SRB Bi-annual reporting note to Eurogroup

This note is aimed at reporting to the Eurogroup of 15 May 2023 on: 1) resolvability progress of SRB banks; 2) the build-up of the Single Resolution Fund (SRF) and status quo of the Common Backstop to the SRF; 3) lessons learned from recent crisis cases outside the EU; and 4) the SRB’s strategic review.

1. SRB’s banks resolvability progress

Resolution planning

On 1 April 2023, the SRB started the 2023 Resolution Planning Cycle (RPC) – which is the annual process for the updating and reviewing of all resolution plans, as required by law, in cooperation with the National Resolution Authorities (NRAs). This year, the focus remains on finalising the phase-in of the Expectations for Banks (EfB) to make sure that banks become resolvable across all dimensions. The SRB’s working priorities for the 2023 RPC were communicated to SRB banks during September and October 2022. This includes a common priority for all banks with resolution strategy on liquidity and funding in resolution (measurement and reporting liquidity and funding needs in resolution) and targeted priorities for certain clusters of banks on separability, solvent wind down, bail-in operationalisation and business reorganisation planning. These general priorities are complemented by bank-specific requests addressing areas where the individual bank is lagging behind or that are of particular relevance for the credit institution.

Currently, the SRB is closing the 2022 RPC which was launched in April 2022 and, since then, executed according to the planning communicated externally (RPC Booklet 2022). In this process, the SRB has updated and further enhanced 102 resolution plans for the banking groups under its remit. By the end of 2022, all relevant banks in the BU had to conduct a dry-run on their bail-in playbooks. The subsequent SRM decision-making process is already closed for the majority of plans (more than 90%), as planned.

2023 is thus a decisive, but also transitional year, where the SRB is shifting focus from drafting the resolution plans and achieving resolvability through the EfB phase-in to the testing of banks’ resolution readiness, which will be significantly extended compared to previous years. In general, resolvability testing is key for the operationalisation of the resolution plans (incl. bank-specific resolution strategies). Starting from 2024, resolvability testing through dry-runs and deep-dives will be intensified and will play a major role in resolution planning activities.

Resolvability assessment

The provisional results of the 2022 heat-map assessment show that overall, banks have demonstrated the expected level of progress on the resolvability capabilities prioritised by the SRB in 2021, namely on the estimation of their liquidity needs in resolution and on the management information system (MIS) capabilities for valuation and MIS for bail-in execution. Mid-size and less complex banks have also made more progress on principles where G-SIIs and Top Tier banks were frontrunners in the 2021 cycle.

Overall, banks have also started the work on the resolvability capabilities introduced in 2022, mainly on the ability to swiftly identify and mobilise liquidity sources and collateral in resolution, ensuring separability in case

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1 The number of resolution plans updated in the 2022 RPC is different than the number of banks under SRB’s remit (115 on 1 January 2023) since: (i) the number of resolution plans does not take into account the plans of EU hosted banks which are subject to final adoption by the respective group-level resolution authority (GLRA), (ii) there are banks under simplified obligations for which the resolution plan is updated every two years, (iii) there are some 3rd country hosted banks that have a single resolution plan bundling two entities under SRB’s remit.
of partial transfers of activities and restructuring post bail-in. However, the SRB expects banks to show more progress in these areas going forward, especially in light of the main lessons learnt from recent crisis cases. To this end, the SRB will continue working with banks to make resolution plans operational, under different scenarios and using different resolution tools. Notably, the SRB will more systematically assess the possibility to use asset transfer tools, in combination with the bail-in tool, especially for some of the larger banks (GSIIs and Top Tier).

In this context, the SRB will also ask banks to provide evidence that they maintain their resolvability capabilities operational and fit-for-purpose over time. To this end, banks will be requested to take a holistic approach for the testing of their capabilities, according to a multiannual work program. It will consider the main lessons learned from recent crisis cases and prioritise the work accordingly, taking into account the specific situation of each bank.

**MREL status and policy**

To provide a stable regulatory environment in a phase where some banks are still building up their MREL stock to meet the final (2024) targets, the SRB has decided to maintain its policy on the calibration of MREL (total and subordinated component) with minimal changes this year. The only change concerns the scope of entities subject to internal MREL, as previously announced. The SRB reduces the size threshold for credit institutions considered as Relevant Legal Entities from EUR 10 bn to EUR 5 bn, keeping the other thresholds unchanged, from now on. The SRB may also decide to set internal MREL for certain intermediate financial holdings companies not subject to prudential requirements after a case-by-case assessment, where it is deemed instrumental, in light of the deduction framework for intermediate entities, to ensure a sound execution of the resolution strategy. Going forward, as part of the SRB’s ongoing strategic review, a public consultation on the MREL policy will be launched in the second half of 2023.

As regards the build-up of MREL, the latest available data shows that the overall shortfall against the final (2024) targets for resolution entities reduced significantly in the last quarter of 2022. Specifically, the MREL shortfall reached EUR 8.8 bn (corresponding to 0.1% of Total Risk Exposure Amount - TREA), halving compared to one year ago (by EUR 7.3 bn). When considering the combined buffer requirement (CBR), the MREL shortfall was equal to EUR 21.5 bn (corresponding to 0.3% TREA); down by EUR 10.4 bn year-on-year. Such reduction was mainly driven by the high issuance activity over the quarter, particularly from banks in shortfall.

