SRB Bi-annual reporting note to Eurogroup (EG)

This note is aimed at reporting to the Eurogroup of 4 April 2022 on (1) the recent resolution cases, (2) SRB progress and priorities in 2022, and (3) an update on the Single Resolution Fund (SRF), including the common backstop and the SRB consultation process on ex-ante contributions to the SRF.

1. Recent resolution cases

After having determined that Sberbank Europe AG (Austria), Sberbank d.d. (Croatia) and Sberbank banka d.d. (Slovenia) were failing or likely to fail and having instructed the use of a moratorium on Monday 28 February, the SRB adopted on Tuesday 1 March the decisions to resolve the Slovenian and Croatian subsidiaries of Sberbank and that no resolution action was necessary for the Austrian parent. The SRB found that resolving the two subsidiaries was necessary in order to protect financial stability and avoid disruption to the Croatian and Slovenian economies, whereas the SRB found that the Austrian parent was not considered to provide critical functions to the economy, and winding it up under normal insolvency proceedings would not have a negative impact on financial stability or the economy.

As such, the SRB used the sale of business tool and transferred all shares of the group's Croatian and Slovenian subsidiaries to, respectively, Croatian Postbank and Nova ljubljanska banka d.d. (NLB d.d.). The banks opened the morning after (2 March) as normal, with no disruption to depositors or clients, having become part of well-established, robust and stable banking groups. Insolvency procedures are being carried out for the Austrian parent according to national law, and eligible deposits (up to €100,000) have been protected by the Austrian deposit guarantee system.

The SRB's decisions achieved the resolution objectives, in particular the objective of safeguarding financial stability, to protect public funds and depositors, and ensure the continuity of critical functions.

2. SRB priorities for 2022

Resolution planning

The SRB is in the concluding phase of the 2021 Resolution Planning Cycle (RPC). This is the second uniform 12-month cycle (from April to April). The SRB prepared 104 resolution plans[1] together with the National Resolution Authorities (NRAs). The majority of the resolution plans and MREL decisions for the 2021 have already been approved and adopted.[2]

Resolvability assessment

In the previous SRB bi-annual reporting note to the Eurogroup (October 2021), the SRB presented a template of a heat-map on assessing resolvability. The heat-map is designed as a tool to monitor, benchmark and communicate horizontally on banks' progress towards resolvability. The SRB is planning to publish an aggregated heat-map in late summer, once the results are of sufficient quality, and then start a yearly reporting cycle.

[1] This number excludes the banks for which the SRB acts as a host authority and the banks under simplified obligations that did not need to update their resolution plan in the 2021 RPC. Due to certain changes to the number of banks under the SRB remit in Q1 2022, the number of resolution plans expected to be adopted for the 2021 RPC decreased from 104 to 102.

[2] At the time of drafting of this note, formal approval for some banks is still pending, in particular for resolution college banks due to the requirement to organise a resolution college and reach a joint decision-making with the resolution authorities of non-participating Member States (4 months consultation period).

Preliminary results of the assessment so far show that:

- Banks have made most progress on the capabilities that were phased-in in previous years, in line with the deadlines set by the SRB in the Expectations for Banks (EfB). These capabilities relate to banks' governance, information and communication systems, loss absorbing capacity, ability to execute bail-in and to ensure operational continuity, including continuity of access to Financial Market Infrastructure (FMI) providers.[3]
- G-SIIs are more advanced on resolvability profiles such as governance, loss absorbing capacity, FMI contingency planning and communication planning, also consistently with the international standards on these resolvability conditions and requirements in particular by US and UK authorities.
- The other banks are less advanced on governance and loss absorbing capacity, while they appear broadly aligned in the other profiles.
- Significant progress remains to be made on the capabilities which are expected to be phased-in during the current or next RPC (e.g. liquidity in resolution, adequacy of management information system for resolution, separability of assets and liabilities under a transfer tool and restructuring after bail-in).

End of 2023 remains the deadline for banks becoming compliant with the EfB and MREL target.

Transfer tools: the SRB is prioritising the work on transfer tools, separability and adjustments of MREL for such transfer tools (as a key tool inter alia for mid-size banks). "Sale of business" is one of the tools in our toolbox, which needs timely preparation and a willing buyer. To enhance preparedness, the SRB issued a guidance note on separability in October 2021 and will continue to work in this area in 2022.

Operationalising the SPE: Single Point of Entry (SPE) is the resolution strategy for the majority of the banks under our remit. The SRB is therefore deepening the operationalisation of SPE-strategy through work on (i) identification of legal and practical obstacles to the transferability of funds from the point of entry to its subsidiaries, (ii) resolution powers in the execution of SPE strategies, and (iii) the use of arrangements, including contractual ones safeguarding the availability of sufficient resources to support subsidiaries, where necessary.

MREL target

MREL is one of the key conditions to become resolvable and the SRB actively monitors the build-up of MREL across banks under its remit. Banks under SRB's remit have raised capital and debt instruments, further building up their MREL buffers.

