SRB Bi-annual reporting note to Eurogroup – May 2025

Financial stability, a key prerequisite for a competitive and resilient economy, rests on a number of factors.

In the bank crisis management space, these factors can be split in four broad categories: 1. ex-ante capacity building by the banks, 2. operationalisation of those capabilities, 3. a complete and flexible crisis management toolkit and, finally, 4. seamless international cooperation.

This Eurogroup reporting note gives an update on the status of these four aspects of the SRB's work.

1. Banks' ex-ante capacity building

1a. MREL and the SRF

In order to be resolvable, among other things, banks need to be able to absorb losses and recapitalise after resolution. This is ensured by imposing a minimum requirement for own funds and eligible liabilities (MREL). All banks in the SRB's remit, except for a handful of special situations, have reached full MREL compliance. Also, smaller banks, called less significant institutions (LSIs), in the remit of National Resolution Authorities are well advanced too.

In practice, these MREL buffers should shield depositors and taxpayers from absorbing bank losses. In fact, adequate MREL resources translate into a more resilient economy and a fairer financial sector in which banking sector's losses are not collectivised.

In addition, the Single Resolution Fund (SRF) is now fully funded and mutualised. These EUR 80 billion, contributed over the years by the European banking industry, are an additional buffer that can be deployed in case of need. This year, as in 2024, the SRB is not planning to raise any ex-ante contributions to the SRF from the banking sector.

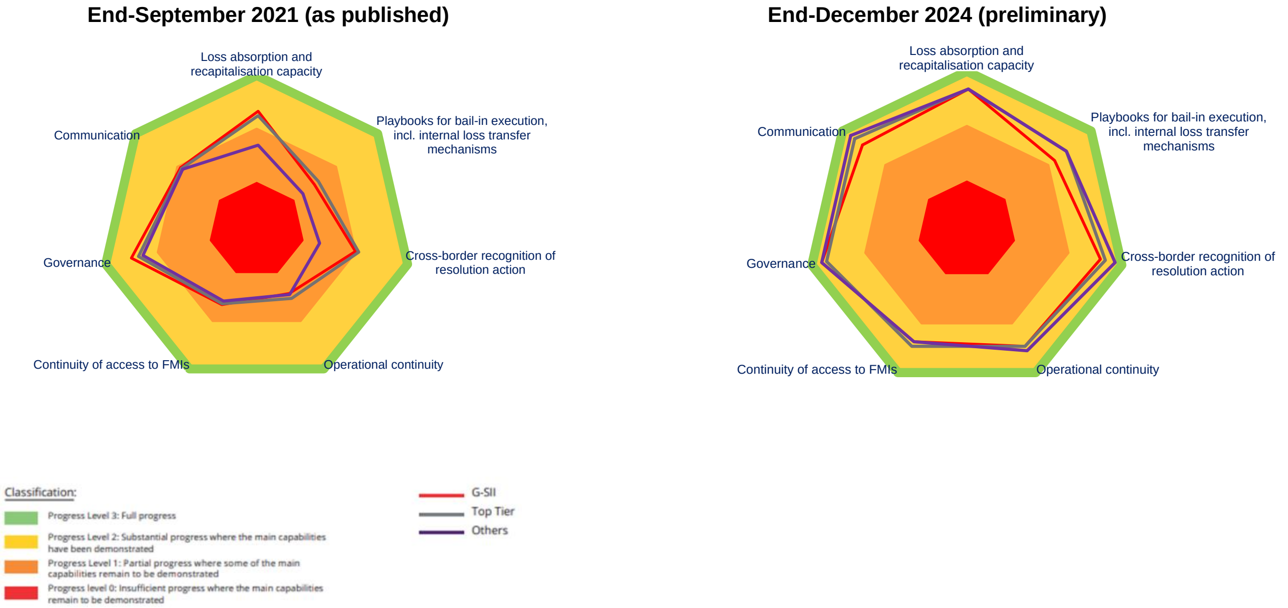
1b. Other resolvability dimensions

Resolvability does not stop at having an adequate MREL buffer or a fully funded SRF.

In addition to ensuring compliance with their MREL targets, banks are monitored on the implementation of the resolvability conditions of the Expectations for Banks through the annual resolvability assessment. The results of the progress made against these conditions are summarised in the heatmap charts below for 2021 and 2024.

Although the 2024 Resolvability heatmap results are still preliminary, our analysis shows that, overall, banks have matched the expected level of progress set by the SRB until the end of that year. The 2024 Resolvability Assessment exercise's preliminary results show that banks have made substantial progress on ensuring resolvability and that their capabilities are now reaching a sufficiently mature stage to allow us to start systematically testing them. This testing will be carried out in accordance with a multi-annual testing programme (see also section 2 below). The regular testing will allow the SRB to verify that banks' capabilities remain operationally ready over time in order to support the effective execution of a resolution action in any scenario.

Figure 1 - Heatmap - Progress made on the resolvability conditions prioritised by the SRB in 2021



As far as LSIs are concerned, in 2023, all NRAs applied the SRB resolvability assessment policy in a proportionate way. In September 2024, the SRB published its LSI Report, which examined key developments in the LSI sector and gave an account of NRAs' resolution planning and crisis management activities in 2023 and 2024[1].

In parallel, building on the achievements and lessons learnt over the years, the SRB together with NRAs are developing the new resolvability assessment methodology reflecting the capabilities banks are expected to meet on an ongoing basis in the steady-state, i.e., after the full implementation of the Expectations for Banks. This policy will be ready in the second half of 2025. The steady-state resolvability capabilities are mirrored in the banks' self-assessment template which was developed in line with European Banking Authority (EBA) guidelines on improving resolvability. The industry has been consulted on this template in December 2024[2].

