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EUROPEAN BANKS: resolvable and ready for crisis?

Conference Report

Single Resolution Board

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Conference Report

Single Resolution Board

SRB Conference 2022

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Executive summary

On 19 September 2022, the Single Resolution Board (SRB) held its seventh annual conference: "European banks: resolvable and ready for crisis?" The day's discussions focused on the steps needed to take bank resolvability to the next step — for example, by moving on from creating resolution plans to testing them and demonstrating that they will work in practice.

Speakers agreed that the need for demonstrable implementation of resolution plans has become especially pressing considering current geopolitical and macroeconomic challenges likely to test financial stability. Topics touched on included the Russian war on Ukraine, rising energy costs, supply chain issues, and the continuing Covid-19 pandemic. Protecting banks' profitability while balancing resolvability is critical as Europe faces a potential recession.

Speakers pointed to diverse issues that need to be addressed to further improve banks' resolvability and strengthen the **Banking Union (BU)** as a whole. Points of discussion included the review of the **Crisis Management and Deposit Insurance (CMDI)** framework; the need for more harmonised **public interest assessments (PIA)**; and adjusting **Minimum Requirement for Own Funds and Eligible Liabilities (MREL)**. The missing third pillar of the BU, the **European Deposit Insurance Scheme (EDIS)**, was also addressed, as was the need to better deal with **Small and Medium-Sized Banks (SMBs)** in resolution planning, with mid-sized banks in particular seen as an issue.

The hybrid event was held live in Brussels and live-streamed. The day was structured into two speaker panels, and a "fireside chat" between outgoing SRB Chair Elke König and Nicholas Comfort, Banking Reporter for Bloomberg News. These discussions were complemented by diverse keynote speeches. Audience members on site had the opportunity to submit questions in person, while those at home could submit questions using the Twitter hashtag **#SRBresolution2022**.

Although recognising the great progress already made in making EU banks resolvable, the tone of the conference was cautious. There was no denying that turbulent times lay ahead for Europe. In this context, **maintaining a strong, resilient, and competitive banking sector has become more important than ever.**

Welcome

Elke König

CHAIR, SINGLE RESOLUTION BOARD

Elke König

Elke König, Chair, Single Resolution Board, opened the day's events by highlighting broad challenges facing Europe, from the ongoing Covid-19 pandemic to the Russian war on Ukraine. **In the face of such uncertainty, it's more important than ever to promote financial stability.** "This is something we can help control and manage, all in the interests of protecting depositors and the taxpayers," said König.

Despite her sombre first words, König highlighted positive developments too. **The 2022 resolution of Sberbank (Slovenian and Croatian branches) was, again, evidence that the system works:** "Financial stability was maintained; there was no need for a public bail-out; and the taxpayer was protected." In König's words, "That is the definition of a successful outcome for resolution cases."

However, further strengthening of the system is needed, König cautioned. She pointed to the June Eurogroup meeting of the Ministers of Finance of the EU, noting "the outcome was not everything the SRB had wished for."[1] **The Eurogroup called for four instruments to support a stronger CMDI framework:** broadened application of resolution tools in crisis management; further harmonisation of the use of deposit guarantee funds; the harmonisation of certain features of bank insolvency laws; and a clarified, harmonised **public interest assessment (PIA)**.

When expanding the scope of banks covered by resolution, König underscored the importance of making sure that there is an effective mechanism, including funding options, for those resolutions that support the existing framework in the **BU** and enable the market exit of failing banks. This requires **MREL** to be in place; burden-sharing by shareholders and creditors; and, if needed, sufficient additional funding mechanisms. **"We need a control mechanism at the European level for using any external funding," König said, adding, "Let's make sure that we aren't re-nationalising; we need more, not less, Europe in our overall framework."**

How far have we come on the road to resolvability, König asked, and what more needs to be done to make us fully prepared for whatever will be thrown at us? She thanked the day's speakers for gathering to discuss these issues, concluding: **"We gather in a time of division and uncertainty. That is why I am so pleased to see us come together, in the spirit of cooperation, to discuss and drive the financial stability agenda forward."**

1 https://www.consilium.europa.eu/en/press/press-releases/2022/06/16/eurogroup-statement-on-the-future-of-the-banking-union-of-16-june-2022/

Opening Keynote

Jens Henriksson

PRESIDENT AND CHIEF EXECUTIVE OFFICER, SWEDBANK

Jens Henriksson, President and CEO, Swedbank, began by reiterating banks' unique role in society: "We empower people and businesses to grow and prosper... Rightly done, we are part of building a financially sound and sustainable society." However, banks make mistakes, he acknowledged. They may lend money to projects that go bust, for instance.

Jens Henriksson

"Capital buffers make sure we can handle such losses," Henriksson said, "But sometimes we forget the most important buffer of them all: profitability." Sustainable profits are the best way to avoid both credit scarcity and costly resolutions, he said. In the face of difficult times, politicians across Europe are considering bank taxes and extra levies. Henriksson called on those present to help protect the profitability that allows banks enable a financially sound society.

Henriksson pointed to his own bank — which posted a return of equity of 12% the previous quarter — as a case study in the benefits of profitability. Thanks to its strong profitability, Swedbank was able to support customers during the pandemic. **The Covid-19 crisis proved that banks can be part of the solution and not part of the problem. Continued profitability will be critical to overcoming other hurdles in the future.** Profitable banks can ensure liquidity is available to address supply chain disruptions, for example, or to fund energy transformation that improves sustainability and reduces reliance on oil.

Despite his emphasis on protecting banks' profitability, Henriksson acknowledged that resolution planning remains a must. **Toward this end, he highlighted a few essential points, such as MREL:** "MREL is crucial, as it indicates that the bank's balance sheet can be written down and debt converted to equity. MREL means that risky banks will need to pay a premium, which is good, and gives incentives for less unhealthy risk taking."

