SRB Annual Conference 2024

13 FEBRUARY
BRUSSELS

#SRBRESOLUTION2024

THE ROAD AHEAD: risk, readiness and resilience

Single Resolution Board

srb.europa.eu

Luxembourg: Publications Office of the European Union, 2024

Print	ISBN 978-92-9475-363-2		doi:10.2877/079566	FP-AC-24-001-EN-C
PDF	ISBN 978-92-9475-362-5	ISSN 2600-044X	doi:10.2877/814805	FP-AC-24-001-EN-N

THE ROAD AHEAD:
risk, readiness and resilience

Single Resolution Board

SRB **Annual Conference 2024**

Contents

Executive summary

On 13 February 2024, the **Single Resolution Board (SRB)** held its annual conference: **“The Road Ahead: Risk, Readiness, and Resilience.”** The event brought together participants to discuss the SRB’s collaborative role in banking resolution within Europe and internationally. As part of the forward-looking agenda, the SRB unveiled the **Single Resolution Mechanism (SRM) Vision 2028,** mapping out three key areas: Core Business, Governance, Organisation and Tools, and Human Resources.

Beyond this, the day’s discussions focused largely on the uncertain landscape resolution must navigate, subject to unforeseeable and uncontrollable forces, from climate change to cyberattacks. Following a series of high-level morning discussions, the afternoon saw participants divided into three parallel sessions, each one designed to take a deep dive into one of three essential topics: **the future of Minimum Requirement for own funds and Eligible Liabilities (MREL)**; **cooperation on new risks and digitalisation**; and **the next phase of testing and operationalisation**.

The day concluded with all participants reconvening to summarise the main points of the three parallel sessions. The consensus was clear: communication and collaboration are essential in a time of uncertainty. In the face of diverse risks, readiness and resilience are more important than ever before.

Welcome

Dominique Laboureix

CHAIR, SINGLE RESOLUTION BOARD

Susan Carroll, Communications team leader and Spokesperson, SRB, acted as Master of Ceremonies and introduced the day's focus points: readiness for crisis, building resilience, and dealing with new and emerging risks. Carroll introduced **Dominique Laboureix, Chair, SRB,** to open the day's discussion.

While acknowledging the progress made since the SRB's establishment in 2015, Laboureix emphasised the work still to be done: "The road ahead means still traveling towards more financial stability. There is a number of risks growing and evolving around us. Banks and all other stakeholders need to be ready, which is the only condition to be able to increase the global resilience of our **Banking Union (BU)** even more. From that perspective, today is a very important day."

Laboureix began by highlighting recent milestones. First, banks have made significant progress to comply with the Expectations for Banks. Second, the **Single Resolution Fund (SRF)** has reached its target level of 1% of covered deposits. Finally, a new strategy has been set for the **SRM**.

Dominique Laboureix

This strategy was subsequently introduced in a short video, **"SRM Vision 2028."** Laboureix went on to highlight three key pillars of the strategy:

- **Core business.** Ensure further crisis preparedness with integrated tools to respond to both known and potentially emerging crisis circumstances.
- **Digital transformation.** Take advantage of digital transformation, particularly in relation to cybersecurity threats.
- **Human resources.** Enhance staff training, while embracing a greater focus on diversity and inclusion.

“I’m not forgetting about financial stability,” Laboureix assured those present, noting that, just a few weeks into his mandate as SRB Chair, banking turmoil arose in both the United States (US) and Switzerland. Despite the ensuing market turmoil, Europe emerged relatively unscathed. However, Laboureix urged vigilance, noting the new threats emerging from asset quality deterioration and heightened geopolitical risks.

Taking into account these evolving threats, the SRB has reinforced its structure, even before formally adopting the SRM Vision 2028. As one example, Laboureix pointed to a new crisis management unit, established with the aim of enhancing efficiency and improving readiness to handle a crisis.

Looking ahead, Laboureix expressed hope for the approval of the **Crisis Management and Deposit Insurance (CMDI) proposal**, including all its parts. “We have an efficient toolkit, but we can do even better,” Laboureix asserted, noting the need for sufficient funding solutions to execute successful transfers in resolution. Without its funding element, the core of the CMDI proposal risked losing coherence, he warned. In such a case, liquidation would remain the only option – possibly with the help of taxpayer money. The SRB was established precisely to avoid this outcome.

As the day’s events went on, it became clear that the SRB’s work was far from over.

Opening Address

Mairead McGuinness

EUROPEAN COMMISSIONER FOR FINANCIAL SERVICES, FINANCIAL STABILITY, AND CAPITAL MARKETS UNION, EUROPEAN COMMISSION

In her opening address, **Mairead McGuinness, European Commissioner for Financial Services, Financial Stability, and Capital Markets Union, European Commission,** emphasised the importance of resilience for European societies and financial systems alike. Like Laboureix, McGuinness applauded the progress made toward building a resilient EU banking sector since the financial crisis of 2008, while cautioning that difficult times lay ahead.

Mairead McGuinness

“If you look at the world today, we are being buffeted by geopolitical and economic headwinds,” McGuinness said. She flagged the Covid-19 pandemic and Russia’s illegal invasion of Ukraine, which disrupted all sectors and caused food, commodities, and energy prices to increase rapidly. These events were followed by subsequent inflation and lingering supply chain issues. Banks now find themselves in a fast-changing landscape, as inflation and rising interest rates present different challenges to financial stability.

