SINGLE RESOLUTION BOARD

Conference 2018

MONDAY, 15 OCTOBER, 2018 / Brussels

10 years after the crisis: are banks now resolvable?

CONFERENCE REPORT

#SRBResolution2018

Website: https://srb.europa.eu

Single Resolution Board

PROGRAMME

08:15 – 09:00	**REGISTRATION AND WELCOME COFFEE**
09:00 – 09:15	**WELCOME & OPENING ADDRESS** Speaker: Elke König, Chair, Single Resolution Board
09:15 – 09:30	**KEYNOTE SPEECH** Speaker: Jelena McWilliams, Chair, U.S. Federal Deposit Insurance Corporation (FDIC) – by video
09:30 – 10:40	**SESSION I: Banking Union – what still needs to be completed?** Speaker: Wilson Ervin, Vice-Chairman, Credit Suisse *Moderator: Melinda Crane* • **Panellist 1:** Andrea Enria, Chair of the European Banking Authority • **Panellist 2:** Wilson Ervin, Vice-Chairman, Credit Suisse • **Panellist 3:** Olivier Guersent, Director-General, European Commission • **Panellist 4:** Danuta Maria Hübner, Member of the European Parliament • **Panellist 5:** Elke König, Chair, Single Resolution Board Q&A with audience
10:40 – 11:00	**Coffee Break**
11:00 – 11:15	**KEYNOTE SPEECH** Speaker: Burkhard Balz, Member of the Executive Board, Deutsche Bundesbank
11:15 – 12:25	**SESSION II: Loss absorbing capacity & Funding in resolution** Speaker: Dominique Laboureix, Member of the Board, Single Resolution Board *Moderator: Melinda Crane* • **Panellist 1:** Ignazio Angeloni, Member of the Supervisory Board of the European Central Bank • **Panellist 2:** Dominique Laboureix, Member of the Board, Single Resolution Board • **Panellist 3:** Philippe Lamberts, Member of the European Parliament • **Panellist 4:** Belén Romana García, Independent non-Executive Director, Santander Group Q&A with audience

12:25 – 14:00	**Networking Lunch**
14:00 – 14:15	**KEYNOTE SPEECH** Speaker: Valdis Dombrovskis, Vice-President and Commissioner for Euro and Social Dialogue, Financial Stability, Financial Services and Capital Markets Union, European Commission
14:15 – 15:25	**SESSION III: Critical functions & Impediments to resolution** Speaker: Mark Branson, Chair of Resolution Steering Group, Financial Stability Board *Moderator: Melinda Crane* • **Panellist 1:** Antonio Carrascosa, Member of the Board, Single Resolution Board • **Panellist 2:** Sasha Mills, Executive Director of the Resolution Directorate, Bank of England • **Panellist 3:** Jaime Ponce, President, Spanish Executive Resolution Authority (FROB) • **Panellist 4:** Sanja Tomičić, Executive Director, Croatian National Bank • **Panellist 5:** Christine Van Rijsseghem, Chief Risk Officer, KBC Group Q&A with audience **Wrap-up**
15:25 – 15:35	**CLOSING REMARKS** Speaker: Boštjan Jazbec, Member of the Board, Single Resolution Board
15:35 – 16:30	**Press Q&A with the SRB Chair**


10 years after the crisis:
are banks now resolvable ?


SINGLE RESOLUTION BOARD

SINGLE RESOLUTION BOARD ANNUAL CONFERENCE 2018

10 years after the crisis: are banks now resolvable?

EXECUTIVE SUMMARY

On 15th October 2018, the **Single Resolution Board (SRB)** held its third annual conference: "10 years after the crisis: are banks now resolvable?" This was the title of the event and the question of the day. The general consensus was that, at this time, the only reasonable answer is that while progress has been made, the journey of resolvability is a marathon, not a sprint—and it's not over.

Conference participants spent the day discussing what is needed to reach the finish line of resolvability. Some points touched on were the same as those discussed in previous years. There remains a need for a harmonised **European Deposit Insurance Scheme (EDIS)**. The **Single Resolution Fund (SRF)** must get its backstop. Lack of consistency in national insolvency proceedings needs to be overcome.

The discussion also saw some new topics put on the table. Are **Management Information Systems (MIS)** organised and accessible enough to allow for efficient resolution? Can backstop funds be accessed quickly enough? What about cyber-security risks? The progress made in resolution thus far encouraged the consideration of such novel topics—evidence of the fact that the quest for resolvability is always changing and the concept of resolvability itself evolving.

Transparency was another topic that was brought up repeatedly. Without transparency, there is no confidence in the system. A lack of confidence is an insurmountable impediment to resolution. Several solutions to this issue were presented—such as the Bank of England's intentions to publish summaries of major UK firms' resolution plans.