Banks must do their part to ensure their resolution plans are feasible, Henriksson said. However, they must also understand authorities' expectations of them. **While welcoming the guidelines of the European Banking Authority (EBA),[2] which contribute to more harmonised application across the EU, Henriksson called for greater clarity on a few key points.** "Responsibility between the supervisory authorities and resolution authorities is not crystal clear, as we

2 https://www.eba.europa.eu/eba-publishes-guidelines-institutions-and-resolution-authorities-improving-banks%E2%80%99-resolvability-and

move from recovery to resolution," he said. Further, resolution authorities have different interpretations of frameworks. Finally, communications from banking authorities must be synchronised to ensure accurate information to the market during resolution.

While Henriksson overall expressed support for the current framework, he cautioned that developing a framework was very different from putting it into action. He cited a military saying: "Every plan is a good plan until the first shot is fired." **Resolution plans must not only put in place but also tested and evaluated on a regular basis, he asserted.** Toward this end, overly complex plans should be avoided.

"I'm not convinced that the 500-page plan we have today will improve if we have to make it twice as long," he cautioned, asking, "Why not have us write the plan on one page, so we CEOs can have a laminated version in our pocket?" In practice, resolution is not a bureaucratic exercise but practical work that needs to be carried out in a stressful time. **"We don't know what the next crisis will look like. But we know that it will come," he concluded.** When it does, a straightforward plan that works not only in theory but also in practice will be needed.

Session I

Testing times: building up crisis management

Melinda Crane, Chief Political Correspondent, Deutsche Welle TV, moderated the day's events and introduced the first panel, which assessed how the crisis management and resolution framework is moving forward, especially considering factors like Russia's war on Ukraine, soaring inflation, spikes in energy prices, and supply chain disruptions. **Jens Henriksson, Chief Executive Officer, Swedbank**, agreed that there was a sense of urgency, given the current context. He called for active implementation of the measures already in place and further stressed the importance of examining medium-sized banks more closely.

Melinda Crane

John Berrigan, Director-General, Financial Stability, Financial Services and Capital Markets Union, European Commission, focused on the combination of rising inflation and decelerating growth the banking sector is facing. While acknowledging the increasing stress on the banking system, **Berrigan emphasised that the resolution system wasn't designed for particular macroeconomic environments, but to handle idiosyncratic shocks to the system.** "There are many ways banks get into trouble," he stated, adding, "Irrespective of the economic environment, we need to work on the crisis management framework."

John Berrigan and Andrea Enria

Andrea Enria, Chair, Single Supervisory Mechanism, European Central Bank, said that the banking sector is well-equipped to face the turbulence ahead. "The banking sector in Europe is at its highest levels in term of capital," he stated, adding that asset quality has improved throughout the pandemic. However, **he acknowledged the ECB's recent projections of a recession scenario and cautioned that banks had to take action:** "We are pushing banks to focus on their concentration of exposures, especially in sectors that are vulnerable to rising energy costs, like manufacturing, and sectors exposed by rising interest rates like commercial and residential real estate."

Megan Greene

Megan Greene, Senior Fellow, Brown University and Chief Economist, Kroll, echoed Enria's optimism, noting that Eurozone banks made it through the Covid-19 pandemic better than expected. **"I would also highlight that the Targeted longer-term refinancing operations (TLTROs) are incredibly generous now,"** she stated. According to Morgan Stanley, Eurozone banks could gain €24 billion in extra profits by the time the TLTRO scheme is wound down by the end of 2024. That said, challenges will increase. Eurozone banks face growing asset quality control concerns, Greene pointed out, and, overall, the Eurozone looks closer to a recession than other markets, like the US.

Sebastiano Laviola, Member of the Board, Single Resolution Board, agreed that the banking system was starting at a good baseline. "However, the outlook has dramatically changed, therefore close monitoring is necessary," he cautioned. He noted that banks have made strong strides toward resolvability, particularly in terms of MREL: **"As of March 2022, we had a shortfall of about €37 billion with respect to the target of January 2024. However, this shortfall has decreased by almost 50% when compared to 2019 figures."** Laviola stressed that MREL is only one resolvability profile being monitored and highlighted other points of concern that should be further finetuned by the 2024 deadline, such as banks' **management information systems (MIS)** and capacity to restructure after resolution.

Crane turned the discussion to the June 2022 Eurogroup meeting outcomes, in which finance ministers outlined four elements needed for a stronger CMDI framework: broadened application of resolution tools in crisis management; further harmonisation of the use of deposit guarantee funds; the harmonisation of certain features of bank insolvency laws; and a clarified and harmonised PIA. Asked what reforms the Commission may include in its subsequent proposals, **Berrigan highlighted the challenges posed by medium-sized banks.** While small banks are liquidated and large ones resolved, mid-sized banks remain a problem. Clear PIAs are critical when extending resolution to a wider set of banks, he said.

Sebastiano Laviola

Berrigan also highlighted the need to re-examine funding solutions: "If these mid-sized banks can't build adequate MREL, they can't access the SRF. That's where the **deposit guarantee schemes (DGS)** comes in, the third part of the reform." The issue here, he noted, is that different MS approach DGS differently. Regarding the position of DGS in the creditor hierarchy, Berrigan suggested that "The **least cost test (LCT)** is the key to all of this."

Enria flagged issues in integration in the banking system as another issue. Although progress that has been made — with more cross-border deals in areas like wholesale banking, capital market activities, and asset management — he described the retail business as "stuck" in terms of integration. "I think this is because of the concerns at national level of what would happen in case of a crisis — who would foot the bill?" **In this regard, the US could serve as a model of inspiration:** "Almost all US banking crises, including for smaller and medium-sized banks, have been dealt with through **purchase and assumption (P&A)** transactions."

This approach has been largely nationwide, not a state-specific, he added, allowing the US to ensure a smooth exit of many banks in a compressed period. Enria pointed to the aftermath of the great financial crisis as evidence: **From 2008 to 2013, the US saw 489 small/medium bank failures managed by the Federal Deposit Insurance Corporation (FDIC)**[3] for an overall amount of assets held in those banks of USD 683 billion[4]. No taxpayer money was deployed.