“We also have longer-term trends transforming our economies and societies,” McGuinness acknowledged. An era of rapid technological change was accelerated by the Covid-19 pandemic, when banking went largely online. While this means banks can develop new products and services for customers, it also means an ever-present risk of cyberattacks.

“At the same time, we’re ramping up action on climate change, making sure that we get our economies and societies ready for a more sustainable future. Our banks have to manage risks arising from climate change, whether those are the physical risks from climate related natural disasters, or the transition risks as we move to a net zero economy,” McGuinness went on.

To remain resilient in the evolving landscape of threats, McGuinness urged strengthening the banking system by completing the BU. McGuinness pointed to recent bank failures in the US and the failure of Credit Suisse as stark reminders of how things can go wrong. McGuinness noted that there was no spill-over effect to the EU, crediting the lack of contagion to EU banks' resilience and sound supervision. However, there was certainly concern at the time, and she cautioned that now is not the time to become complacent.

McGuinness highlighted the progress made since the BU was started more than a decade ago: a single rulebook that applies across the whole of the EU, a centralised system for supervision through the **Single Supervisory Mechanism (SSM)** and a centralised system for resolution in the **Single Resolution Mechanism (SRM)**. "A complete BU could boost banks' profitability and competitiveness, allowing them to scale up their activities within the Single Market," McGuinness said. The advantages would extend far beyond the banks, themselves, for example, by addressing fragmentation in the financial system that impacts everyday consumers and **small and medium-sized enterprises (SMEs)**.

The Commissioner flagged key points where there is room for improvement, pointing to the proposed bank **CMDI** framework reform as a key example. McGuinness welcomed the good progress made so far on this reform and expressed her hope that it will continue. She stressed the importance of the European Parliament and the Council adopting their positions so that trilogue negotiations could start soon after the new Parliament returns, post the elections. She also recalled that finance ministers committed to come back to the unfinished business of BU after this reform, including the European Deposit Insurance Scheme, EDIS. Looking ahead, there is also the question of how to make the most of the single market for banking in the EU. Greater integration is key to providing better banking services to both citizens and businesses, and to helping EU banks be more competitive globally: "we all agree on the need to make urgent progress in building a true **Capital Markets Union (CMU)**."

Finally, McGuinness noted the importance of the **European Stability Mechanism (ESM) backstop**: "without the ESM backstop, we're missing an important tool to help protect households, taxpayers, and small businesses from the costs of a major financial crisis." It is regrettable that this element of the BU is still not in place, the Commissioner said, and it could hinder progress on other parts of the BU agenda.

McGuinness concluded by urging ongoing commitment to progress, especially with an eye toward the turbulent times ahead. The Commissioner concluded: "the best way to ensure a resilient European banking sector that is future-proof is to complete the BU. We have come a long way already. But more political courage is needed for the last steps."

In Conversation: SRB and SSM Chairs

SRB and SSM Chairs

The opening address was followed by an in-conversation session with **SRB Chair, Dominique Laboureix** and **Claudia Buch, Chair of the Supervisory Board, European Central Bank (ECB)**. The session was moderated by **Maria Tadeo, European correspondent**. Tadeo began the session by asking the participants to reflect on the current state of the BU. As it stands, is it functional?

Laboureix highlighted the successes achieved thus far, noting that people are quick to forget that many of the regulations and institutions in place now didn't exist in 2007, when the global financial crisis struck: "we didn't have any tools to deal with systemic risk in the system. This has changed." He further noted that such changes have occurred not only within the EU but internationally, pointing as an example to the work of the **Financial Stability Board (FSB)**, established at the 2009 G20 Summit. At the same time, Laboureix acknowledged the gaps still to be addressed: "the system works but it could work even better." On this note, he echoed Commissioner McGuinness' sentiments regarding the need to complete the BU.

Claudia Buch

Claudia Buch picked up the thread, emphasising the importance of further progress in the face of an uncertain geopolitical environment: "we're in a new macro financial environment. The banks are seeing higher profitability, but there's no assurance that it will stay like this, so we need to be vigilant. We have to make sure that not only each and every bank is well prepared but also that *we* are well prepared." Specifically, Buch expressed hope for the approval of the CMDI review, which aims to increase the options and tools available to supervisors and resolution authorities for the management of a banking crisis, providing a pragmatic and efficient solution for medium-sized and smaller banks. Buch also echoed previous remarks regarding the importance of the ESM backstop and a strong CMU.

Maria Tadeo

Tadeo turned the conversation towards current and upcoming risks to financial stability in the EU. **Laboureix** acknowledged that future concerns were likely to be different from those of the past and urged adaptability. "The resolution framework is coming from the analysis of a past crisis (2008) in which credit risks were the primary source of difficulty. The framework we've built is based on that. However, recent cases are telling us that the forces of the crisis can come from something completely different," he acknowledged. He pointed to the case of Credit Suisse as an example, noting the role that social media played in the bank's failure, which, although it had many underlying causes, was exacerbated by social media.

Buch continued the remarks on modern uncertainties. She introduced the concept of radical uncertainty, which concerns situations and events whose determinants are so little understood, that there is no possibility of forecasting or probabilities. "It's not possible to squeeze every variable into a classical risk model," she acknowledged, "so, we have to make sure that we have a very good understanding of what's happening at the macro level, looking at the aggregate numbers and how those break down at the individual bank level."

