVE RESILIENCE!
NOTHING BEATS the POWER + EFFECTIVENESS of Good, old-fashioned HUMAN RELATIONSHIPS!
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THE FUTURE OF THE RESOLUTION FRAMEWORK

Starting the final session of the day, **Luis Garicano, MEP, Renew Group, ECON Coordinator,** provided his assessment of the suitability of the current resolution regime. Looking at the current crisis, Garicano agreed with previous speakers that the SSM and SRB acted decisively to foster stability in the face of Covid-19's economic fallout, for example by facilitating lending and offering flexible MREL targets. "This is not, however, the main job," he cautioned, noting that "since the SRB was established, only one bank has been resolved using the framework."

Luis Garicano and Boštjan Jazbec

Garicano expressed his concern that, under the current national resolution and state aid rules, the resolution framework wouldn't be able to deal with troubled banks at the European level, resulting in national resolutions as we have seen in the past. "When the time comes that the framework needs to be tested, it will prove insufficient," he asserted.

Monique Goyens, Director-General, BEUC (European Consumer Organisation) noted that the BU has brought consumers and depositors safety, thanks in part to the deposit guarantee scheme. Regarding the resolution regime, "this is also good for consumers indirectly because they are tax-payers. In case of failure, tax-payers won't be the ones hit first but rather the shareholders and creditors," she stated.

Regarding concerns, **Goyens** pointed to the problematic nature of some of the bail-in-able instruments under the resolution regime. "Some very complex, very risky, and sometimes toxic instruments are being sold to not-so-sophisticated retail investors who aren't aware of the risk they are taking — and often aren't being made aware of that risk," she said.

Monique Goyens

Erik Jones

Like Garicano, **Erik Jones, Director of European and Eurasian Studies, Johns Hopkins SAIS,** likewise expressed scepticism when asked if the current framework would be prepared for a financial crisis of similar magnitude as in 2007-2008: "I just know it's *differently* prepared. We have to ask a lot of questions if we discover that the system we've just put into place doesn't work — for example, because the rules don't seem to apply to the banking crisis we face in the future, or the bailouts turn out to be more impactful on market performance than we expected, or national governments simply break from the rules."

Jones did express optimism when discussing the adaptiveness shown by the framework: "On the fiscal and macro-economic side, we've seen a greater ability of European leaders to adapt to the current crisis, for example, to suspend the rules for competition, and to suspend the rules for macroeconomic policy or fiscal consolidation quickly and to adapt to a new reality. And if we discover we need that kind of adaptation in the future in terms of financial resolution, I hope we find it."

Megan Greene

Megan Greene, Senior Fellow, Harvard Kennedy School, provided further insights on how national interests continue to complicate solutions on the European level. "This time around, more solidarity has been displayed than in the Euro Crisis in terms of countries putting Europe ahead of national interests. But when it comes to bank resolution specifically, I don't think a lot has been done," she said.

Regarding challenges, she highlighted Europe's unique situation of resolution and insolvencies being handled by different bodies. "Bank resolution shouldn't be a political process, but inherently it is political. It's not a popular decision to wind down a bank," she explained, noting that this results in domestic pressures and pressure on domestic politicians. "While rules are made at the European level, it's national figures that have to implement them. There may be more solidarity on the fiscal front, but some of these fundamental infrastructure problems still exist," she added.

The Covid-19 crisis has resulted in massive amounts of public guarantees and state aid to the real economy. Meanwhile, calls for more precautionary recapitalisation in the banking sector are increasing. With this in mind, **Boštjan Jazbec, Board Member, Single Resolution Board,** spoke on how current discussions might impact the future of the resolution regime. He began by reiterating the purpose of the BRRD and the resolution framework — to save tax-payers' money by minimising the use of public funds.

Nevertheless, precautionary recapitalisation provides an exceptional means to use public funds. "Such public support has to be the exception, and we should be extremely careful that in case it is used to remedy the current crisis, it is only eligible for those banks, which were viable *before* the outbreak of the pandemic and whose temporary problem can be linked to the recent economic crisis," he said.