Across all the topics discussed, there was one common consensus: There is a need to fight against complacency. Now is not the time to slow down in the race. A constant push forward and continued accountability is needed if we want to be able to answer the question "are banks now resolvable?" with a resounding "yes."

OPENING ADDRESS

Elke König, Chair, Single Resolution Board

Elke König

Opening the conference, **Elke König, Chair, Single Resolution Board**, welcomed the room of international participants with words of caution: "As we mark the tenth anniversary of the financial crash, people want to know if we can withstand something similar. The truth is, no one knows."

"Resolution planning is a marathon," König continued: "We have to take pit stops when necessary, to refuel and rehydrate." The 2018 conference offered an opportunity to do just that, providing a moment to assess current challenges.

König went on to outline some of the SRB priorities for 2019: As well as establishing resolution plans for all banking groups under the SRB remit, the SRB hopes to see progress made in harmonising insolvency regimes and establishing a harmonised EDIS in order to complete the **Banking Union**.

Regarding **MREL (Minimum Requirement for own funds and Eligible Liabilities)** König said: "We will continue to confirm targets at consolidated level, together with the industry and the **National Resolution Authorities (NRAs)** via workshops and industry dialogue." Enhancing transparency, she added, is another key goal. Finally, an agreement on the backstop remains a priority.

Amidst this ambitious agenda, the SRB continues to deal with the fallout of the two "B-words": **Brexit** and **Banco Popular Español S.A**. Following the Spanish bank's resolution, SRB launched the first phase of the "right to be heard" procedure in August of 2018. Some 12,000 expressions of interest were received. Registered shareholders and creditors deemed eligible were invited to submit their written comments to the SRB from 6 November 2018.

Overall, König expressed optimism, reminding all present to also reflect on what has already been accomplished: "We are in a better place today than we were five years ago." Looking ahead, she made it clear that the SRB is committed to continuing the marathon towards resolvability. Endurance, persistence, and effort will be needed—from all stakeholders involved.

Jelena McWilliams, Chair, US Federal Deposit Insurance Corporation (FDIC)

Speaking via video, **Jelena McWilliams, Chair, US Federal Deposit Insurance Corporation (FDIC)** called on all present to remember the significance the SRB's work has for everyday people at personal level. She spoke from experience: Born in the former Yugoslavia, McWilliams lived through the start of the civil war that eventually tore the country apart. "When the local bank closed its doors, my parents lost their meagre savings overnight," she said. Her father, then 68, had to return to work as a day labourer: "I have seen personally how people's lives are impacted."

Jelena McWilliams

This memory drives her work with FDIC today, she noted, informing a uniquely personal perspective on the issue. FDIC has developed its approach to bank resolution over decades, adapting to each crisis the United States has faced since 1933. The financial crisis of 2007/08 was only one among many pivotal events shaping current policy.

Since then, US **G-SIBs (globally systemically important banks)** have implemented structural and operational changes to improve their resolvability. "A primary goal is for losses to be absorbed by shareholders and unsecured creditors of the holding company, thus avoiding taxpayer bailouts," McWilliams said. Fortunately, no US GSIB has had to put such a plan into action yet.

McWilliams echoed König's call for increased transparency. FDIC has already put plans in place towards this end. "We began in June by soliciting feedback from the public in a joint proposed guidance with the Board of Governors of the Federal Reserve System regarding the 2019 Resolution Plan Guidance," [1] she explained. "Asking the public to weigh in will provide valuable input and such transparency will serve as a stabilising force in times of stress."

Looking beyond US borders, McWilliams acknowledged that true resolution preparedness requires international cooperation—and becomes more challenging as it becomes more far-reaching. As one example of FDIC's efforts, she pointed to the **Crisis Management Groups (CMGs)** created for all G-SIBs, which allow resolution and supervisory authorities of home and host jurisdictions to meet regularly and exchange views on banks' resolvability. She added: "We have developed information-sharing arrangements and engaged in operational readiness exercises. This is a strong foundation that should allow us to address challenges together." Concluding, she reaffirmed the commitment of US financial regulators to redoubling their efforts to work with others towards these goals.

1 https://www.fdic.gov/news/news/press/2018/pr18040.html

BANKING UNION – WHAT STILL NEEDS TO BE COMPLETED?

Melinda Crane

The moderator of the day, **Melinda Crane, Chief Political Correspondent, Deutsche Welle TV**, introduced the first panel by referring back to König's statement that resolution is a marathon. There are many runners involved, noted Crane, and the SRB is only one of them. When it comes to the Banking Union, she asked panellists, what is still needed to ensure the finish line can be reached?