Beyond this, Buch echoed Laboureix's calls to adapt to the new environment: "we may never reach a new normal, but we will invariably keep facing new threats. How different those future threats will look from those of the recent past is unclear." In the face of the great unknown, preparedness for known risks is critical, Buch argued, further adding that organisations like the ECB could only do so much. "Each and every bank, and each and every bank manager, has to consider what risks lie ahead and ask themselves, 'What preparedness do I need for my institution?'" This could include looking at capitalisation, management buffers, and IT systems, among other points.

Communication and coordination, both within banks and between banks and regulatory agencies, was also discussed. As an example, **Laboureix** pointed to the MREL consultation, in which institutions were asked to provide data on the composition of their funds and liabilities. Laboureix acknowledged concerns among banks that feel they are being forced to spend money for their own potential crisis. However, MREL must not be seen as spending money for potential crisis but rather as a way of spending money to avoid crisis altogether. Toward this end, the current high levels of profitability are a good time to think about long-term investments, for example, in IT systems. "We need a strong dialogue to ensure a common understanding around such notions," Laboureix concluded.

Buch echoed calls for good communication and transparency, emphasising in particular the need for a shared long-term perspective. This becomes more challenging as what is in the interests of society may conflict with what is in the interests of a bank's shareholders. Buch emphasised the importance of supervisory guidance when such tensions arise, pointing to the area of climate and environmental risks as one example. "We have set very clear expectations, and we will follow up on these expectations, so that the banks know exactly what we're looking for and why we're doing this type of work," Buch stated. "This is not because we want to replace climate policies, but because climate risk is a real and material risk for the banks."

Laboureix concluded the in-conversation session by reiterating the need to go beyond policies and moving toward testing. "We've put the bricks in place for building resilience. We need to be sure that the building will hold," he stated. He noted the need for testing the implementation of different tools, for example, to make sure the right data could be found at the right moment. Banks should be ready for their own crisis, not only in theory but also in practice: "if we want to implement a successful resolution decision, banks should be ready for their own potential failure. They should be ready to give us immediately all the elements we need to implement the decision. If we decide to sell the bank to somebody else or the assets and liabilities to somebody else, we need to build a data room immediately. If we want to implement the bail-in tool, we need to know the owners of the instruments – where they are, the jurisdiction of a registration, and so on. All these things should be in place."

The need to shift from policy to practice was largely what motivated the formulation of the SRM Vision 2028, Laboureix added. An ambitious strategy has been put into place. Looking ahead, the aim is to shift from planning to testing, an evolution that Laboureix suggested would mean significant changes both within the SRB's teams internally and in relationships with banks externally. "My main priority for this year is to completely implement this new approach and start building a new culture around the lines of this new strategy," Laboureix concluded.

Roundtable high-level Discussion

Joe Lynam

The morning continued with a roundtable high-level discussion moderated by **Joe Lynam, Business Editor, Newstalk (Ireland)**. The discussion quickly turned toward Credit Suisse, which faced the risk of immediate insolvency in mid-March 2023 following a loss of confidence of its clients, investors, and the markets.

Anneli Tuominen

Anneli Tuominen, Member of the Supervisory Board, ECB, offered the perspective of the supervisory side, noting that even if **Total Loss-Absorbing Capacity (TLAC)** of a bank was high enough and liquidity sufficient, this couldn't protect against an unviable business model. "We supervisors need to be able to move fast enough in these scenarios and be able to act without further delay," she argued, suggesting greater visibility would be advantageous.

Birgit Rodolph

Birgit Rodolphe, Chief Executive Director of Resolution and Prevention of Money Laundering, Federal Financial Supervisory Authority, Germany (BaFin) noted that the Credit Suisse and the Swiss authorities had prepared for a resolution, including the build-up of adequate TLAC resources, and that this turned out to be valuable, both because there was a credible alternative to the merger and because the preparations facilitated the merger. The solution to the Credit Suisse case was successful in calming down the markets, and this is important.

John Berrigan

John Berrigan, Director-General for Financial Stability, Financial Services and Capital Markets Union, European Commission, commented regarding the Credit Suisse event that he had not anticipated this crisis being solved the way that it was. Nonetheless, during a crisis, all possibilities have to be explored for the best outcome: "the most important thing is to get through and to follow the rules as closely as possible." When deposits are moved quickly, the risk of contagion to other parts of the sector increases, as does the risk of damage to the local economy. "We have to find a way of ensuring that, when such a situation arises, we have a mechanism in place that can deliver funding and avoid every stability risk, while avoiding the need for the taxpayer to pay," Berrigan said, adding that this was essentially what the CMDI reform was about. In fact, some of the issues relating to smaller and medium-sized institutions previously identified by the European Commission with regard to EU institutions later arose in the US case, he noted.

Axel Marmottant

Axel Marmottant, Head of Capital and Resolution, Crédit Agricole S.A, suggested that the Credit Suisse scenario could not be characterised as a banking crisis, per se. The situation arose from mismanagement and was addressed by authorities with a good level of reaction. The case of the American banks is not comparable, **Marmottant** suggested: "in this case, there were clearly bad management but also a lack of regulation, and weak supervision." Elaborating on the Credit Suisse case, Marmottant further pointed to the rapid unfolding of the events and the need for the rapid communication it demanded.