Greene likewise acknowledged that there are lessons to be learned from the US, while also noting that the FDIC was established 1934, giving it a head start over the much younger SRB, which was only created in 2015. Regarding national bank resolution schemes, Greene agreed that there's a big problem of harmonisation. "These schemes differ in terms of triggers for resolution or liquidation," she explained. **"There are also differences in hierarchy of creditors, particularly around unsecured deposits, and there are differences in the availability of tools to manage it."** These three aspects need to be harmonised, she said.

In terms of improving insolvency regimes, Greene further flagged the problematic nature of PIA. **She cited the phrase, "European banks are European in life but national in death,"** acknowledging that this does seem to be the current case. "There's thus a general assumption that there will be public finance put into the banks as they are resolved or wound down," Greene explained, adding "As long as that's the case, there isn't a whole lot of market discipline." If we could shift the assumption away from a national liquidation scheme, that would improve market discipline, she suggested.

As President and CEO of Swedbank, a cross-border group within the BU, Henriksson offered his personal insights into what challenges European cross-border groups like his might face in a resolution context. Overall, cooperation between the national resolution firm, the Swedish National Debt Office, and the SRB is good, he said. However, he acknowledged that striking a balance can be difficult, as the Swedish National Debt Office has approximately 10 people, while the SRB has several hundred.

[3] FDIC (2017), Crisis and response. An FDIC History, November. See in particular Chapter 6, Bank Resolutions and Receiverships.

[4] This amount also includes the whole-bank P&A transaction for Washington Mutual with a balance sheet total of USD 307 billion, to date the largest bank failure in the history of the FDIC.

Laviola followed up by elaborating on how the PIA is linked to the question of resolvability. "When a bank is about to fail, we assess whether resolution is in the public interest. If not, the bank has to go to liquidation and insolvency," he explained. **The assessment uses objectives outlined in the legislation, like protection of deposits, safeguarding financial stability, safeguarding critical functions, and minimising the use of public funds.** Laviola explained that PIA use has improved over the past two to three years. For example, the PIA is conducted twice: once in the planning phase, and again at the point of failure. This is because conditions, from the economic outlook to the bank itself, change.

Berrigan concluded with a mention of the Commission's plan to finalise its review of the state aid framework for banks (to ensure its consistency with the renewed CMDI framework). The Eurogroup recognises the complementarity between the CMDI and the state aid frameworks, he said. **However, two fundamental principles of the CMDI framework are to maintain financial stability and protect taxpayers. In reality, these two principles are not always aligned**, especially when it comes to resolution activities that involve bailing in depositors: "You can't maintain financial stability while protecting taxpayers if that means you have to bail-in depositors… That's why I stress that, if you want to extend resolution, you have to make sure that the arrangements for funding are always adequate."

Discussing the "missing pillar" of the BU, EDIS, Enria offered his thoughts on ways to reduce the fragmentation this perpetuates. First, while there has been an increase in M&A transactions, these have been primarily domestic; there could be more international M&A transactions. **Second,** the legislation doesn't leave a lot of room for management of capital liquidity on a group-wide basis — there's a clear dichotomy between what you can do within a MS and across states, even within the BU. Regarding the debate on waivers, Enria suggested that perhaps the ECB could work on recovery plans incorporating intra-group guarantees. Being neither a home nor host authority, the ECB could then ensure these guarantees are properly enforced. **Finally,** Enria expressed openness to greater reliance on branches. In such cases, the home DGS would be "on the hook," alleviating concerns that the local DGS would have to foot the bill if things went wrong.

Asked for his opinion on what needs to be done in the EU banking system to make it more resilient and competitive in the medium term, **Henriksson expressed doubt that the third pillar of the BU would significantly increase trust in the European crisis management framework**. He noted that the lack of EDIS had not hampered Swedbank's own operations in the EU, for example. "Of course, EDIS will build trust. But this might be a burden-sharing system," he stated.

Greene suggested that EDIS could "help break the sovereign bank doom loop, which is still pretty tight in some countries, like Italy." She also suggested keeping competences under the same roof, for example by taking the SRF, with its ESM backing, and making that EDIS. She explained: "Then you would have resolution and DGS unified, which makes sense, given that resolution has implications for deposits... And then you can free up national DGS so that they can become investors of last resort and top up MREL."

Laviola concluded with a word on the SRB's oversight of the failure of Sberbank in Austria, and its subsidiaries in the BU countries of Slovenia and Croatia. It was an unusual case for a few reasons. First, it was a true cross-border case, as all parts of the group simultaneously failed. Second, the case was unprecedented due to the looming sanctions against Russia; an idiosyncratic liquidity crisis resulted, as there was a cut-off of funding from the Russian owner to the subsidiary in Austria. Finally, it was an extremely rapid process. As a result, **the SRB used the moratorium tool for the first time**. However, for a bigger group, the given two-day moratorium may not be sufficient.

The panel concluded with an audience Q&A, with questions posed from those in the room and from viewers at home via Twitter using the hashtag **#SRBresolution2022**. Topics addressed included macroeconomic shocks, the prospect of a sovereign crisis, and to what extent the view of DGS as "state aid" has been overcome. There was also a discussion of the key risks faced by individual banks at the moment, especially considering the government support provided in the face of issues like Covid-19 and, more recently, the energy crisis. The PIA was also brought up again for discussion.

A conversation between Elke König, Chair, Single Resolution Board, and Nicholas Comfort, Banking Reporter for Bloomberg News

Elke König and Nicholas Comfort

Elke König, SRB chair, sat down with Nicholas Comfort, Banking Reporter for Bloomberg News, for a "fireside chat" to discuss the progress made by the SRB as well as what challenges remain. Noting that König was leaving the SRB by the end of 2022, Comfort began by asking if she had any regrets about the work done under her leadership. He pointed to the resolution of Banco Popular, which led to the SRB getting sued, as one possibility.

"I stand by that decision," König said, adding, "We are not an institution that makes financial losses go away. We are there to ensure financial stability. Our role is to ensure orderly resolution." Credit holders will be the first ones to experience losses, so that can have repercussions, she admitted. **Overall, she described Banco Popular as "a role model decision," adding "these lawsuits don't undermine the success of the resolution itself."**

Looking ahead, Comfort asked whether König thought the same level of political interference, as seen during her tenure, would continue. She acknowledged that, when it comes to individual banks in individual countries, politics will have a view. **"You listen. But you take your own decision based on the legal framework. Resolution is not a political exercise. It's a technical topic. This applies at national or European level,"** she said. Going forward, König expected this to remain true when determining resolution versus insolvency questions.