Wilson Ervin, Vice-Chairman, Credit Suisse, flagged ring-fencing as a major hurdle in the race towards resolution. While there has been "massive progress" since 2008, "that was a very low bar". "Today, a majority of G-SIBs could emerge from a 'Lehman weekend' with a respectable resolution, one that doesn't require taxpayer aid or push the financial system into cardiac arrest," he said, adding "There will still be a lot of yelling and it won't be easy, but it can be done." He highlighted the utility of the **Dodd–Frank Wall Street Reform and Consumer Protection Act** and **Bank Recovery and Resolution Directive (BRRD)** towards this end.

While there are now resources in place to handle a 2008 type event, these aren't distributed evenly. Ervin referred to minimum amount of subordinated **Total Loss-Absorbing Capacity (TLAC)** of 20 per cent of RWA as a "lodestar"—a simple yet imperfect starting point. This would allow the worst managed G-SIBs of 2008 to absorb cumulative losses and emerge with a post-resolution capital ratio of 10 per cent, he said. While about two-thirds of the world's G-SIB banks are now over this 20 per cent threshold and resolvable today, he added, there are still challenges.

Wilson Ervin

A lesson from the US can be found in the Texas banking crisis of 1986, where a bank-economy 'doom loop' pushed the state into a deep recession. Finding that combining "sick" banks didn't help much, a radical solution for the time was reached: interstate banking. Banks from North Carolina, Ohio, and even New York stepped in, resulting in a rebound. Before this, banking had predominantly been state-by-state. Interstate banking subsequently went nationwide in the 1990s.

Ervin noted that FDIC has resolved about 500 banks in the last decade. "Over 90 per cent of cases used **purchase and assumption, P&A**, in which a strong bidder buys assets of small- or medium-sized banks," said Ervin, citing this as typically the most cost-efficient approach. "Usually in the US there are three to five bidders, at least half of them out-of-state. In many FDIC resolutions, all the bidders came from out of state. If not for the US Banking Union, FDIC would need a more expensive fall-back," he explained.

Comparing this to Europe, he raised the red flag: "The problems of Spain were solved within Spain, those of Italy within Italy. What if Santander had failed to bid on Banco Popular? Wouldn't it be better if there were more bidders?"

Picking up on this thread, **Andrea Enria, Chair of the European Banking Authority**, similarly stressed the drawbacks of ring-fencing. In the past, European banks had to make any crisis manageable using national tools. "If we look at how successful we have been at restoring integration in the European banking market and reversing the ring-fencing measures used in the Euro crisis, we haven't made much progress. The system is still very segmented," he said.

To address this, he stressed the need to fix the safety net. What is required? Funding in resolution, a backstop for SRF, and a Deposit Guarantee Scheme—these are the "most important" issues needed to increase trust and decrease segmentation.

Enria also stressed the uneven distribution of resources. While progress has been made in developing TLAC instruments, it's mostly concentrated on GSIBs. "If you go down the ladder, less progress has been made in reshaping banks' liability structures," he concluded.

Answering the question "what still needs to be completed?" in terms of creating a successful Banking Union, **Olivier Guersent, Director-General, European Commission**, agreed on the importance of EDIS. "On average, in Europe, banks were holding total sovereign exposure of 80-plus per cent. While these figures are much lower today, you can see that as soon as there is tension in a country, the total sovereign exposure rises relatively quickly," he said. A public backstop would better protect sovereign exposure.

A Banking Union can only be truly effective if it is implemented in full. Guersent characterised the current state of affairs as "half-baked." "I can't report much more progress than last year," he admitted. Looking ahead, he said, much depends on the Member States and trust. Following on previous statements by Ervin and Enria, he concurred on the need for more cross-border consolidation, pointing to "national supervisory behaviour" as one barrier.

Danuta Maria Hübner, Member of the European Parliament, noted that it was difficult to agree on EDIS in the European Parliament because there was as of yet no common understanding of the sequencing that should be followed as regards risk sharing and risk reduction, or of whether we had achieved as of now the right balance between risk sharing and risk reduction. She stressed that there were no clear objective benchmarks to assess risk reduction. She stressed that this was one issue standing in the way of progress. "The fact that the crisis is behind us has also reduced momentum," she acknowledged.

Danuta Maria Hübner

She also noted a lack of understanding regarding EDIS as a barrier. "Something we haven't addressed in the discussion so far is the fact that we continue to see Deposit Insurance as public money," she said. "Technically it's private but this is not the actual perception." The diversity of national models, she agreed, also remains problematic.

Regarding the chances that the current European Parliament could resolve the issues at hand, Hübner admitted that she is "not optimistic." In particular, she flagged the upcoming elections in the European Parliament, to be held in May 2019, as a hurdle.