Garicano likewise spoke on how the current crisis might actually set the stage for further breakthroughs. He reiterated areas in need of improvement, including a more cohesive BU and EDIS. He also flagged the need for harmonisation. "Regulators are forcing each bank to have all the liquidity and capital at each national jurisdiction, and that makes cross-border consolidation less rather than more attractive," he explained. "We need to ensure that resolution is for the many, not for the few," he concluded.

Returning the conversation to the consumer perspective, **Goyens** spoke on the risks faced by small-scale investors. In a low interest rate environment, many consumers buy shares of companies, including banks, in order to gain a dividend. In case of a bank resolution, their money would potentially be bailed-in and, therefore, lost. How do we make sure small-scale investors are aware of that risk? "This shouldn't just be an issue of awareness on the consumer's part to avoid bad choices. There is also the issue of protection. There are some investment products that are just not suited for non-sophisticated investors," she asserted.

Looking beyond EU borders, **Greene** reflected on what the European resolution framework could learn from the FDIC. "The difference between EU-wide resolution and national insolvency regimes is one issue," she said. "Insolvency regimes are also quite different between national authorities," she added. "That also creates problems. There are different triggers between resolution and national insolvency regimes as well. There's a reliance on bail-in of creditors in order to get resolution funds to help sell off parts of businesses." In contrast, "The FDIC is very centralised."

Jones agreed that the EU would benefit from a centralisation similar to that shown by the FDIC. He further noted the origins of this centralisation in the US — the savings and loan crisis of the 1980s. A tension similar to what's seen in the EU now could be seen in the US at the time: "Most of those savings and loan institutions were chartered at the state level. Their deposits were insured at the state level. It became obvious that the crisis would bankrupt state governments if they had to bail out these institutions and their depositors. A lot of these liabilities were then absorbed at the federal level and pushed to the FDIC for insurance."

Clearly, the current response to the crisis can impact the future. With this in mind, **Jazbec** spoke on the potential impact on the resolution regime due to current changes in the regulatory treatment of capital requirements and non-performing assets. "The compliance of institutions with these lower requirements must not give us a false sense of security," he stated. "This temporary relief provides institutions with breathing room, but neither does it make institutions safer, nor does it make risks and problems disappear. This is even more important if we bear in mind that MREL requirements depend partially on capital requirements."

The panel concluded with a Q&A, including audience questions submitted online. Asked whether the current recovery plan will strengthen the resolution regime, **Greene** expressed scepticism: "I actually don't think it will help strengthen the resolution regime. If we do get these funds on schedule, that's fantastic from an economic standpoint. That being said, the resolution regime in Europe will only fundamentally change under great pressure. If we do get the fiscal stimulus you're hoping for in Europe, that actually takes the pressure off."

Asked for his opinion on the most pressing issue concerning the resolution framework that needs to be addressed in order to further improve financial stability, **Jones** emphasised two points: "First, we need to know who will decide when the current framework isn't working. Second, we need to know what plan B is. The natural plan B is every country for itself, and that's probably not the best. So, we need a better plan than that default option." A more EU-centred approach is critical.

Pedro Machado, Board Member, Single Resolution Board

Pedro Machado, Board Member, Single Resolution Board, wrapped up the morning's events with a quote from Robert Schuman. In his 1950 declaration, Schuman stated that ongoing world peace was possible only with creative efforts. Creativity in this context was seen as the achievement of a united Europe, Machado noted.