Manuel Preto

Manuel Preto, Deputy CEO, Santander Totta, spoke on the issue of speed in resolution and the inevitability of running against the clock: "no matter the reason for the situation, if you decide to pursue resolution, you have to move quickly." For fast resolution to happen, you need not only a strategy but also information, for example, regarding assets and liabilities. "Having timely information and the correct assessment of what is on the table is critical. If you don't have that information or if there is a lack of confidence in that information, it's very difficult for anyone to be interested and available in a potential acquisition." When timing is short, for instance, a resolution weekend, a playbook alone isn't enough. Proper information is needed to push any sort of transaction through, and that information needs to be adequately communicated".

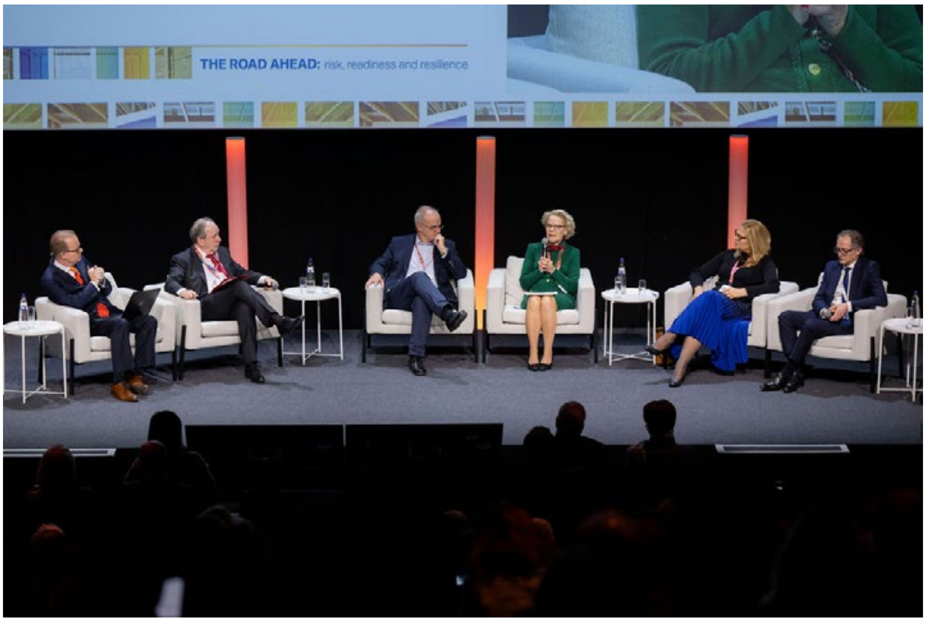
This point regarding the communication of accurate data was elucidated further by **Rodolphe**, who has participated in multiple bail-in dry runs. In these scenarios, a bank is required to deliver the data needed for conducting a bail-in within 24 hours. "What we have seen is that it takes time to get both the right level of data and to get to this level of speed," she said. "You can't just push a button. Banks may have issues with IT systems, for example." Apart from data delivery, multiple considerations arise, when calculating the bail-in, from the impacts on accounting to the implications for regulatory and tax issues. You must then consider how the business model might change and what that means for the bank. Finally, there is the external execution of the bail-in. Accomplishing all of this in a short timeframe is challenging but important.

Tuominen further elucidated the challenges of communication in a broader sense – not just between key actors in a resolution weekend but also how the information is disseminated in the public realm. "I'm concerned about the amount of misinformation seen on social media and, sometimes, in the mainstream media," she admitted. There is a distinction to be made between more accurate information spreading panic quickly – as in the SVB case – and completely false information. This risk of misinformation and disinformation has been flagged as one of the biggest short-term global risks according to the **World Economic Forum (WEF)** in its 2024 Global Risks report, Tuominen noted.

Lynam turned to the topic of the BU, particularly how it might enhance a cohesive CMU and encourage cross-border business. **Preto** acknowledged that there were still significant barriers to cross-border service provision, ascribing the issue largely to regulators wanting to tighten control around lending. He also pointed to cultural factors: "you're dealing with different countries with different cultures, different ways of doing business, and different laws. That doesn't mean that you can't have businesses and products that you might sell or commercialise across several countries. However, there are still big chunks of the banking business that are highly localised." **Rodolphe** emphasised that, in discussing a cross-border topic such as cross-border mortgages, the issues were not only legal but also practical. "You have to have a distribution network in the country where you want to do this kind of residential business, and I think the main problem is that these kinds of distribution networks are not yet there," she said.

The roundtable ended on a forward-looking note, with the group discussing new and emerging threats to stability, from cyberattacks to climate change. Across the board, the consensus was that the challenges faced are increasingly complex and unknown. While great progress has been made toward resolvability, more is needed if we are to handle what's to come. **Berrigan** cautioned against a suggestion that another crisis may be necessary to spur faster progress. While a crisis may lead to rapid-fire change, he acknowledged, it's ultimately an extremely inefficient way to make policies.

As we leave behind the planning stage and enter a new era focused on implementation, **Marmottant** suggested that the operationalisation of resolution within banks should be led by three Ps: pragmatism, proportionality, and predictability. In light of an evolving risk landscape, these three Ps encourage a step-by-step approach that will ultimately allow robust implementation of resolution inside banks systems, and, thus, enhance resolvability, whatever may come.