Elke König, Chair, Single Resolution Board, likewise observed that momentum in the race for resolvability seems to be waning. "The sun has been shining in Brussels for months—literally—but there is autumn to come," she said, urging everyone to "make hay while the sun is shining. Now is the time to make progress on these topics. Do not wait for the next financial crisis."

So what key changes could move the European Banking Union forward? Like König and McWilliams, **Ervin** defined the need for transparency as a huge issue, noting a drop in confidence in this regard. **Enria** agreed, further citing a need for more predictability. "Investors are those absorbing losses in the first instance and they need to understand how the system will work in a crisis," he said. Subordination requirements that ensure a level playing field must be in place: "Every investor must know where they sit in the liability structure and be able to price their investments accordingly."

Divisions between Member States, **König** said, also proved problematic in terms of advancing the Banking Union, especially in regards to EDIS. "The Banking Union is supposed to be three pillars and without EDIS there will always be an excuse for going national," she admitted. "I liked the Texas analogy but that context refers to a federal system, whereas we have 19 independent Member States, each with their own national laws."

Guersent expressed similar views, joking that another crisis is needed to make progress—"one big enough to scare everyone but not so big that it cripples us." Jokes aside, he said, looking at the past, this is actually how progress was achieved. "How close do you need to get to explosion for Member States to move?" he asked. While he acknowledged this as a gloomy outlook, he also said he has seen greater intent to move forward over the past months.

Hübner echoed these sentiments, expressing the hope that EDIS would promote financial integration. She said that the DGSD review, scheduled for next year, could be an opportunity to move forward on that file and that the solution proposed by the European Parliament rapporteur, keeping part of the DGS funding at the national level, could be a way forward.

Turning the topic to Brexit, **Crane** asked what would be needed to avoid fallout here. **Enria** highlighted two areas of focus. Firstly, Brexit itself tears down the cooperation mechanics now built in European legislation; these need to be rebuilt. Secondly, there is the issue of the eligibility of MREL instruments issued under English law. Regarding Brexit and bonds issues by Euro-area banks under U.K. law, **König** firmly stated that these bonds will be eligible for MREL in the future only if proper clauses are in place or appropriate grandfathering is introduced.

Burkhard Balz, Member of the Executive Board, Deutsche Bundesbank

Burkhard Balz

Burkhard Balz, Member of the Executive Board - Deutsche Bundesbank, started by reminding all present of the great progress that has already been achieved in the "ambitious endeavour" of making banks resolvable. Referring to his time in Parliament, he recalled how busy legislators were kept with the formation of the Single Resolution Mechanism from 2013 to 2015. While its creation marked "a major gain in terms of European credibility amongst financial market actors internationally," he said, "it's not enough."

The institutional aspect is only one side of the coin, he explained: "The other side is a legal framework, which is in the hands of the co-legislators. We all know there is still work to be done here." It's no easy task for the European Parliament, Council, and Commission, he acknowledged. While admitting that he now wears "a new hat" in his role at the Deutsche Bundesbank, he nonetheless urged for progress: "There is still a window of opportunity to conclude legislation."

The new regime for banks has been developed to overcome existing flaws that led to the "moral hazard" of the 2007/08 crisis—"systemically risky insolvency proceedings versus economically and politically questionable bail-out." What still needs to be done? Balz referred to the takeaways of the first resolution cases—in particular that of Banco Popular—in an attempt to answer this question.

Firstly, there is a clear need to improve practical implementation, he said, "in particular avoiding undue delays in assessments of future **failing or likely to fail (FOLTF)** institutions." He also noted the importance of building up sufficient bail-in-able capacity to ensure credibility and actual usability of a bail-in tool. "Requirements for MREL need to be seriously reconsidered in the context of EU legal frameworks," he noted.

Agreeing with many of the first session's panellists, he called for closing the gap between burden-sharing requirements under the resolution regime and national insolvency regimes. "One solution could be to adjust the Banking Communication of 2013," he said, "aligning the burden-sharing requirements to the BRRD."

Finally, he stated that funding in resolution has not yet been sufficiently addressed. Loss-absorbing capital must be available in sufficient quality and quantity. "Reliance on Central Bank liquidity must be prevented," he said—wryly admitting, "It's not surprising that I would say that."

In Balz's view, the marathon towards resolvability is only halfway finished. He called for positivity, however, citing a quote from Bill Gates for inspiration: "Most people overestimate what they can do in one year and underestimate what they can do in ten years." A decade ago, nobody could have foreseen the progress already made. "We must remain ambitious," he concluded.