Comfort also asked for König's thoughts on the future for the SRB. What priorities lay ahead for the next Chair's tenure? **König highlighted three key priorities for the future: the work program ("Expectations for Banks"); protecting and ensuring liquidity in resolution on the banks' side; and MIS capabilities.** She further underscored the need to shift from creating to testing resolution plans.

König also spoke on contributions to the **Single Resolution Fund (SRF)**. "Can banks breathe a sigh of relief when meeting the €80 billion by 2024, or will more be needed?" Comfort asked. König replied that, in this sense, the SRB is a "rule taker, not a rule maker." The decision was made to set the SRF requirement at least at 1% of covered deposits. The SRB has enforced this, adjusting year by year. "I don't see any political appetite to touch this topic right now," König said. Comparing the current status to that in the US, she explained: **"The FDIC has one fund of 2% of covered deposits, roughly. In Europe, we have the SRF, which is 1% of covered deposits, and then we have 21 national deposit guarantee funds of 0.8%."** The level of coverage is basically the same, but more diversified in the EU.

Regarding issues ahead, in particular the Russian war on Ukraine, König pointed to credit risk as a potential problem. Asked to elaborate, she highlighted various points. On the retail side, floating rate mortgages coupled with stagnant incomes could prove problematic. She also flagged the rising cost of living, which might negatively impact the ability to fund loans. On the industry side, König pointed to rising energy costs as a possible problem for some industries.

Regarding the CMDI framework review, König highlighted two key points. First, she underscored the importance of harmonising insolvency procedures in the banking industry, to create a fit-for-purpose system for exit and within resolution. Second, König suggested taking a closer look at DGS. Does the system allow for "alternative measures," so that the DGS can support a sale? These remain open issues.

In conversation on screen

The conversation ended on a forward-looking note. When König took the helm of the SRB, it was — in her words — a "start up." Since then, significant advances have been made toward getting European banks resolvable. Nonetheless, **resolution remains a challenging exercise, with new hurdles arising: "It's not a walk in the park."** There is still plenty of work to do. However, soon it will be up to König's successor to see it through.

Keynote Speech

François Villeroy de Galhau

GOVERNOR, BANQUE DE FRANCE

François Villeroy de Galhau

François Villeroy de Galhau, Governor, Banque de France, began his keynote speech by warning against the temptation to forget about the great financial crisis and its aftermaths. The philosophy of resolution, which is just as important as banking supervision, is rooted in those rough times. He cited the Latin phrase, Si vis pacem, para bellum, as inspiration: "If you want peace, prepare for war." He went on to suggest ways the resolution framework could evolve to better prepare for the possible dangers ahead.

According to Villeroy de Galhau, **"We should broaden the scope of banks that could be subjected to resolution measures by considering the regional impacts of failure and the PIA."** He argued that additional steps could be taken to enable resolution measures for medium-sized banks in particular. "We need criteria to identify medium-sized banks and exclude small banks, whose limited footprint would never justify resolution," he explained.

Villeroy de Galhau also suggested that, **instead of focusing exclusively on bail-in, resolution planning should better ensure that the full range of currently available resolution planning tools are considered.** Further, efforts are needed to harmonise the main features of national insolvency proceedings, such as creditors hierarchy, rather than creating parallel crisis management paths, which would duplicate existing resolution tools while triggering level-playing-field issues.

Once these steps are taken, the probability of recourse to SRF could increase. The initial objective was to reach 1% of covered deposits, Villeroy de Galhau noted — €55 billion, at the time. **However, this amount has been constantly revised up. Today, the SRF sits at €66 billion; it will reach €80 billion by 2023.** "The fact remains that this very high amount has never been used so far, which raises the question — is this amount disproportionate with European banks' level of risk?" Villeroy de Galhau asked. If so, it might be advisable to introduce a ceiling in absolute terms.

Villeroy de Galhau also spoke on how supervision and resolution authorities could work more closely with one another. Cooperation between the SRB and ECB is formalised by a **Memorandum of Understanding (MoU)**. However, greater coordination on policy issues appears desirable. In particular, policy decisions that pertain to own funds have a very concrete impact on European banks' competitiveness and on the level playing field with foreign banks.

The **Single Supervisory Mechanism (SSM)** could further consider the risk-based approach, rather than a flat-rate approach, to estimate post-resolution pillar 2 requirements. This entails the need for a forward-looking approach and the expected risk reduction that follows a resolution. Further, this should be acknowledged in the calibration of MREL. **"Banks are not in the same stage today as they were seven years ago,"** Villeroy de Galhau said.

The resolution authority could, in turn, better take into account certain strategies. A likely effect of recovery options or transfer tools is that the structure of the remaining group might carry less risk. Besides, the stance on waivers of internal requirements for entities located in the same Member State (or even in the same Banking Union) has proven overly conservative. We need pragmatism, and consistency between the SRB and the SSM.

As a final consideration, Villeroy de Galhau spoke on the need to reconsider risk proportionality. This could entail changes, such as the calculation of banks' contributions to the SRF. Today, the size of banks has an overwhelming importance in this calculation. Yet, **"size does matter in bringing an institution under the scope of resolution — but size and risk are two different notions, and they could be more clearly differentiated in technical implementation in order to ensure fairness of contributions, as well as greater adherence to the SRM overall."**

François Villeroy de Galhau and Elke König

Villeroy de Galhau ended with a call for a more pan-European approach. Penalising the largest banking groups has prevented the emergence of truly pan-European banking firms — one of the BU's objectives. "Here, let us acknowledge, we have collectively failed so far," Villeroy de Galhau said, adding, **"We have a BU, but we don't have true cross-border European banks."** This is a major weakness and a point to consider when examining how technical implementation can evolve in order to serve Europe's strategic objectives in a relevant way, he concluded.