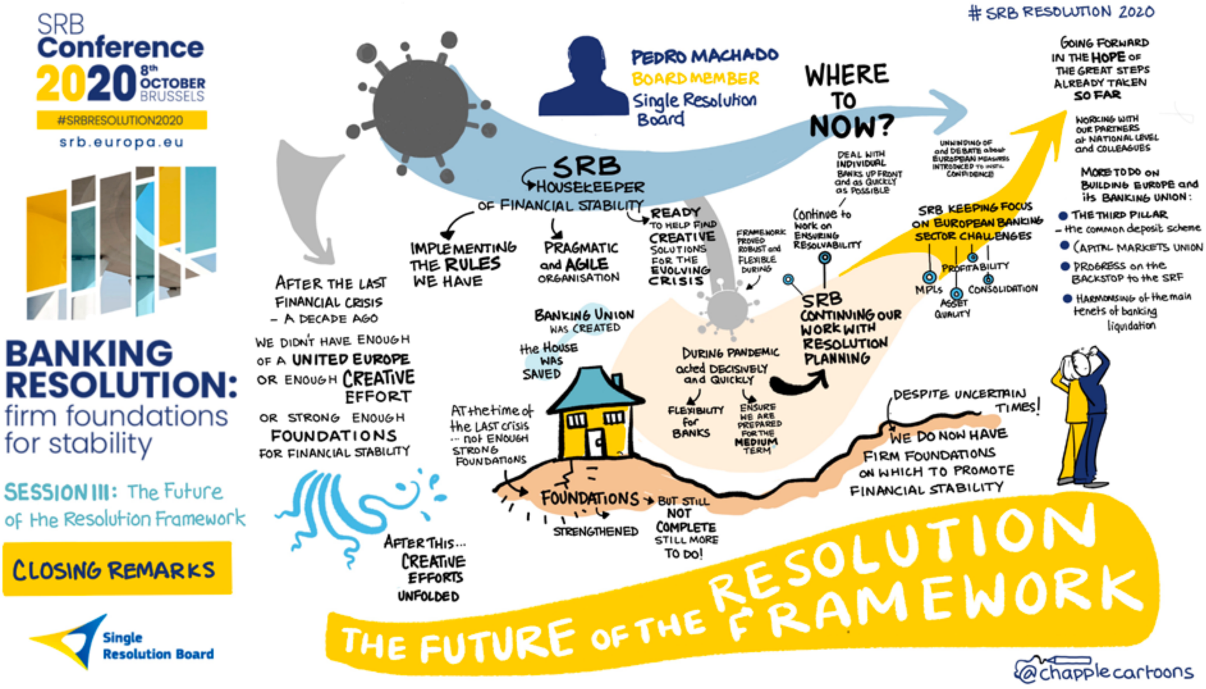
"After the last financial crisis over a decade ago, we could have come to a similar conclusion," Machado continued. "We did not have enough of a 'united Europe' or enough creative effort to support the single currency and hence we had a crash. The foundations for financial stability were not strong enough."

Pedro Machado

Since then, creative efforts unfolded as European leaders understood that a European structure is needed to support a European currency. Since 2007-2008, the EU has made great strides in putting in place firm foundations for stability. The current framework has shown itself to be flexible enough and robust enough to handle the effects of the pandemic, Machado asserted.

That said, the current framework is not perfect. Machado reiterated a few of the points for improvement raised throughout the day: an incomplete BU, the need for greater harmonisation between Member States' insolvency regimes, and the lack of a common deposit scheme. Further, Machado noted that structural weaknesses present in banks before COVID-19 (NPLs, asset quality or consolidation, etc.) will not only remain afterwards but also become more pressing.

"Schuman did say that Europe would not be completed all at once," Machado noted. Schuman may have made these remarks 70 years ago, but they are still relevant today. While acknowledging that there is work to be done, Machado ended the day on a positive note: "It is difficult to predict the future. Despite the uncertain times we are living in, we can indeed say that we have firm foundations for stability going forward — no matter what the coming days, months, or years throw at us."