Roundtable high-level discussion

Parallel sessions

In the afternoon, conference's participants split into three groups to attend parallel sessions addressing critical topics of the moment: the MREL journey; new risks and digitalisation; and testing and operationalisation.

Parallel session: The MREL journey – where we stand and the next steps

Moderated by **Sebastiano Laviola, Board Member, SRB**, the MREL session looked at progress made and challenges going forward, from the recent crises to the combinations of tools. In mid-December 2023, the SRB published a short consultation paper on the topic, focusing on adjustments for preferred resolution strategies relying on a combination of resolution tools; the market confidence charge buffer; monitoring of MREL eligibility; discretionary exclusions; and long-term policy considerations. Opening the session, Laviola asked if the objective of banks being fully resolvable had been achieved.

Sebastiano Laviola

Sofia Toscano Rico

Sofia Toscano Rico, Deputy Director-General of Horizontal Line Supervision, European Central Bank, acknowledged that, while most banks had achieved their MREL targets, there was still work to be done in order to achieve full resolvability. "We have achieved the quantitative targets. Now, it would be good to focus on the quality of the MREL," she said. She also underlined the importance of continuing working to further operationalise the resolution strategy and tools envisaged in the plans. Regarding operationalisation, **Toscano Rico** considered the banks' capabilities to produce high quality data and information in a timely manner a key area of focus also for supervisors: "from a supervisory perspective, we still see room for improvement in regard to data aggregation," Toscano Rico said. From a broader perspective, continuing strengthening the cooperation and early coordination among authorities remains key.

Gonzalo Gasós

Gonzalo Gasós, Senior Director Prudential Policy and Supervision, European Banking Federation (EBF), reiterated the call to make the existing framework more efficient and simpler, but still equally robust. Gasós noted that the primary objectives have been met: creating the actual regulation, the SRB's implementing it, and the banks making the required contributions. "The banks have contributed to the SRF the original target of €55 billion, plus €22 billion additional because of the deposit growth in the pandemic, making a total of €77 billion," Gasós said. He described this as a "big sacrifice" in a short time on the side of the European banking sector, especially when coupled with the build-up of MREL. Gasós concluded: "the banks in Europe are effectively resolvable using private money and resources from banks. That was the main objective when we all started with this project." However, he cautioned that there was still excessive complexity surrounding MREL and suggested that the upcoming macroprudential review will be an opportunity to streamline the buffer framework. Also, the implementation of Basel III will impact the resolution matrix.

From here, the conversation turned to future optionality and flexibility in the use of resolution tools. **Laviola** cautioned that more optionality doesn't have to mean a detriment to the preferred resolution strategy. "There will be always a preferred resolution strategy and a certain tool chosen, but these tools can differ according to the scenario, and there can be more than one," Laviola said. He noted plans to further study the use of the transfer tool, especially in use with the bail-in tool. What implications would this have for MREL? How might resolution planning look if we are to consider more than one resolution tool or even a combination of tools? And might this effectively increase optionality in execution?

Toscano Rico agreed that optionality and flexibility are critical for resolution authorities. She explained: "during resolution planning, you're trying to identify the preferred resolution strategy, but it is not necessarily possible to anticipate what will trigger the bank failure. For example, if an open bank bail-in is the preferred resolution strategy, but then a failure is triggered by doubts about the sustainability of the business model, is the prevailing tool still the right tool to use? It is useful to start looking at other tools, including the transfer tool, which have been successfully applied by the SRB in past cases." Of course, this requires additional work from both the authorities and banks. She further cautioned that in the EU the implementation of the sale of business tool may be more challenging compared to the US, because the EU's banking market is less integrated, which may reduce the possibilities of potential buyers due to the complexity of cross-border acquisitions. In order to ensure optionality, MREL capacity should be sufficient to enable the implementation of the most demanding strategy.

Ruth Walters, Senior Advisor, Bank for International Settlement (BIS), noted that some flexibility has already been seen in resolution in practice. "Authorities are flexible. We saw this with the Credit Suisse case, as the Swiss Financial Market Supervisory Authority (FINMA) was in parallel preparing for a bail-in, working intensively with the crisis management group to make that work, if necessary." In the end, a different route was taken and, while there has been extensive discussion about the pros and cons of that route, the case is still a testament to flexibility.

Ruth Walters

"Every resolution that we've seen to date within Europe has involved some kind of combination of a write-down with some instruments to fund the transfer," Walters continued, adding, "we're not in an entirely new territory here." The focus over the past decade following the financial crisis has been on making bail-in operational, because bail-in was a new and technically difficult concept, especially when applied to **Global Systemically Important Banks (G-SIBs)**. Now, especially as the focus shifts to SMEs, the focus is shifting. Walters surmised: "you never get the crisis that you plan for, and if you've only got one plan, then you may be left exposed."

Stefano Porro

Stefano Porro, Chief Financial Officer, Unicredit, reiterated the fundamental need for optionality in crisis, suggesting leveraging the work that has already been done by the banks. He pointed to dry runs and playbooks as worthy resources. "Whatever tool you choose, in order to execute it, it must be sufficiently tested in relation to the legal implications, financial implications, and operational impediments," he explained. The more complexity you add, the more difficult actionability becomes. As an example, if you're selling a portfolio and there isn't sufficient information in that portfolio, you'll be asked to have guarantees. The question then becomes whether there is a resolution authority already prepared to give such guarantees. If so, you still need to test that tool at an institution-specific level – because the financial and legal implications will change according to institution, tool and jurisdiction.