LOSS ABSORBING CAPACITY & FUNDING IN RESOLUTION

The second panel of the day followed up on the final points of **Balz**'s speech: Loss absorbing capacity & funding in resolution. Both are absolutely crucial to containing the effects of bank failure, moderator **Melinda Crane** noted. The obvious entry point into this discussion being MREL, Crane asked SRB representative **Dominique Laboureix, Member of the Board, Single Resolution Board**, to provide an assessment of what progress has been made here.

Dominique Laboureix

Laboureix emphasised that MREL, like resolution itself, is a journey made of many steps. Some depend on the evolution of banking structures and others on evolution of the regulation itself. What's more, "MREL itself as a concept is evolving," he noted: "The idea of this 'missing element' is now well recognised by all stakeholders—which wasn't the case some years ago." This is already a mark of progress, "but now we need solutions."

"More than that," he added, "We need to create trust—as mentioned in the first panel. We want resolvability with a sufficient amount of loss-absorbing capacity. On the liquidity side, this is not well covered by the regulatory framework today. We need the support of European mechanisms."

Overall, however, he said that the glass is definitely half-full: "Compared to where we were ten years ago, progress has been made. These efforts are recognised, even if the process is not yet finished."

According to **Ignazio Angeloni, Member of the Supervisory Board of the European Central Bank**, to have resolvable banks you need "good preparation, good legislation, and appropriate funding." Preparation is the business of the SRB and this, in his view, has been largely done: "The instruments of resolution are well spelled out; there is a clear taxonomy of instruments and how to use them."

Ignazio Angeloni

Some crucial points are still lacking, however. A regular insolvency regime, harmonised across the EU, is still needed to create a level playing field. For instance, while there is "good discipline" regarding **failing or likely to fail (FOLTF)** at EU level, this is not harmonised at national level.

Angeloni also pointed to the Single Resolution Fund, which is still being built up, as an area where there is room for improvement. Plans are in place to gradually increase the SRF to at least one per cent of all covered deposits in Euro Zone banks by the end of 2023. This is estimated to be between 55 billion and 60 billion euros. Will this even be sufficient, Angeloni asked?

Philippe Lamberts, Member of the European Parliament, also questioned how efficiently any backstop funds might actually be available in practice. "Now we are being offered something for 2023—a full 15 years after Lehmann, not 10," he said, adding: "It looks like it will be a system where you have to summon the Bundestag to a vote over the weekend. How feasible is that? Do we want a federal-level Banking Union resolution?" He foresaw problems arising when insolvency law is at national level but resolution law at EU-level.

"We have the first pillar but we do not even have a half-baked second pillar. You can forget about the third one," he said. He referred to the recent cases of **Banca Popolare di Vicenza** and **Veneto Banca** in Italy. In this instance the SRB decided that there was no need to enter into the resolution process, because there would be no significant adverse impact on the financial stability of the Member States concerned as well as for the EU as a whole—and none of these banks provided critical functions for the Member States. Such cases are subject to normal (national) insolvency procedures.

According to Lamberts, this destroyed trust in the system, as the case showed that "the rules are still game-able." Even a small regional bank can be systemic, he noted, saying that "If a village has only one bank, that bank can be argued to be systemic."

Belén Romana García, Independent non-Executive Director, Santander Group, referred back to the example of Banco Popular, which showed the hurdles resolution faces when put into practice. In June 2017, the SRB adopted a resolution decision for this failing entity. Done within the framework of the BRRD and the SRM Regulation, the act preserved financial stability and ensured the continuity of critical functions in Spain and beyond.

Ignazio Angeloni, Belén Romana García and Melinda Crane

However, the case of Banco Popular further made clear the need for a funding backstop. "This would give more time and make things easier," said Romana. "Yes, we have higher capital, liquidity buffers, etc. Things do look better than they did ten years ago. By definition, however, a backstop can't have a pre-determined amount. It must be scale-able and fast," she explained.

Liquidity was a huge issue before and after resolution, she noted: "We had to provide liquidity and capital, and we had to change management." Essentially elements of a **mergers & acquisitions, M&A**, process had to be addressed, "many of which simply do not mesh well with the resolution process."

Laboureix turned the conversation to concrete MREL targets. "In 2017 we decided to implement binding decisions for the most complex groups, around 35 groups covering largely more than two-thirds of the banking assets in the Banking Union," he explained, "we have defined an MREL target on average of 26 per cent of risk-weighted assets."

This created a shortfall, he admitted, as not all banks could meet this target at the time. "We will refine this and we will have to reassess our definition," he said. Having adequate MREL is one thing but it's not enough, he added: "We need to develop bail-in that works and this is a task for banks. They need to know how to use the bail-in tool in a crisis and the start for that is a good management information system."

Lamberts followed this up by reiterating the need for banks to contribute more. "If you really want to make the banks resolvable, make sure they have enough capital," he said. "Why do we have such complex legislation? Because we don't have the courage to do the simple thing—that is to require 10 per cent in own funds," he said. "With that kind of capital, you can have much simpler regulation and resolution."