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Single Resolution Board
PEDRO MACHADO
BOARD MEMBER
Single Resolution Board
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SRB
HOUSEKEEPER
OF FINANCIAL STABILITY
IMPLEMENTING THE RULES WE HAVE
PRAGMATIC and AGILE ORGANISATION
READY TO HELP FIND CREATIVE SOLUTIONS FOR THE EVOLVING CRISIS
AFTER THE LAST FINANCIAL CRISIS – A DECADE AGO
WE DIDN'T HAVE ENOUGH OF A UNITED EUROPE OR ENOUGH CREATIVE EFFORT
OR STRONG ENOUGH FOUNDATIONS FOR FINANCIAL STABILITY
BANKING UNION WAS CREATED
the HOUSE WAS SAVED
AT the time of the LAST crisis ... not ENOUGH STRONG FOUNDATIONS
FOUNDATIONS
STRENGTHENED
BUT STILL NOT COMPLETE STILL MORE TO DO!
AFTER THIS... CREATIVE EFFORTS UNFOLDED
WHERE TO NOW?
DEAL WITH INDIVIDUAL BANKS UP FRONT and as QUICKLY as POSSIBLE
Continue to work on ENSURING RESOLVABILITY
DURING PANDEMIC acted DECISIVELY and QUICKLY
FLEXIBILITY for BANKS
ENSURE WE ARE PREPARED FOR THE MEDIUM TERM
SRB CONTINUING OUR WORK WITH RESOLUTION PLANNING
SRB KEEPING FOCUS ON EUROPEAN BANKING SECTOR CHALLENGES
PROFITABILITY
MPLs
ASSET QUALITY
CONSOLIDATION
GOING FORWARD IN THE HOPE OF THE GREAT STEPS ALREADY TAKEN SO FAR
WORKING WITH OUR PARTNERS at NATIONAL LEVEL and COLLEAGUES
MORE TO DO ON BUILDING EUROPE and its BANKING UNION:
THE THIRD PILLAR – the common deposit scheme
CAPITAL MARKETS UNION
PROGRESS on the BACKSTOP to the SRF
HARMONISING of the main tenets of banking liquidation
DESPITE UNCERTAIN TIMES!
WE DO NOW HAVE FIRM FOUNDATIONS ON WHICH TO PROMOTE FINANCIAL STABILITY
THE FUTURE OF THE RESOLUTION FRAMEWORK
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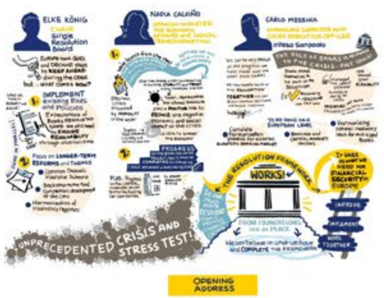
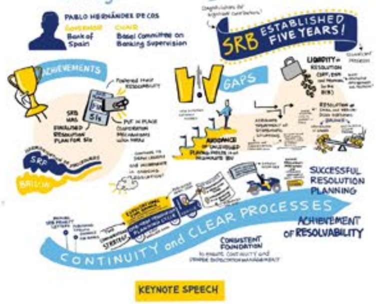
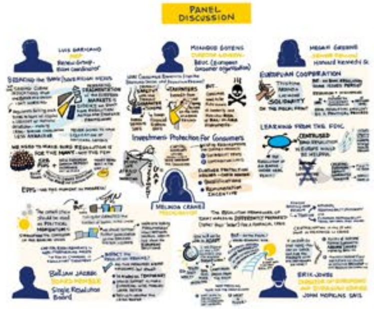
SESSION I: the impact of the COVID-19 crisis



SESSION II: Resolution Planning under the Banking Package: Continuity and Innovation





SESSION III: The Future of the Resolution Framework

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Print	ISBN 978-92-9475-245-1		doi:10.2877/445594	FP-AC-20-001-EN-C
PDF	ISBN 978-92-9475-244-4	ISSN 2600-044X	doi:10.2877/695203	FP-AC-20-001-EN-N

Luxembourg: Publications Office of the European Union, 2020

FP-AC-20-001-EN-N

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of the European Union