Around 18% of the entities in scope (corresponding to 14 banks) were in shortfall against their final targets, and about 38% (30 banks) when considering the CBR. However, 10 out of the 14 banks and 15 out of the 30 banks have a longer transitional period to meet their final target, ending, in most cases, in 2024-2025.

As regards banks’ funding outlook, 2023 started positively for the banking sector supported by receding inflation and improved profitability from higher rates. However, due to the turmoil that occurred in March 2023, both in US and Europe with SVB and Credit Suisse, the cost of funding increased again close to the level at the start of the war in Ukraine. Towards the end of the first quarter of 2023 confidence resumed, which helped spreads relaxing. The SRB continues to monitor closely the funding plans and the MREL build-up of those banks that still need to close a gap to meet the final MREL targets.

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2 In the context of the indirect subscription of internal MREL eligible resources by resolution entities pursuant to the revised Union bank resolution framework, intermediate entities should be required to deduct the full holding of internal MREL eligible resources issued by entities that are not themselves resolution entities and which belong to the same resolution group.
2. SRF & Common Backstop

**Initial period:** During the last eight years, the SRB has been gradually building up the SRF with the objective of reaching the target level of at least 1% of the amount of covered deposits of all credit institutions within the Banking Union by 31 December 2023 (end of the "initial period"). For the calendar year 2022, the SRB collected EUR 13.7 bn of ex-ante contributions. The available financial means of the SRF at 31 December 2022 amounted to EUR 65.9 bn. For 2023, the SRB forecasted the target level at the end of the initial period based on a growth rate of covered deposits of 4.5%, leading to a projected size of the SRF at the end of the initial period of at least EUR 77.6 bn. Consequently, in 2023, the SRB will collect EUR 11.7 bn from the 2 778 institutions that are in the scope of the SRF. The final decision on the 2023 ex-ante contributions was adopted on 2 May 2023 and institutions will be notified by the NRAs at the end of May 2023.

**Mutualisation:** the SRF has 21 compartments. In April 2023, 95% of the compartments were mutualised. By the end of 2023, as foreseen under the regulation, available means in the SRF will be fully mutualised and national compartments will cease to exist.

**Steady state:** The dynamic nature of the target level implies that if after the initial period the available means diminish below the target level, the SRB shall collect contributions in order to reach again the 1% target. To that end, every year at the end of January, the SRB will receive data from the DGSs. In case there is a gap, the SRB will collect the amount of ex-ante contributions necessary to fill it in and reach the new target. If the SRF is equal to or above the target level, no collection of ex-ante contributions will take place.

**Common Backstop:** while the ratification process of the ESM Treaty reform is still ongoing, the SRB continues its work on the operationalisation of the Common Backstop to the SRF. In this context, the SRB developed a Collateral Policy and the joint SRB-ESM team elaborated a methodology for Repayment Capacity Assessment. The SRB is currently finalising a set of rules that will govern the access to the Data Room (holding anonymous supervisory data that will be used for the calculation of the banks' recoupment capacity).

3. Lessons learned from recent crisis cases outside the EU

Significant market events took place in March in the US and Switzerland. Overall, the direct and indirect effects on SRB banks were limited. The public measures taken in the US and Switzerland have specificities that make it hard to compare them with the EU framework, nonetheless the SRB is working to draw some lessons.

First of all, these events were a reminder of how important is the availability of liquidity in resolution. The Swiss case confirmed that the needs of a GSIB could go beyond the SRF and its common backstop. Involvement of the Eurosystem in such cases would be necessary.

The recent events showed that times are changing with, notably, new technologies coupled with broad use of social media. We have seen bank runs that were unprecedented in volumes and speed. EU authorities including the SRB will need to take this into account. Equally, communication showed to be essential. The SRB, jointly with the SSM and EBA, reacted swiftly to reassure markets on the creditor hierarchy that will apply in crises interventions under the EU framework. Markets reacted positively to this communication. Beyond this, the authorities will need to further reflect on cross-border cooperation and communication before and during crises.

Last but not least, these cases reminded us of the importance of transfer tools, and that “regional”, medium-sized banks can be critical. In this regard, the CMDI proposal by the European Commission, when taken in its integrity, has the potential to enhance the status quo with more realistic funding possibilities.
Even though it does not complete the Banking Union, e.g. with a common deposit insurance, the CMDI review does have the potential to significantly enhance the resolution toolkit in a way that protects critical functions and citizens. The SRB views as essential that - throughout the legislative process - the consistency of the review is maintained. In particular, the extension of the scope of resolution needs to go hand-in-hand with a better use of the available funding resources. The banks’ funds (MREL) should and will remain the first to shoulder losses in resolution, but it is key to have -after MREL- credible access to the safety nets built by the industry (DGS and SRF), without gaps. This will enhance the ability of the resolution toolkit to meet its objectives, including the minimisation of use of public funds.

4. SRB Strategic review

At the beginning of 2023, the SRB started an inclusive and participative process to define its strategy beyond the deadline of the EfB. The assessment phase, which is now more than midway, includes internal consultations to develop the SRB’s objectives, as well as consultations with the ECB, the Commission, the NRAs, and reaching out to industry and other external stakeholders. After a number of surveys and written consultations in the first quarter, the SRB has now started a series of steps to crystalise the future objectives.

The strategy will also define important internal strategic organisational elements such as gender balance and sustainability, among others. It will contain short-, medium- and long-term actions. The timeline for adoption of this strategy is December 2023.