Session II

Resolvability: nearing the finish line

The final panel of the day focused on steps still needed for greater resolvability. The SRB published its assessment of bank resolvability in July 2022.[5] Moderator Melinda Crane asked the panellists to weigh in on the topic. With the SRF nearing its target and the deadline for full resolvability in sight, can we be confident that all European banks are resolvable and resilient? Alternatively, what still needs to be done by banks — and by the SRB?

Tuija Taos, Director-General, Finnish Financial Stability Authority, acknowledged the progress made, especially in building up MREL. However, she cautioned against complacency. **"Banks have large work programmes ahead of them. What is needed now is continuous discussions between the banks and SRB, and monitoring of progress. I think the role of senior management in the banks is crucial in this regard,"** Taos said, explaining, "They're the ones that can prioritise resources." Taos also echoed a sentiment voiced by others during the day regarding the need to make sure that small and medium sized banks are made resolvable. This was critical from a BU perspective, she noted. For those lagging behind, she suggested considering the use of external expertise.

Tuija Taos

Jose Manuel Campa

Jose Manuel Campa, Chairperson, European Banking Authority, agreed that progress has been made in resolvability, but likewise had words of caution. "We aren't finished and won't ever be finished. As the environment changes, we need to continue to assess how resolvable banks are. So, this question will remain open," he said. **In terms of current gaps that need to be addressed to attain resolvability, Campa highlighted four points. First,** there is a need for banks to show themselves resolvable in action, not just in theory — something that could be accomplished with exercises like dry runs. **Second**, MREL has not been built up completely. **Third**, there are potential gaps to resolvability when it comes to liquidity in funding.

[5] https://www.srb.europa.eu/en/content/srb-publishes-resolvability-assessment-and-heat-map

Finally, Campa flagged the need to further develop the CMDI framework, specifically how assessments are done, and emphasised the importance of making sure other core strategies and tools are available to every bank at the time that resolution is meant to take place.

Claudia Buch, Vice-President, Deutsche Bundesbank, agreed with others that greater emphasis is needed on resolvability in action, not just resolvability in theory. She also highlighted an urgent need to close gaps in the system, suggesting that —given current geopolitical risks, potential macroeconomic shocks, and a period of accelerating structural change — the willingness of policymakers to rescue failing institutions will be more limited going forward. **"We can also discuss how macroprudential policy can help strengthen resilience in regard to macroeconomic risks," she said.** Reading the SRB resolvability assessment and an evaluation of too-big-to-fail policies by the FSB, progress in resolvability has been made but some gaps remain. Those include transparency, e.g. on how bail-in instruments are allocated across investors, but also better bank management information systems. Buch further suggested that more work could be done on examining implicit funding subsidies, labelling them "a useful indicator to assess how much progress we've made with resolution." Regarding the CMDI review, Buch mentioned areas of improvement in terms of earlier intervention, a common understanding when financial stability is at risk, and improved cross-border cooperation.

Reflecting on the SRB's July 2022 resolvability report, **Pedro Machado, Member of the Board, Single Resolution Board**, noted that substantial progress has been made in the key dimensions that make up the resolvability of banks. For example, the reduction of NPLs and build-up of MREL have contributed to significant risk reduction. **However, loss absorption is only one point when discussing resolvability, Machado cautioned.** "We've seen less balanced progress on some other points," he admitted. As one example, he cited MIS capabilities, which banks must rely on to extract and forecast funding needs post resolution, and to identify unencumbered assets that can be mobilised rapidly when filling gaps in liquidity.

Pedro Machado

Crane picked up on a point repeatedly touched on throughout the day — the fact that small and medium sized banks are lagging behind bigger firms in terms of resolvability. What risks does this pose and what's the best approach to setting the appropriate level of MREL for these banks? In response, **Taos** noted that MREL requirements have often been criticised by small and medium sized banks for being too costly. "It's a fair argument, but my experience from Finland shows that even the smaller banks have been able to meet MREL targets by issuing debt instruments," she countered. While circumstances across institutions differ, she acknowledged, this was proof that the objective is not impossible. Further, Taos stressed the importance of recognising that transfer strategies may be more suitable for small and medium sized banks than bail-in strategies.

Crane next turned to **Buch**, asking for her insights into the German banking sector, which includes numerous savings banks that belong to an **institutional protection scheme (IPS)**, recognised by German law as a statutory deposit guarantee system. In June 2022, Ministers of Finance agreed that the reform of the CMDI framework would take into account national specificities, including by preserving a functioning framework for IPS. **Asked whether exempting such schemes from the CMDI revision might pose risks, Buch replied: "We shouldn't exclude these banks from the principles we have in Europe."** She noted that the German savings and cooperative bank sectors are relatively large compared to the German banking system in general, and, since Germany is a relatively large country, these banks are also important for the European banking system as a whole. She noted that a considerable part of MREL issued by banks belonging to an IPS is held within the IPS. This may be favoured by current regulation and something, which could be reconsidered. In general, holdings of bail-inable liabilities within the banking sector should be limited to decrease the risk of contagion.

The conversation next shifted to transparency in resolution. The Bank of England (BoE), the USA, Switzerland, and other jurisdictions have issued comprehensive reports, including data on specific firms. What is the "right balance" when it comes to transparency in resolution? **Campa** emphasised the EBA's efforts in promoting transparency — such as standardising how bank data is reported. "Transparency can also be useful in resolution and that includes bank-specific transparency," he stated, noting that there should also be more regulatory guidance as to what type of transparency should be provided to the markets. Campa suggested that transparency could be increased on two points: First, around an institution's preferred resolution strategy, and second, around the resolvability challenges that banks face.