Laviola concluded by asking how to re-establish market confidence after a crisis. **Porro** highlighted three elements, in order of importance: liquidity, capital, and profitability. He further stressed the importance of communication in re-establishing market confidence: "any movement should be properly communicated at the right time. This means not necessarily providing the maximum level of details immediately but rather, depending on the crisis, increasing the level of information over time." One example would be the case of a subsidiary's dependence on a group's resolution strategy. For instance, is the subsidiary self-sufficient? Will it be part of the new group or will it be sold prior? In a single point-of-entry, that subsidiary would be automatically recapitalised, so, will that subsidiary receive further support? It is important to address such specificities.

Gasós indicated that, once the steady level has been reached, the option of a bridge bank, coupled with a true liquidity backstop, could be explored as a way to instil confidence in the market and foster opportunities for cross-border takeovers.

Walters agreed that, however the **market confidence charge (MCC)** is calibrated, it must be robust. There needs to be clarity not only about the operating capital but also about the funding that's going to be needed to finance the restructuring. "It's the restructuring that's going to have to be credible and going to have to be financed – and that could end up being expensive," Walters noted. She flagged Credit Suisse as an example, noting that FINMA indicated that, *had* they bailed in Credit Suisse, they would have bailed in *everything*. Market confidence is only the beginning in such a situation, Walters argued. What is needed is a credible restructuring plan, plus the governance to support the delivery of that restructuring plan, so that everybody can be confident about what's going to be delivered.

Parallel session: The MREL journey – where we stand and the next steps

Parallel session: Cooperation on new risks and digitalisation

The technology-focused session looked at global responses to new risks to banking and resolvability, specifically examining challenges and opportunities posed by digitalisation.

Moderator **Jan Reinder De Carpentier, Vice-Chair, SRB**, opened the session by reading remarks from **Dalvinder Singh, Professor of Law at the University of Warwick, School of Law**, who was participating remotely.

Jan Reinder De Carpentier

According to Singh, when we think of shocks to the banking system, and a bank's ability to withstand and manage those shocks, we tend to focus on those risks internal to banks and their respective markets. However, recent years have shown the impact that external shocks can have, from pandemics to climate change, conflicts, and cyberattacks. These shocks have just as much potential to threaten financial stability.

Professor Singh's remarks focused, in particular, on cyber risks. The digitalisation of finances requires us to rethink the resolution of a bank in the information age. There are new risks to consider, such as missing information or deep fakes that are either intent on stealing money or on disrupting efforts to manage a crisis. Going forward, we must re-examine the traditional crisis management frameworks from different angles and consider the role of non-traditional actors to ensure a strong safety net.

The ECB has attempted to put measures in place to improve resilience to such attacks. In addition, an EU regulation was adopted to introduce a formal recovery and resolution regime for **Central Counterparties (CCPs)**. Transactions processed by CCPs, such as commodity derivatives, make them prime targets for cyberattacks. There is also the **Digital Operational Resilience Act (DORA)**, which makes an entity's management body responsible for information and **information communication technology (ICT)** management.

Dirk Haubrich

Dirk Haubrich, Head of Conduct, Payments and Consumers, European Banking Authority (EBA), reiterated the significance of DORA, noting that the EBA has a large number of technical standards, guidelines and other measures to develop in regards to cyber risks.

"We started over a year ago and will be concluding around three or four months from now, following our public consultations and the input we've received from the industry," Haubrich said. He expressed hope that this would be adopted by the European Commission soon.

However, **Haubrich** warned that the more challenging phase was still to come – namely, the oversight framework of critical third-party providers. He explained: "we have already taken measures to map out what the industry looks like. We know that there are around 15,000 such entities serving banks and other financial institutions in the EU." Next steps will involve, firstly, identifying the most critical entities and, secondly, putting measures in place to make sure that the processes for countering cyber risks are functional.

Alexandra Maniati

Alexandra Maniati, Senior Director, Innovation & Cybersecurity, European Banking Federation (EBF), spoke on embracing technological changes while managing the risks attached to those changes. Maniati noted that digitalisation offers huge opportunities for banks, because banks must remain competitive and therefore, need to be where the customers need them – and modern customers want to do business online, 24/7 and preferably on their smartphone. Further, digitalisation creates ample opportunities for new business for new actors, such as fintech companies and ICT providers, who all together form a large and interconnected ecosystem around financial institutions. However, from a cybersecurity perspective, this new ecosystem with its long value and supply chains create a continuously growing attack surface. Nonetheless, Maniati expressed optimism: "because change and risk management has always been in the DNA of banks, we should also acknowledge that banks are among the most cyber mature sectors in the economy."