He also questioned the consequences banks face if they fail to reach MREL targets. "One of the things eliminated from potential sanctions is a limit on the amount that can be distributed in terms of dividends and bonuses—I absolutely deplore this," he said. "The logic is that if we impose such sanctions, EU banks will become less competitive in comparison to their US counterparts," he explained, "but why is this?" Perhaps, he suggested, the initial "clean up" after

Philippe Lamberts and Elke König

the 2007/08 crisis needs to be revisited. Did the US take actions to assure profitability that the EU did not?

Crane turned the discussion to the question of **Single-Point-of-Entry versus Multiple-Point-of-Entry**. SPE strategies are adopted by the majority of banks in the Banking Union, she noted, but are there challenges to this—particularly in regards to implementation of internal loss absorption mechanisms?

Within countries, groups can be resolved relatively quickly but issues arise where a group has cross-border subsidiaries across a single point of entry, **Angeloni** responded. "In theory, it should work smoothly without internal MREL—there would be full trust that the parent company will provide," he said, "but in practice, this isn't the case. There is no trust in our Banking Union... Internal MREL can thus ensure a smooth resolution process in this respect." This means prepositioning MREL within the group in the form of additional Tier 1 instruments, issued by the subsidiaries.

Coming to the topic of waivers, he flagged a difference in opinion between the European Council and Parliament. The Council has taken the view that waivers should not be allowed and that there should be strict prepositioning of internal MREL, while the Parliament takes a more flexible approach. "At ECB, we support the proposal to grant capital and liquidity waivers within banking groups operating on a cross-border basis within the EU. If enacted prudently, such waivers should not run counter to financial stability."

Romana offered further perspectives from Santander, one of the few G-SIBs with a **MPE strategy**. How might this affect the funding of the group both in terms of liquidity and MREL? "We are organised with stand-alone retail subsidiaries that have their own capital and liquidity," she elaborated: "They need to manage autonomously. Interconnectedness among subsidiaries of banks is thus reduced. Contagion is reduced." Corralling issues is much harder with a SPE approach, she said.

Lamberts concluded by reiterating a point made by Laboureix at the session's start: MREL itself, as a concept, is evolving. It's important to recognise when out-dated definitions of MREL become impractical. Coming back to the question of the day, he said: "Can we look our voters in the eye—this is, after all, my job—and say now our banks are more resolvable? Yes. But can we say we will never see taxpayers running to the rescue of a bank in Europe again? No."

Valdis Dombrovskis, Vice-President and Commissioner for Euro and Social Dialogue, Financial Stability, Financial Services and Capital Markets Union, European Commission

The final keynote speech of the day was given by **Valdis Dombrovskis, Vice-President and Commissioner for Euro and Social Dialogue, Financial Stability, Financial Services and Capital Markets Union, European Commission**. Like many of the day's speakers, he warned against getting lazy or self-satisfied when the marathon of resolvability is only half over: "We have learned from the crisis, yes—but we can't get complacent now," he said.

Valdis Dombrovskis

Reflecting back on the weeks and months following Lehmann Brothers, he highlighted the lessons learned—and how a similar panic could be avoided today. "Crisis is always unexpected," he said. "Today, we no longer view bank failure as improbable." In 2007/08, there was a gap in available tools, he noted, an issue that the Single Resolution Mechanism seeks to address.

Dombrovskis emphasised the importance of setting aside financial means to face systemic crisis: "This is a matter for banks themselves," he ascertained. Sufficient loss-absorption buffers are needed. Although almost 25 billion in contributions to the Fund have been collected thus far, "a common backstop is also needed to make this second pillar even more credible and decrease the likelihood of banking crisis. This must be readily available and sufficiently large."

Additionally, he highlighted the need for risk reduction and risk sharing to progress in parallel, improving the capacity of the financial sector to absorb shocks. "This will also decrease the burden on tax payers," he explained. EDIS must also be advanced, he added.

Regarding trilogues with EU Member States and the European Parliament on the **2016 Banking Package**, Dombrovskis expressed optimism, saying "they are making good progress." While characterising the deadline to finalise negotiations by the end of the year as "ambitious" he said that "it's important we respect it."

All this will add up to a more stable and resilient financial sector, he concluded. However, the marathon race at hand must look beyond EU borders as well: "This sector is international by its very nature, so we need to encourage greater and closer international cooperation."

CRITICAL FUNCTIONS & IMPEDIMENTS TO RESOLUTION

In June 2018, the SRB published its policy on critical functions, defined as the services and activities provided by a bank to third parties. To kick off the discussion on critical functions and impediments to resolution, moderator **Melinda Crane** first introduced **Mark Branson, Chair of Resolution Steering Group, Financial Stability Board**—a person who, in his words, is "paid to have a memory" of past financial crises.