Crane turned to Machado next, noting that the SRB is prioritising work on transfer tools, separability, and adjustments of MREL for such transfer tools. What is the rationale here? **Machado** acknowledged that the SRB has previously focused its resources on bail-in operationalisation, since this is the preferred strategy for 80% of banks under the SRB remit (versus the 20% that prefer a transfer strategy). Now that there is a set of policies and guidance in place here, the SRB can focus on carrying forward the tools needed for a transfer strategy, such as sale of business, asset separation tool, and the bridge institution tool. The SRB has created operational guidance that provides a minimum basis for both the transactional documentation needed and the due diligence components to be fulfilled — the latter being critical, as it helps inform the actions of prospective buyers.[6]

[6] https://www.srb.europa.eu/en/content/operational-guidance-banks-separability-transfer-tools

Asked about the progress made in funding, including for small and medium sized banks, **Buch** stressed that more needs to be done on this point. “I think it’s important we don’t leave them out of the picture,” she noted. Asked whether the current framework, including access to industry-based funds, should be reviewed — and what the role of central banks might be in this review — **Buch was clear: “Central banks can’t provide funding in resolution unless, after a resolution weekend, there’s a bank that’s fully solvent, without questions. But in all likelihood, there will still be uncertainties on day one. Under certain conditions, emergency liquidity assistance may be granted. However, we also need other sources of liquidity. Banks need to be able to estimate liquidity and funding needs for implementing the resolution strategy. Furthermore, they need to be able to identify and mobilise assets that can be used as collateral to obtain funding during and after resolution, as expressed by the SRB expectations for banks.”**

On the topic of funding, **Taos** discussed whether it would be worth integrating the SRF, operating at European level, with the 21 national DGS. What would be the advantages and disadvantages? **“A purely technical combination of the DGS funds and the SRF would not bring any major benefits,” Taos stated. “This combination of funds only makes sense if the conditions for the use of the funds is harmonised and the decision-making power on their use is centralised.”** Taos said that, long term, she would advocate for pooling EDIS and SRF funds. However, in the short term, and as part of the CMDI review, “the most important thing is to ensure that we have a consistent application of the transfer tools that we currently find both in the deposit guarantee framework and in the resolution framework.”

The panel concluded with an audience Q&A, with questions posed from those in the room and from viewers at home via Twitter using the hashtag **#SRBresolution2022**. Questions ranged from whether banks would get some kind of acknowledgement if they reached resolvability by the given deadline in 2024, to whether more money was needed in the SRF if more banks were to be made resolvable. Audience members also wanted to know whether it still made sense to have banks contribute to the fund despite a more pressing need for increased profitability — for example, so banks could support families during the energy crisis.