Further, in the last five years, we have seen an impressive proliferation of EU cybersecurity legislation, creating a complex compliance grid for entities in scope that is not always conducive to better cyber security and resilience, Maniati noted. Banks specifically have cybersecurity legislative requirements coming from three sources. First, there is sector-specific legislation that has to do with cybersecurity, such as **DORA**. Then, there is sector-specific legislation that has to do with digital finance in general, such as the **Payment Services Directive**, which is now being reviewed. The third source is horizontal legislation on digital in general, like the **General Data Protection Regulation (GDPR)**. Maniati explained that, for a heavily regulated and supervised sector such as financial services, horizontal legislation is bound to create duplications and overlaps, as very often, similar measures exist already in sector-specific requirements. She, therefore, called for more harmonisation and coherence in policymaking in order to enhance efficiency. She also agreed with Singh that the environment's inherent interdependences meant banks can no longer go it alone, reiterating the importance of cyber security requirements applying to all the actors in the financial ecosystem and of public-private sector collaboration.

Christopher Jackson

Digital innovation also has implications for resolution authorities, **De Carpentier** reminded those present. He turned to **Christopher Jackson, Head of International Resolvability Division, Bank of England**, for his insights on the matter. In Jackson's view, one of the biggest challenges for resolution authorities and resolution planning was the speed of information travel. He elaborated: "you're likely to have less of a gap between you knowing something, and everyone else knowing what you know. In the past, resolution has enjoyed this little window, where we had knowledge that the market didn't have." This freedom is diminishing with forces like social media making it harder to control the narrative. "For a resolution authority, that means you need to be more agile," Jackson said. There is also a monitoring element to factor in. In the future, risk identification frameworks must consider what's being said on channels like social media.

Then, there is the question of communication, which needs to be nuanced. The rapid-fire pace and sometimes public nature of cyberattacks makes this difficult, especially when you're trying to reassure people that a problem is being solved. He said: "as a resolution authority or public body, the last thing you want to do is tell people that everything is okay and then have that be disproved two minutes later by some objective incident out in the world, like someone not being able to withdraw money from a cash machine. At that point, your credibility is gone." Such considerations are relevant to firms and authorities alike, Jackson concluded.

Maniati echoed previous suggestions that public-private partnerships are valuable in addressing cyber risks. "Besides having good legislation and regulation, you need the people to implement and enforce it, and to be able to understand the impact of technology on the market. The issues are very often highly technical and completely new, with no or limited precedent to build on. To engage effectively in such complex discussions and find the right solutions, people with the right skillset are needed both in policymakers and supervisors and in the industry. There is urgent need to build the right digital talent, and this is a challenge for all sectors, not only financial services. At the same time, citizens need to be constantly educated, so as to reap the benefits of technology while protecting themselves from cyber criminals," she said. A holistic approach where public and private actors engage in large-scale and continuous awareness-raising efforts is part of the solution.

The panel concluded with a word from **Haubrich** on the logistical practicalities at stake. Years ago, stress tests were introduced for the banks and these are now commonplace. We need to do something similar in the area of cyber risks as well, he suggested. “The ECB SSM have already initiated a type of cyber risk stress test with selected participants. We need to do something similar on a wider scale, essentially a stress test of the cyber resilience of banks and other financial institutions as well as the broader framework,” Haubrich noted. This is also a requirement imposed by the legislative framework in the EU and is something that the EBA will be working on going forward. “As the risks change, our mindset needs to change, and our toolkit and approach must change as well,” Haubrich stated. On this note, the panel concluded with a reminder to all that constant vigilance is needed if banking and resolvability are going to keep up in a digital world.

Cooperation on new risks and digitalisation

Parallel session: The next phase – testing and operationalisation

The next phase – testing and operationalisation

During the first half of the conference, the need to shift from strategy to testing and operationalisation was reiterated by multiple participants. The third parallel session sought to address these concerns, discussing in detail the testing of resolution strategies and plans going forward. Participants considered their experiences thus far while considering ways ahead for banks and authorities alike. **Pedro Machado, Board Member, SRB**, moderated the session and began by outlining the SRB's future plans for testing and operationalisation.

Pedro Machado

Past milestones have involved banks building up capacities to comply with the SRB Expectations for Banks and state-steady MREL targets. Full resolution plans were completed, while policies and operational guidance were developed and working relationships established. A structured planning process, the annual **Resolution Planning Cycle (RPC)**, was also introduced and implemented in previous years. Next phases will focus on operationalisation of resolution strategies, as defined in the resolution plans. A holistic approach for testing banks' resolvability is to be developed, with advanced testing exercises carried out by resolution authorities.

Matthias Bulach

Asked for his input on experience on testing, **Matthias Bulach, Member of the Management Committee, CaixaBank**, focused on the structural preparatory work that's required before actual testing can be done. This involves assuring integrity of information and data availability, for instance. Moreover, it could require structural adjustments which can end up being significant and cost intensive, he suggested. However, this preparatory work is essential, especially in a context where discussions of completing the BU and paving the path towards simplified cross-border transactions continue. Regulators and banks have a common interest, he noted: "testing is of the essence in order to make sure that the amounts of MREL eligible instruments issued, the money spent on enhancing resolvability and the efforts undertaken thus far are worth it." Testing further helps to finetune approaches to documentation and data, ensuring banks and regulators are on the same page.

Speaking from a third-country perspective, **Anna Cox, Head of Group Recovery and Resolution Planning, Barclays Europe**, emphasised the need to view testing from an ensemble perspective. Testing requires looking beyond the organisation and considering local jurisdictional requirements. "In the UK, we share our testing plans with the Bank of England. The resolution authorities need to have confidence that a plan is going to work if we ever pull the trigger," she explained. "Resolution is very much a joint effort." Cox emphasised the benefit for industry of further alignment. She explained: "for example, there are reverse stress testing frameworks that get you thinking about how to link recovery planning with resolution planning. There's a big synergy between the two, and then also with operational resilience." Ultimately, it all comes down to being able to optimise the operational process during a crisis.