In response to the question of the day, "are banks now resolvable?" **Branson** replied, like König, with a "maybe." To drive home his point, he referred to a **Resolution Steering Group** report with the subtitle Keeping The Pressure Up. When it was circulated for comments, it incited some responses of "that's right for other jurisdictions, but not my jurisdiction."

So what does "keeping the pressure up" mean? There are three main points to address. Firstly, there are "housekeeping" challenges like ensuring the right legal basis is in place in all jurisdictions. Secondly, there are operational challenges, such as ensuring smooth bail-in execution (e.g. how do we ensure continuity of access to financial market infrastructure in resolution). Finally, there are other material challenges to figure out, like the distribution of loss-absorbing capacity within banking groups and funding in resolution.

Antonio Carrascosa

Sasha Mills

"Speaking as somebody who's run a few marathons, you reach a difficult point where you have accomplished a lot but the end is still not in sight," he said. "That's what 'keeping the pressure up' is all about," he concluded.

Antonio Carrascosa, Member of the Board, Single Resolution Board, focused on BRRD and one of its main objectives: Ensuring the continuity of critical functions. The assessment of critical functions helps determine whether a bank goes into resolution or liquidation, as well as which tools can be used towards the respective process. First, a bank identifies critical functions in its recovery plan; this self-assessment is reviewed by internal resolution teams, comprised of staff from the SRB and NRAs.

"Since 2016," Carrascosa explained, "the SRB has developed a common approach for the identification of critical functions in the Banking Union. A package including a template and guidance note is prepared for banks to assist their self-assessment. The methodology is based on two steps: assessment of impact on market participants of discontinuing functions and whether others can step into the role of critical function left behind, meaning impact would be less."

Sasha Mills, Executive Director of the Resolution Directorate, Bank of England, spoke on the need to consider the commercial viability that is inherent in such a broader judgement. "This needs to take into account issues like profit and revenue," she said. Critical functions are of course essential to consider, she said, "but the question is which set of powers to use—and this varies by jurisdiction."

Jaime Ponce, President, Spanish Executive Resolution Authority (FROB), referred to a quote from American boxer Mike Tyson: "Everybody has a plan until they get punched in the mouth." You can plan constantly, he noted, but you still have to solve problems on the spot. "We can work on preparedness but we can't expect to foresee every step to be taken in the future."

Jaime Ponce

He also said that according to the practical experience, "the most effective strategy to preserve critical functions is sale of business." Referring to the Banco Popular case, he noted that, barely 12 hours after the bank was declared FOLTF, "we were still able to ensure the opening of the branches without impacting clients, depositors, employees and financial stability. From a legal perspective, we fulfilled our mandate." Banco Popular, he said, emphasized the importance of liquidity in resolution. It also showed the importance of data availability. "Permanent access is needed to the right, updated and timely information in order to implement the resolution scheme, and it´s crucial also to choose the resolution strategy and to undertake the valuation" he explained.

Sanja Tomičić, Executive Director, Croatian National Bank, provided a unique national perspective. "From 31 December 2014, Croatian banks began sending their recovery plans to the Croatian National Bank and assessing critical functions by themselves," she explained. It became clear that alignment was needed between their approach and that of the supervisory and resolution authorities, but "a period of dialogue with the banking industry had already begun."

Tomičić drew comparisons to the SRB methodology: "Both are based on the same set of documents — i.e. FSB guidance and Commission-delegated regulations — and both combine qualitative and quantitative indicators." The five basic functions are addressed and subdivided into further categories in both models. Likewise, both entail two phases – impact assessment of discontinuance of function on real economy and financial markets, and substitutability assessment.

Furthermore, the Croatian National Bank (NRA) developed a tool for critical functions determination, which is a set of matrices that assess each function, she explained, according to all elements or characteristics important for that function and the weighted values of importance of that element or characteristic for impact and substitutability assessment of the function, with the weights being determined by expert judgement. All these values are added up to determine a place on the spectrum of criticality. "Subjective elements due to firm-specific or market-specific aspects can of course appear at the end," she admitted, adding that "It's not a perfect methodology — none of them are."

Christine Van Rijsseghem, Chief Risk Officer, KBC Group, addressed the transparency and clarity of the way in which SRB policies relevant for resolution planning are communicated to the banks and market participants. "This has improved immensely," she said, pointing to the increased amount of guidance available on the SRB website as an example. "Another major improvement is in the interaction between the SRB and NRAs, which makes guidance more useful," she said.

