

SRB bi-annual reporting note to Eurogroup

This note is aimed at reporting to the Eurogroup of 4 October 2021 on the SRB's (1) forward looking approach to its 2022 priorities in terms of banks' resolvability and (2) update regarding the operationalisation of the Single Resolution Fund, including the recent ex-ante contributions' Court rulings.

1. SRB's 2022 priorities

Priorities for 2022 in terms of banks' resolvability

The SRB's overarching priority remains to make banks fully resolvable by end-2023. To achieve this, the SRB has set out (in 2020) in the SRB Expectations for Banks ("EfB") the capabilities banks are expected to demonstrate, in order to show they are resolvable, and 2022 is a key year for their phased-in implementation. The SRB 2022 Work Programme will be published in November this year: it sets out the priorities in the different SRB strategic areas and it is naturally rooted in the SRB's Multi-Annual Programme 2021-2023. In the area of resolvability for SRB banks, main priorities for the 2022 Resolution Planning Cycle ('RPC') include:

- (i) Liquidity and Funding in resolution: The SRB will assess banks' capabilities to identify, mobilise and monetise assets that can be used as collateral in resolution. Banks will need to detect the sources of liquidity and collateral in resolution to address the funding needs that were identified as part of the 2021 RPC.
- (ii) Separability and Reorganisation plans: Separability is a broad concept relevant to all resolution strategies. It covers several expectations which are key for both resolution planning and the bail-in implementation, such as business reorganisation plans (as outlined in the EfB). To support the implementation of the EfB on transfer tools, a separability analysis report will be requested from banks with transfer resolution strategy. The SRB will also publish an operational guidance to assist banks in meeting this working priority.
- (iii) Management information system ("MIS") capabilities: Banks will be requested to further demonstrate MIS capabilities to produce the datasets for bail-in execution and for valuation.

The abovementioned priorities are complemented by bank-specific priorities, as defined by the respective Internal Resolution Teams ("IRTs"), both being communicated to banks through "priority letters" at the end of September 2021.

Resolvability assessment

In the 2021 RPC, the SRB implemented for the first time a horizontal "heat-map" to monitor the progress made by banks on EfBs implementation and MREL build-up, and their relative impact on the feasibility of the resolution strategy. The heat-map (cf. a template in figure 1 below) takes into account proportionality by considering banks' business model characteristics and specific resolution strategies, and it ensures a level-playing-field. Clearly, multiple iterations will be needed to ensure the heat-map provides a stable picture.

The heat-map will:

- show, in a consistent way, whether banks have made sufficient progress in the areas that are most critical for the successful execution of their resolution strategy;

- support the assessment of how material the impediments to resolvability are, and the consideration of appropriate corrective action, either with close monitoring by the SRB’s IRTs in the following 12-month period, or by starting the formal procedure for addressing substantive impediments to resolvability.

Transparency is important to achieve our goal of financial stability. Therefore, the SRB is committed to publish an anonymised version of the heat-map once it is sufficiently stable, closer to the end of the phasing-in period of the Efb.

Figure 1 – template of heat-map assessment

	High impact	Medium impact	Low impact	Not applicable
Level 0	Potential candidate	for substantive	No or minor impediment	No impediment
Level 1	impediment(s)	Impediment	No or minor impediment	
Level 2	No or minor impediment	No or minor impediment	No impediment	
Level 3	Best practice	Best practice	Best practice	
Grey Progress Level	Potential impediment		No impediment	

MREL

Loss absorption capacity (or 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. The SRB encourages issuances to reduce MREL shortfalls, particularly given the favourable market conditions, which some banks were able to take advantage of, issuing both senior and subordinated instruments. According to market data from April 2021 to September 2021¹, the gross issuances of banks under the SRB remit amounted to around EUR 55 bn. Notably, even some small and medium size banks were able to issue in the last months, thanks to the favourable market conditions.

Compared to their final MREL targets, banks under the SRB remit (cf. [SRB MREL dashboard²](#)) display a shortfall of EUR 23.6bn without combined buffer requirement (“CBR”) (EUR 42.2bn when CBR included). This shortfall has reduced by almost one third since Q4 2019 (and by half when including CBR). In relative terms, the MREL shortfall accounted for 0.33% of the banks’ total ratio exposure amount (“TREA”) (0.60% including the CBR).

Compared to their intermediate targets, banks under the SRB remit display a shortfall of EUR 0.3 bn (5.4 bn when CBR is included) or almost 0.00%TREA (0.08% TREA including CBR). **The SRB steers and expects most -if not all- of the banks under its remit to respect the January 2022 intermediate MREL target.**

¹ Source: EBA weekly overview on liquidity and funding (WOLF) until 27 August, and Nomura brief until 3 September.

² <https://www.srb.europa.eu/en/content/mrel-dashboard-0> , please refer to Q1 2021.

2. Single Resolution Fund

Common Backstop

Following the Eurogroup agreement in November 2020 on the early introduction of the Common Backstop to the Single Resolution Fund (“SRF”), the SRB has now entered into the final implementation phase. Among others, the Backstop Facility Agreement (ESM facility) and the Parallel Facility Agreement (non-euro area Members States) have been finalised, and details on the termination of the Loan Facility Agreements are being discussed with Member States.

Currently, the SRB is finalising the operationalisation of its collateral policy for the purposes of liquidity support if the common backstop is used (and the economic and legal considerations around it). With the help of external advisors, the SRB identified potential assets to be used, developed a valuation methodology, risk control and haircuts and analysed the legal framework to mobilise assets between jurisdictions. The SRB has already presented to the ESM Board of Directors (BoD) the key features of its collateral policy and will further update the ESM BoD in the coming weeks.

In addition, the SRB, jointly with the ESM, developed a methodology for the SRB’s repayment capacity analysis, which was presented to Member States at the Task Force for Coordinated Action (“TFCA”). The methodology will serve as the basis for ensuring the full and timely repayment of the borrowed amounts under the ESM and parallel lenders credit lines, while respecting the principle of fiscal neutrality.

Recent Court Rulings

The SRB welcomes the outcome of the appeal and the guidance provided by the European Court of Justice (“ECJ”) in its judgment (joint cases C-584/20P and C-621/20 P, Commission and SRB v Landesbank Baden-Württemberg).³ It appreciates, in particular, the fact that the ECJ pronounced itself on the standard of adequate reasoning applicable to the SRB contributions decisions, and restored the legality of the delegated regulation on which the calculation of ex-ante contributions is based. The judgment is important as it creates legal clarity and certainty. The SRB is taking the necessary measures to comply with the judgment and, in cooperation with the European Commission and the relevant National Resolution Authority, will adopt a new decision determining the 2017 ex-ante contribution to the SRF of the Landesbank Baden-Württemberg.

³ <https://www.srb.europa.eu/en/content/srb-statement-european-court-justice-judgment-2017-single-resolution-fund-contribution>