I thank K. Lohmus for her contribution and support.
Agenda

1. SRB’s work and priorities for the coming years
2. Banks’ progress towards resolvability
3. Market activity and cost of funding
4. The CMDI review: key elements
5. Preliminary lessons learnt from the recent banking turmoil: the SRB perspective
1. SRB’s work and priorities for the coming years

1.1. End of the build-up phase

The end of 2023 marks the end of several transitional periods

**Expectations for banks**
- Deadline for banks to demonstrate that they fully comply with the expectations related to each of the seven dimensions of resolvability.

**MREL**
- Deadline to reach the final MREL targets - one of the key tools in resolvability.

**The Single Resolution Fund**
- The Fund, which has been gradually built-up since 2016, is expected to reach its 1% target of the amount of covered deposits of all credit institutions in BU.
1. SRB’s work and priorities for the coming years

1.2. Start of a strategic review

• **The SRB strategic review: why?**
  • Among other aspects, the externally relevant ones:
    ➢ strengthen our strategic objectives, in terms of resolution preparedness and crisis management, resolvability and digital transformation, etc.)
    ➢ address new challenges, such as cyber risks, digital finance, climate change
    ➢ strengthen cooperation, transparency and communication with different stakeholders, including with the banking sector.

• **Example - Resolvability assessment: a structured approach to testing resolvability profiles**
  ➢ Moving from an approach that monitors banks’ implementation of the capabilities to an approach that monitors their maintenance so that they remain operational at all times. To this end, the SRB will conduct comprehensive testing of banks' resolvability capabilities, starting in 2024.
2. Banks’ progress towards resolvability

2.1. 2022 resolvability assessment results

End-September 2021

End-December 2022

Classification:
- Progress Level 3: Best practice
- Progress Level 2: Substantial progress where the main capabilities have been demonstrated
- Progress Level 1: Partial progress where some of the main capabilities remain to be demonstrated
- Progress level 0: Insufficient progress where the main capabilities remain to be demonstrated

Source: Resolvability of banking union banks: 2022
https://srb.europa.eu
2. Banks’ progress towards resolvability

2.2. External MREL levels as of Q1.2023

• The average MREL final target (including the CBR) for resolution entities stood at 27.2% TREA, increasing slightly compared to Q4.2022.

• The total MREL shortfall (including the CBR) against final targets of resolution entities continued to decrease, but at a slower pace compared to Q4.2022, amounting to EUR 20.5 bn (corresponding to 0.3% TREA).

• In total, 24 banks (30% of scope) reported a shortfall. The SRB will continue monitoring the closing of the shortfall and the MREL funding conditions.

Source: SRB MREL Dashboard Q1.2023
https://srb.europa.eu
3. Market activity and cost of funding

3.1. Q1.2023 MREL issuances and recent developments in the cost of funding

- Q1.2023 MREL gross issuances of SRB banks (EUR 117.7 bn) were significantly higher compared to the same period of 2020-2022.

- After spiking in mid-March following the turmoil generated by the SVB and Credit Suisse crises, funding costs tightened from May onwards, allowing banks, including smaller issuers, to benefit from improved market conditions. Unsecured bond issuances in Q2.2023 remained strong, including reopening in the Tier 2 and the AT1 segments, showing that market confidence has been restored.

- While remaining close to the levels observed at the beginning of March, analysts observed that yield and credit spreads might remain higher than the past year due to risk aversion and monetary policy actions.
3. Market activity and cost of funding

3.2. Focus on small and medium-sized banks

- In Q1.2023, SRB banks (SIs) and, in particular, small and medium-sized banks* continued to make progress in building up their MREL levels, with, on average, increased reliance on senior debt for meeting their targets.

- Market activity of small and medium-sized SIs continued to be strong in Q1.2023 and largely above the levels registered for the same period in 2022.

- Issuances by LSIs in H1.2023 increased by 59% vis-à-vis H1.2022. Several LSIs issued for the purpose of MREL compliance.

- Small and medium-sized banks managed to seize a window of opportunity and to tap the financial markets; however, often this is done at higher cost since they are not regular issuers and given the small size of the tickets.

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*SRB banks with total assets below EUR 100 bn
4. The CMDI review: key elements

- The revised public interest assessment test implies a broadening of the scope of application of resolution, in particular with respect to small and medium-sized banks. Key is to ensure they can be resolved with effective funding arrangements and use of transfer tools.

- Deposit Guarantee Schemes (DGS) could play a key role, to ease the access to the Single Resolution Fund.

- The proposal aims to facilitate the use of DGS after MREL, to support transfer strategies and market exits (including transfer of deposit books and reduction of the risk to uninsured depositors). To this regard:
  - It removes the DGS super-priority and establishes a single-tier depositor preference.
  - It introduces a more sound and harmonised “least cost test” (LCT).

- The recent crises showed the importance of a clear and agile toolset and CMDI is an important step in the right direction, although it is not the completion of the Banking Union. We still miss a common deposit insurance scheme; a broader harmonisation of insolvency provisions for banks would also be key for the integration of the market.
5. Preliminary lessons learnt from the recent banking turmoil: the SRB perspective

• Liquidity in resolution

➢ Liquidity, as much as capital, is central to a successful crisis management. The SRB has set as a priority for banks their ability to estimate and report liquidity needs, identify and mobilise collateral in case of need and to address any cross-border challenges to the execution of bail-in.

➢ Apart from banks’ own capabilities, the SRF and the common backstop can be used for liquidity support. However, in case of a crisis of a G-SIB, short term needs could go beyond. Involvement of central banks for this tail risk may be needed. Funding in resolution has not necessarily to be used, but would strongly improve confidence in the resolved bank.

• Communication and cooperation between authorities

➢ New technologies and social media fueled unprecedented bank runs. EU authorities – supervisors and resolution authorities - will need to take into account this, including in-depth work on communication plans (for themselves and for the banks).

➢ To ensure information sharing, authorities need to further reflect on cross-border cooperation and communication before/ during crises and also outside the core Crisis Management Group.

➢ Markets reacted positively to SRB-SSM-EBA communication on AT1 instruments (followed by BOE, HKMA, BOC), confirming that international cooperation has to be enhanced.
5. Preliminary lessons learnt from the recent banking turmoil: the SRB perspective

• Preparedness to use resolution tools

  • **Transfer tools** proved to be very important:
    - Readiness to switch or combine tools is important. SRB will continue to work on the operationalisation of tools, including sale of business (also in combination with bail-in) and the ability to establish a bridge bank in each member state.
    - CMDI proposal, when taken in its integrity (with greater availability of funding), can enhance such tools.

  • **Fulfillment and maintenance of banks’ resolvability is key**
    - The recent crisis cases showed that immaturity of banks’ capabilities as concerns management information systems and operational continuity could hinder the efficiency of the resolution process.
    - Banks are required to establish those capabilities as part of the SRB Expectations for banks. Comprehensive testing and simulation of these capabilities should become a priority in the next years.
THANK YOU!

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