Regarding suggestions for improvement, she said: "We would welcome more sharing of the internal expert views from both the SRB and NRAs. These expert opinions allow us to know what is driving criticality. Secondly, until now we have had very little bank-specific guidance; it tends to be high level and not very clear." Finally, she added, sharing best practices within the industry would improve matters.

Looking at the bigger picture, **Ponce** noted that the overall progress made by IRTs is quite remarkable: "Let's remember we started only three years ago." Moving ahead, he expressed a need to distinguish between critical functions and impediments to resolution. Referring to critical functions "there may be an issue of consistency between IRTs and entities that needs to be addressed further," he admitted. In terms of impediments to resolution he said that there is much job to be done "for instance in establishing the difference between substantive and non-substantive impediments, and how to remove them."

Carrascosa highlighted a need to shatter the "NRAs versus SRB" misconception. "The work of resolution is done by internal resolution teams, which include members of both these bodies," he said, "so it's important to realise it's not a case of NRA on one side and SRB on the other side. The mechanism working directly with banks is a team. They apply the same methodology, standards, and approach."

He also highlighted the importance of data availability in smooth resolution, citing a need for "granular data". Asked about other hurdles beyond the obvious, he flagged cyber-security and reputational risks as topics still to be tackled.

Coming back to a theme that had been touched on throughout the day, **Mills** spoke of the need for more transparency—specifically in providing assurance that impediments to resolvability are being removed. She cited the Bank of England's own work in this regard: "Towards this end, the BoE recently launched a public consultation which foresees that, as of 2020, banks should perform self-assessments of their resolvability as a first step."

This is building on what's already in place but adding a level of transparency regarding key judgements, she explained, adding: "Further, as of 2019, the BoE has announced plans to publish summaries of major UK firms' resolution plans."

Touching briefly on Brexit, she said she did not see financial stability as being triggered any differently by the referendum. "The objective remains the same," she said: "In terms of resolution assessment framework, the same standards are being used."

Tomičić addressed the possibility that if Croatia joins the Banking Union — how might their assessment system change? She noted that communication with internal resolution team coordinators as well as the NRAs had been very good thus far. Coming from a country with

90 percent of the banking system assets already in the hands of subsidiaries owned by parent banks from either euro area countries or EU countries outside the Banking Union, where all the subsidiaries are recognized as materially important for banking groups, she went on to say that Croatian NRA had already been highly involved in the process of resolution planning with the SRB and that she expected this involvement to grow even further. "Some of the strategies that have been discussed during the day in the context of the Banking Union extend beyond the boundaries of the Banking Union", she said, so "the most important element is to choose the correct resolution strategy. For instance, if the chosen resolution strategy is the SPE strategy, provided that internal MREL is adequate, technically, not much will change, but the ownership of the process will change to the SRB."

Coming back to the topic of ring-fencing previously addressed in the day, **Van Rijsseghem** explained what parent firms can do to support subsidiaries and ameliorate the perceived need of ring-fencing. "In 2008, host countries had to absorb losses of international banks, so the fear is understandable," she acknowledged, "but we cannot have each country pursuing its own incentives."

She identified two workable solutions: Firstly, sufficient adequate prepositioned capital and secondly, a topping-up/maintenance rule—so that if capital is going down in a particular country, the parent/home company must top it up. In this way, ring-fencing could be curtailed and the collaboration needed to reach the marathon's finish line might one day be reached.

CLOSING REMARKS

Boštjan Jazbec, Member of the Board, Single Resolution Board

Boštjan Jazbec

The day's events closed with words from **Boštjan Jazbec,** who was announced as a Member of the Board and Director of Resolution Planning and Decisions on 19 March 2018. Amidst the many topics discussed during the day, he saw one common denominator: An attitude of "let's overcome operational issues more effectively, if not efficiently, in order to make resolvability doable."

The SRB was given a clear mandate to ensure financial stability following the financial crisis, he went on. "People may see us as the pallbearers but in fact most of our work is focused on prevention—the aim is to avoid resolution and make sure the funeral never needs to happen," he said. When resolution does need to happen, the goal is to cause the least amount of damage possible.

The tools already established make banks more accountable for their decisions, which enhances stability—also for investors. "While there may be those who wish to see bad practices continue, the SRB remains among those committed to change," he stated.

Funding in resolution is a missing part of the overall resolution framework, he admitted, and will continue to be a point of focus moving forward. "MREL build-up has to continue. Banks and their investors should not rail against this. After all, it's about protecting them and their investments," he said.

"To answer the question posed by today's conference—are banks now resolvable?—the answer seems to be, as König and Branson said, 'maybe.' In any case, I think we can be proud of the distance travelled so far," he concluded.

With that, the SRB's 2018 Conference, one of the many pit stops needed in the marathon towards resolvability, came to an end.

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