Closing Remarks

Boštjan Jazbec

MEMBER OF THE BOARD, SINGLE RESOLUTION BOARD

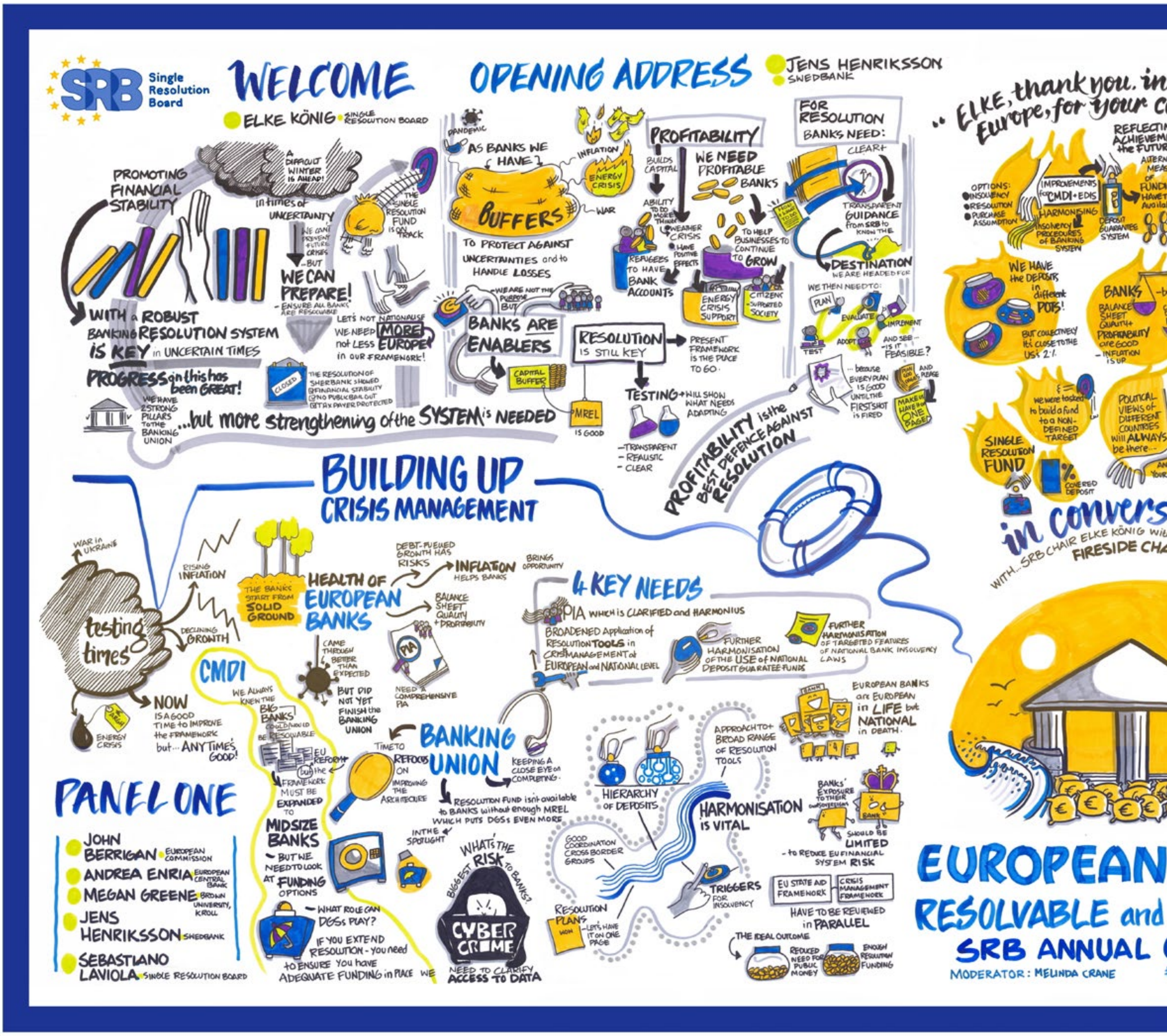
Boštjan Jazbec

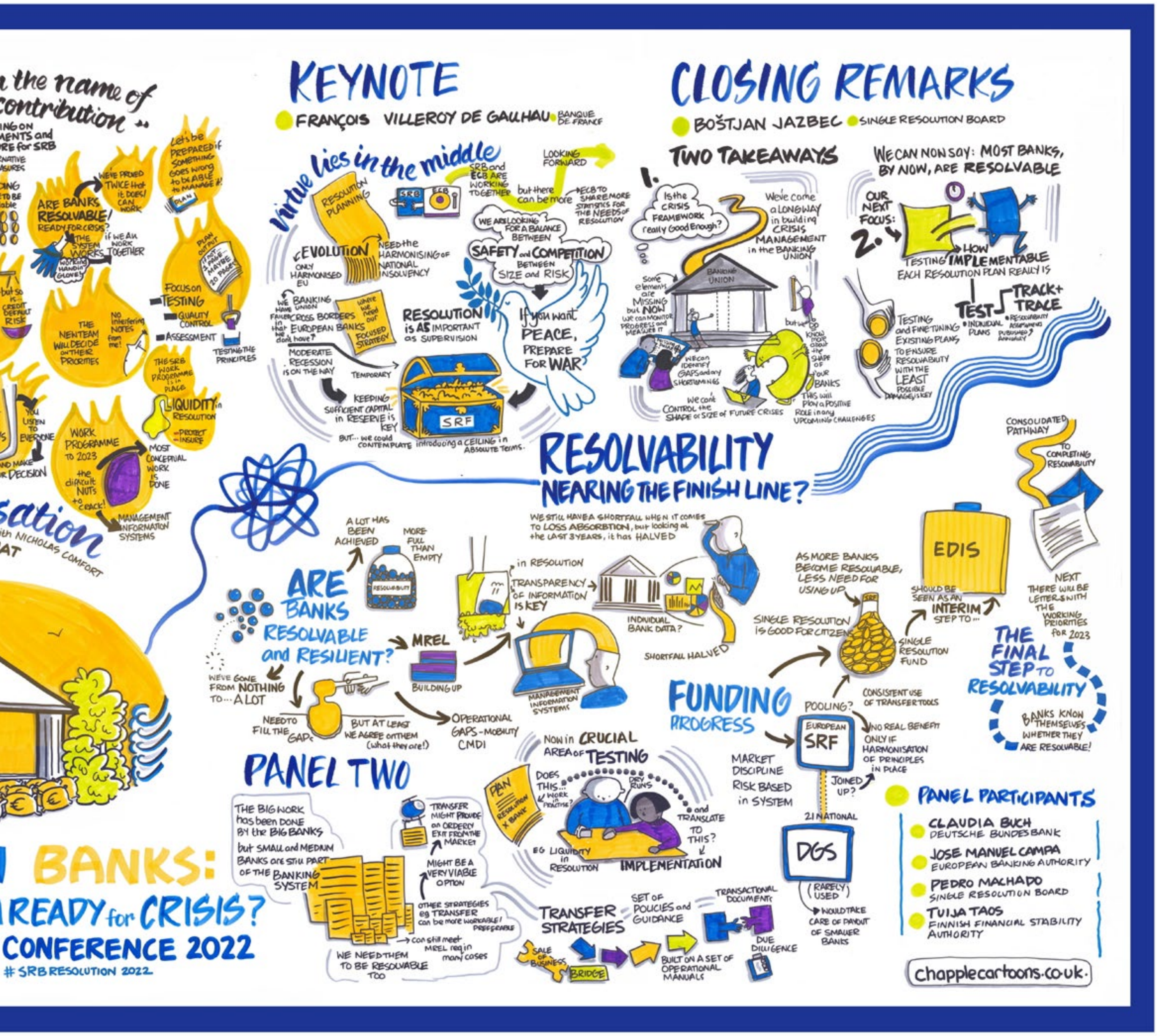
Boštjan Jazbec, Member of the Board, SRB Board, concluded the day's events on an optimistic note, highlighting the progress made since the SRB's inception: "Today we know a lot more about the shape of our banks, compared to all that was unknown about them in 2008. That is surely something that will play a positive role in overcoming any upcoming challenges."

"I think we can say that most banks are now resolvable, at least on paper," he added. However, there is always room for improvement, he admitted. **"Focusing on the how implementable each resolution plan actually is will take centre stage from now on," he stated.** The SRB's focus will thus shift to making sure that the plans on paper, the preferred resolution strategy, can work in practice.

In Jazbec's view, testing and fine-tuning existing plans to ensure SRB banks are resolvable with the least possible damage, is a key challenge in the SRB's work ahead. **In order to fine-tune resolution plans, the SRB might adopt the approach of many health authorities when battling Covid-19, he suggested: test, track, trace:** "Our testing will continue with individual resolution plans, while the tracking and tracing will be collated in the resolvability assessments and heat-maps, to be published annually."

Testing is vital, Jazbec noted, because resolution plans are central to how the SRB can help protect the taxpayer and ensure financial stability. Financial stability is, after all, the ultimate goal. **With the many uncertainties ahead, from the ongoing Covid-19 pandemic to the Russian war on Ukraine and a possible recession, safeguarding financial stability has become more important than ever before.**