Anna Cox

Claire McGrade

Claire McGrade, Head of Resolution and Crisis Management Division, Central Bank of Ireland, joined the panel remotely. She referred to a key component of a credible testing regime being the readiness of authorities to be operationally capable of managing potential failure and resolution. On this, she spoke on a series of internal exercises conducted in 2022 and 2023 that looked across the continuum of failure, from the emergence of supervisory concerns to the development of the resolution strategy. "I think it was helpful for us to think about where earlier escalation and engagement between the NCA and NRA would be beneficial," she said. For example, it was useful to consider approaches on information gathering for valuation purposes and how early intervention measures could be deployed by the NCA to support resolution. Such exercises also helped with considerations around the projected viability of a firm post resolution.

Francesco Mauro, Head of Supervisory Review, Recovery and Resolution Unit (SuRRR), European Banking Authority (EBA), provided the regulator's assessment on resolvability testing guidelines. In June 2023, the EBA published its guidelines identifying the main topics relevant for operationalisation and initiated a public consultation with all stakeholders to develop a structured dialogue framework. When the self-assessments were first identified, it became clear that there was a need for an overarching document touching on banks' understanding of resolution strategies and their capabilities to be at the service of those strategies on a continuous basis. For more complex banks, more robust playbooks were deemed necessary.

Francesco Mauro

Bulach expressed concerns regarding the heavy investments needed and costs incurred to run truly operationalised simulations on internal systems and fully test the entire end-to-end process. Nonetheless, he expressed optimism for future initiatives. "We need a clear view on the wants and needs of the supervisor to make sure we can cover them in a cost efficient manner, and that what we're doing is appropriately focused and targeted," he said. Communication alignment is likewise critical, especially given how lengthy the process is. He concluded: "this is a process which will be intensive in investment of human, technological and financial resources. Hence, we consider it of upmost importance to always bear in mind that, as financial industry our first line of defence is always a profitable and sustainable business model. That should always be our first priority in terms of resource allocation – obviously without forgetting about resolution planning."

Cox spoke on a different point of friction that arises in testing and operationalisation, highlighting the challenges of restructuring, especially for global banks. Like Bulach, she emphasised that the process isn't done overnight. "You have to take one step at a time. As you test your capabilities, you learn so much from every step and then you have to address each learning. It's an evolving journey, which makes it uncomfortable," she admitted. She pointed to EU, UK and US cooperation and testing endeavours as being useful for industry, suggesting the resulting learnings could be taken into consideration in the future.

Asked what she considered crucial to test to facilitate implementation in the coming years, **McGrade** expressed a need to focus on the quality of firms' data capabilities. Without good quality data, valuation capabilities are limited. "I think it's also important that we test the internal processes of firms to ensure there are robust governance arrangements in place *within* the firm to manage failure and to enable them to work closely with authorities," she added, and important firms did not deprioritise resolvability work especially in light of the evolving risks that had been touched on earlier in the day.

Takeaways from parallel sessions: SRB Board Members

The 2024 SRB annual conference concluded with a presentation of the takeaways from the parallel sessions, presented by the SRB Board Members. Throughout the review of take-aways, one theme became clear: the need for communication and collaboration.

Whether it's a question of establishing public-private partnerships to better equip against cyberattacks, or implementing robust testing of resolution plans, no single stakeholder can go it alone. The need to work together becomes even more pressing as the EU and its banking sector face increasing uncertainty, affected by climate change, international conflict and other events yet to be identified.

The SRB's 2024 conference served as another opportunity to further both communication and collaboration. The day's discussions affirmed the progress made in resolvability since the 2008 financial crisis, while mapping out the work still to be done. Although momentum may have slackened, there is still intense determination among stakeholders to improve the system going ahead. This shared objective is what brought the participants together for the 2024 SRB conference. By the day's end, another step forward had been taken on the road to readiness and resilience.

SRB Board Members

Getting in touch with the EU

In person

All over the European Union there are hundreds of Europe Direct centres. You can find the address of the centre nearest you online (european-union.europa.eu/contact-eu/meet-us_en).

On the phone or by email

Europe Direct is a service that answers your questions about the European Union. You can contact this service:
— by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
— at the following standard number: +32 22999696,
— via the following form: european-union.europa.eu/contact-eu/write-us_en

Finding information about the EU

Online

Information about the European Union in all the official languages of the EU is available on the Europa website (european-union.europa.eu).

EU publications

You can view or order EU publications at op.europa.eu/en/publications. Multiple copies of free publications can be obtained by contacting Europe Direct or your local documentation centre (european-union.europa.eu/contact-eu/meet-us_en).

EU law and related documents

For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex (eur-lex.europa.eu).

Open data from the EU

The portal data.europa.eu provides access to open datasets from the EU institutions, bodies and agencies. These can be downloaded and reused for free, for both commercial and non-commercial purposes. The portal also provides access to a wealth of datasets from European countries.

SINGLE RESOLUTION BOARD
Treurenberg 22, 1049 Brussels
https://srb.europa.eu

Publications Office
of the European Union