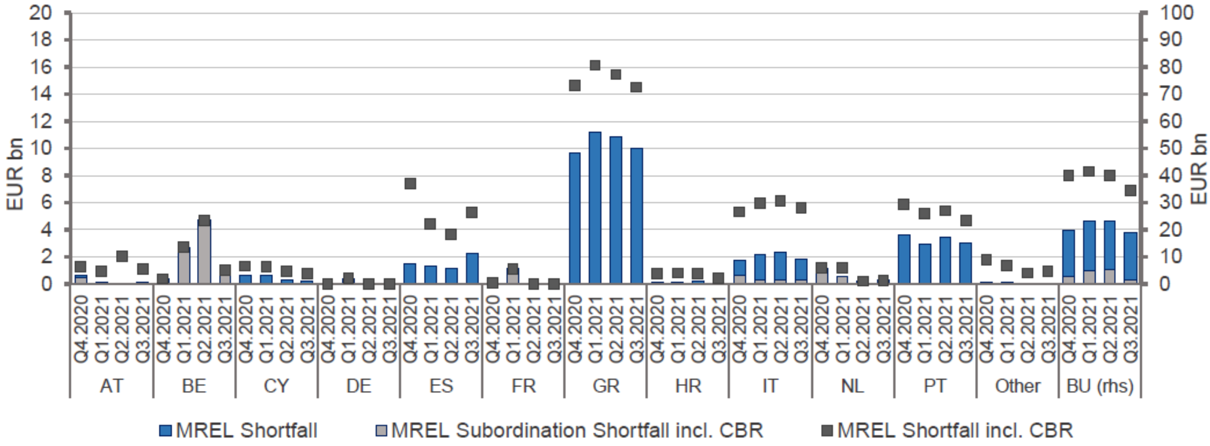
Nearly all banks fulfil the intermediate MREL target and the SRB is currently addressing the few remaining cases. In Q3 2021 banks under the SRB remit (cf. SRB MREL dashboard[4]) display a shortfall of EUR 1.4 bn without combined buffer requirement ("CBR") (4.9 bn when CBR is included) or almost 0.02% of the banks' total risk exposure amount ("TREA") (0.07% TREA including CBR).

Regarding final MREL targets, the shortfall amounts to EUR 19.0bn (EUR 34.6bn when CRB is included). This has almost halfed since Q4 2019 (and even more when including CBR). In relative terms, the MREL shortfall accounted for 0.26% TREA (0.48% including the CBR).

[3] For a full overview of EfB phase-in deadlines please see page 14 of the SRB 2022 Work Programme, which is available here: https://www.srb.europa.eu/system/files/media/document/2021-11-26_Work-Programme-2022.pdf

[4] https://www.srb.europa.eu/system/files/media/document/20220201%20SRB%20MREL%20Dashboard%20Q3.2021%20FINAL.pdf . The next update of the SRB MREL dashboard will cover Q4 2021 and will be published at the end of April.

*Table 1: **MREL shortfalls (of which subordination) against final targets of resolution entities, EUR bn**[5]*



According to market data[6], **in the first two months of 2022, the gross issuances of banks under the SRB remit amounted to around EUR 40.26 bn**. Despite uncertainty over the inflation and rates outlook, activity in primary unsecured funding markets resumed strongly in the first three weeks following the Christmas break. By contrast, the deteriorating funding market conditions, seasonal low period as well as aforementioned very high issuance activity over the first three weeks of 2022, provided for a low unsecured bank bond issuance activity in the last week of January and in the first three weeks of February. Being overall very limited in February, bank bond issuance activity came to a halt with the outbreak of the Ukraine crisis.
The SRB has urged banks to issue MREL eligible instruments and develop sound funding plans suitable for any market environment in order to comply with the MREL requirements.

MREL policy

The SRB implemented the new permission regime as of 1 January 2022. The MREL policy is being further enhanced in the course of 2022, (i) by reviewing the non-creditor-worse-off (NCWO) approach, (ii) implementing upcoming EBA Regulatory Technical Standards (RTS) timely into the SRB policy, and (iii) reviewing of the MREL calibration for transfer strategies. The SRB is also broadening the scope of non-resolution entities subject to internal MREL. It will continue lowering the materiality threshold of relevant legal entities, moving it from 3% to 2%. Finally, the SRB will continue integrating planned guidance from standard setting bodies at international and European level (FSB and EBA) in its policy work program for 2022. As in previous years, SRB policy work will be done in close cooperation with NRAs, through the Resolution Committee and relevant expert networks. Following incremental changes in 2022, SRB will review its policy holistically in 2023, possibly envisaging a public consultation with the industry to be able to embed the feedback received into the overall SRB policy set before final MREL targets will apply in 2024.

3. SRF & Common Backstop

The SRB remains committed to the introduction of the common backstop to the SRF in early 2022 and expects all national procedures to be finalised to introduce the common backstop as soon as possible. The SRB, together with the ESM and Member States have completed all the necessary technical work. A joint SRB-ESM team performed a dry-run on the repayment capacity assessment in November 2021.

[5] Source: cf. footnote 3, i.e. MREL dashboard, also for additional figures.
[6] Source: EBA weekly overview on liquidity and funding (WOLF).

As regards the 2022 ex-ante contributions to the SRF, the SRB announced the launch of a consultation process on 3 March 2022, which gives banks and credit institutions the opportunity to view the SRB's preliminary decision on their calculation prior to its adoption and to comment on aspects pertinent to the calculation exercise. The final decision making is scheduled for mid-April 2022.

In line with previous cycles, the SRB set the preliminary target level for the 2022 ex-ante contributions with reference to the amount of covered deposits in the Banking Union, calculated quarterly, at the end of the year before, i.e. 2021. In this regard, the SRB noted at 31 December 2021 a year-on-year increase of the covered deposits of ~6.5% (only slightly down from the 7% increase observed in 2020).