Single Resolution Board
WELCOME
ELKE KÖNIG SINGLE RESOLUTION BOARD
PROMOTING FINANCIAL STABILITY
A DIFFICULT WINTER IS AHEAD!
in times of UNCERTAINTY
WE CAN'T PREVENT FUTURE CRISES - BUT WE CAN PREPARE!
- ENSURE ALL BANKS ARE RESOLVABLE
THE SINGLE RESOLUTION FUND IS ON TRACK
WITH A ROBUST BANKING RESOLUTION SYSTEM IS KEY in UNCERTAIN TIMES
PROGRESS in this has been GREAT!
LET'S NOT NATIONALISE WE NEED MORE not LESS EUROPE in OUR FRAMEWORK!
THE RESOLUTION OF SBERBANK SHOWED FINANCIAL STABILITY NO PUBLIC BAIL OUT TAXPAYER PROTECTED
WE HAVE 2 STRONG PILLARS TO THE BANKING UNION
...but more strengthening of the SYSTEM is NEEDED
OPENING ADDRESS
JENS HENRIKSSON SWEDBANK
PANDEMIC
AS BANKS WE HAVE
INFLATION
ENERGY CRISIS
WAR
BUFFERS
TO PROTECT AGAINST UNCERTAINTIES and to HANDLE LOSSES
WE ARE NOT THE PURPOSE BUT
BANKS ARE ENABLERS
CAPITAL BUFFER
PROFITABILITY
BUILDS CAPITAL
WE NEED PROFITABLE BANKS
ABILITY TO DO MORE THAN WEATHER CRISIS
HAVE POSITIVE EFFECTS
REFUGEES TO HAVE BANK ACCOUNTS
TO HELP BUSINESSES TO CONTINUE TO GROW
ENERGY CRISIS SUPPORT
CITIZENS - SUPPORTED SOCIETY
RESOLUTION IS STILL KEY
PRESENT FRAMEWORK IS THE PLACE TO GO.
MREL IS GOOD
TESTING - WILL SHOW WHAT NEEDS ADAPTING
- TRANSPARENT
- REALISTIC
- CLEAR
PROFITABILITY is the BEST DEFENCE AGAINST RESOLUTION
FOR RESOLUTION BANKS NEED:
CLEAR + TRANSPARENT GUIDANCE from SRB to KNOW THE DESTINATION WE ARE HEADED FOR
WE THEN NEED TO:
PLAN
TEST
ADOPT
EVALUATE
IMPLEMENT
AND SEE... IS IT FEASIBLE?
... because EVERY PLAN IS GOOD UNTIL THE FIRST SHOT IS FIRED
MAKE IT HAVE ONE PAGE!
" ELKE, thank you. in Europe, for your c
OPTIONS: INSOLVENCY RESOLUTION PURCHASE ASSUMPTION
IMPROVEMENTS for CMDI + EDIS
HARMONISING insolvency PROCEDURES of BANKING SYSTEM
DEPOSIT GUARANTEE SYSTEM
WE HAVE the DEPOSITS in different POTS!
BUT COLLECTIVELY it's CLOSE TO THE US! 2%
BANKS
BALANCE SHEET QUALITY + PROFITABILITY are GOOD - INFLATION IS UP
we were tasked to build a fund to a NON-DEFINED TARGET
SINGLE RESOLUTION FUND
COVERED DEPOSIT
POLITICAL VIEWS of DIFFERENT COUNTRIES WILL ALWAYS be there...
in convers
WITH... SRB CHAIR ELKE KÖNIG
FIRESIDE CH
BUILDING UP CRISIS MANAGEMENT
WAR in UKRAINE
RISING INFLATION
DECLINING GROWTH
testing times
ENERGY CRISIS
NOW IS A GOOD TIME to IMPROVE the FRAMEWORK but... ANYTIME'S GOOD!
THE BANKS START FROM SOLID GROUND
HEALTH OF EUROPEAN BANKS
DEBT-FUELED GROWTH HAS RISKS
INFLATION HELPS BANKS
BRINGS OPPORTUNITY
BALANCE SHEET QUALITY + PROFITABILITY
CAME THROUGH BETTER THAN EXPECTED
BUT DID NOT YET FINISH the BANKING UNION
NEED A COMPREHENSIVE PIA
CMDI
WE ALWAYS KNEW THE BIG BANKS COULD/WOULD BE RESOLVABLE
EU REFORM but the FRAMEWORK MUST BE EXPANDED TO
MIDSIZE BANKS
- BUT WE NEED TO LOOK AT FUNDING OPTIONS
- WHAT ROLE CAN DGSs PLAY?
IF YOU EXTEND RESOLUTION - You need to ENSURE You have ADEQUATE FUNDING in PLACE
BANKING UNION
TIME TO REFOCUS ON IMPROVING THE ARCHITECTURE
KEEPING A CLOSE EYE on COMPLETING.
RESOLUTION FUND isn't available to BANKS without enough MREL WHICH PUTS DGSs EVEN MORE IN THE SPOTLIGHT
BIGGEST WHAT'S THE RISK TO BANKS?
CYBER CRIME
NEED TO CLARIFY ACCESS TO DATA
4 KEY NEEDS
PIA WHICH is CLARIFIED and HARMONIUS
BROADENED Application of RESOLUTION TOOLS in CRISIS MANAGEMENT at EUROPEAN and NATIONAL LEVEL
FURTHER HARMONISATION OF THE USE of NATIONAL DEPOSIT GUARANTEE FUNDS
FURTHER HARMONISATION OF TARGETED FEATURES OF NATIONAL BANK INSOLVENCY LAWS
HIERARCHY OF DEPOSITS
APPROACH TO BROAD RANGE OF RESOLUTION TOOLS
HARMONISATION IS VITAL
GOOD COORDINATION CROSS BORDER GROUPS
RESOLUTION PLANS
LET'S HAVE IT ON ONE PAGE
TRIGGERS FOR INSOLVENCY
EUROPEAN BANKS are EUROPEAN in LIFE but NATIONAL in DEATH.
BANKS' EXPOSURE TO THEIR SOVEREIGN SHOULD BE LIMITED
- to REDUCE EU FINANCIAL SYSTEM RISK
EU STATE AID FRAMEWORK
CRISIS MANAGEMENT FRAMEWORK
HAVE TO BE REVIEWED in PARALLEL
THE IDEAL OUTCOME
REDUCED NEED FOR PUBLIC MONEY
ENOUGH RESOLUTION FUNDING
PANEL ONE
JOHN BERRIGAN EUROPEAN COMMISSION
ANDREA ENRIA EUROPEAN CENTRAL BANK
MEGAN GREENE BROWN UNIVERSITY, KROLL
JENS HENRIKSSON SWEDBANK
SEBASTIANO LAVIOLA SINGLE RESOLUTION BOARD
EUROPEAN
RESOLVABLE and
SRB ANNUAL
MODERATOR: MELINDA CRANE



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