2. Operationalisation and testing

Advancements in this area were critical to initiate a pivot towards testing and operationalising the resolution plans.

In its shift towards testing and operationalisation, the SRB has worked on a number of deep dives and launched its first on-site inspections. As of today, the SRB has already performed two inspections, while an additional one is in the pipeline.

In line with the SRM's strategic shift towards enhanced crisis readiness and more testing, the SRB is now consulting the industry on a comprehensive policy on resolvability testing[3]. The SRB has also initiated the work on multi-year planning for testing.

In addition, in recent months, the SRB ran a number of bank crises simulations and took part in large resolution exercises involving multiple Member States.

[1] See SRB LSI report

[2] See SRB consultation on resolvability self-assessment

[3] See SRB consultation on resolvability testing for banks

Last autumn, for instance, the SRB took part in a large bank crisis simulation exercise involving a fictitious banking group active in the Nordic and Baltic countries. The exercise involved 450 colleagues from a number of ministries, central banks, supervisory and resolution authorities from these countries.

The exercise aimed at testing intra-EU cooperation, the operationalisation of the Single Point of Entry strategy – i.e., resolving the bank as one entity rather than slicing and dicing it – and the variant resolution strategy. Important findings were drawn from the exercise and are now being implemented in our procedures.

Crisis simulations are of great importance to the SRB due to their direct impact on strengthening the organisation's preparedness, operational effectiveness, and coordination capabilities.

3. A complete and flexible crisis management toolkit

3a. Savings and Investments Union and Banking Union

It is clear that the EU will need to mobilise all its untapped resources to meet its many challenges. The recent proposal on the Savings and Investments Union (SIU) will be instrumental to these efforts.

Deep and vibrant domestic capital markets and a private capital industry willing to make long-term bets on innovative companies are a must for a dynamic and innovative economy. However, these projects will take time to implement. Banks, in the meantime, will have to step up and help finance the many needed strategic investments.

This is why, it is critical that the European banking sector becomes more competitive. This can be done by working on the completion of the Banking Union. A well-functioning Banking Union, with a strong and stable banking sector, is essential to support the SIU's objectives. A strong and up-to-date crisis management framework is of the essence for the stability of the banking sector, and the economy at large. The SRB thinks that European legislators should swiftly act to start delivering on a number of reforms:

Crisis Management and Deposit Insurance review (CMDI): It is essential that a final agreement is reached quickly while ensuring a pragmatic and efficient mechanism for the successful financing of resolution sales.

Common and public liquidity backstops: All countries should ratify the ESM treaty revision as a matter of urgency to establish the European Stability Mechanism's Common Backstop to the SRF. Having adequate funding sources in a crisis is more important than ever in these volatile times. This backstop should eventually be supplemented by a public liquidity backstop to deal with the potential needs of the largest banks of the Banking Union.

EDIS: The dialogue on European Deposit Insurance Scheme (EDIS) should restart as soon as possible. If the aim is to ensure that savings become investments, trust in the banking system is of essence. If depositors feel unevenly protected across the Banking Union, this trust can quickly evaporate.

3b. Competitiveness, simplification, and the Single Market

Lately, European and National authorities alike have been calling for simpler, more accommodating rules. The European Commission has been quick in drawing up lists of regulations to be simplified. If the objectives of the regulations being simplified are maintained, this can be a valuable exercise.

However, we should not forget that the complexity of our system does not stem only from bulky European regulations but also, and sometimes, even more, from the lack of European integration. One rulebook is simpler than 27. A truly complete Banking Union and Capital Market Union can deliver tremendous simplification and growth.

Funds should flow freely within the Union. Depositors and clients should feel as protected in a small country as in a big country. Banks should be able to operate and grow cross-border.

Given the current challenging economic juncture, it is essential to ensure that public funds are not spent on resolving bank crises. That is why it is not time to lower the bar on crisis management requirements, but it is certainly the right time to reduce fragmentation in the Banking Union.

4. Seamless international cooperation

Bank crises know no borders. In the run-up to and during a resolution, we need to be able to swiftly coordinate and cooperate with authorities across the world.

This is why we keep on testing and improving our interactions – at all levels – with our international counterparties.

Besides the regular bilateral contacts, the SRB participates in a number of international exercises aimed exactly at honing the cooperation between authorities in case of a global bank failure.

For example, SRB takes part in the Trilateral Principal Level Exercise (TPLE), working closely with regulatory and supervisory authorities, central banks, and finance ministries of the United States, the United Kingdom, and the European Banking Union authorities, to strengthen coordination on cross-border resolution, and promote confidence in and commitment to the orderly resolution of global banks. The next technical TPLE exercise will take place in Brussels in June 2025.

Finally, for the next two years, the SRB Chair will be chairing the Financial Stability Board’s Resolution Steering Group. This is the global forum for resolution authorities, which is expected to focus this year on key issues including operationalisation of bail-in on a cross-border basis, public sector backstop funding mechanisms, operationalisation of resolution transfer tools and effective arrangements for cooperation with authorities that are not members of crisis management groups.

5. Conclusions

A resilient banking sector is instrumental to a dynamic economic and long-term economic growth. Prepared banks and well-equipped, ready-to-act resolution authorities are needed to ensure this resilience.

The SRB, together with the SSM and the other European and global authorities, will continue to ensure that bank crises remain contained, avoiding bail-outs and protecting financial stability.

It is important that we are given the adequate tools to carry out our mandate, especially in these volatile times.