Single Resolution Board

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# Speech: SRM Boardroom Dialogue (EBF), Brussels

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## Introduction

- Thanks to EBF and Wim for organising the SRM Boardroom Dialogue, together with my colleagues. Hopefully, it is the beginning of a series of numerous other such events!
- Today's discussion focuses on THE most important topic – **Achieving bank resolvability** – and the day concentrates on MREL requirements and resolution plans.
- Both topics strengthen the SRB's capabilities to ensure the orderly failure of banks and they are inter-related:
  - Resolution plans include a resolvability assessment and MREL is a function of this resolvability assessment.
  - However, "Resolvability" is far more than just setting MREL targets. At the same time, it needs to be recognised that without MREL, "resolvability" can hardly be achieved.
- Therefore, I am looking forward to some lively discussions today. The panel compositions are well balanced and we certainly have all the expertise in the room:
  - Dominique and Mauro have both served with me on the Board since its inception in 2015. Since then, we have been working together on the SRB's first resolution plans, our first MREL targets and the SRB`s first resolution decision and non-decisions.
  - And also Jose Maria and others present today are "FSB veterans" with long-lasting experience in resolution.

- In my keynote today, I would like to discuss why our work on resolvability is so critical, speak about our expectations vis-à-vis banks and finally touch upon a few policy topics that will impact on how we can deal with failing banks in the future.

## Why so important

- During the financial crisis, all countries lacked the authorities and tools to deal with bank failures. Resolution regimes did not exists; instead, public bail-outs and disorderly failures took place. The episode also revealed that insolvency is not viable option to preserve critical functions.
- In the EU, legislators agreed to 'break the vicious circle between banks and sovereigns' and established a Banking Union that would allow for centralised supervision and resolution for banks in the euro area.
- Within the Banking Union, the SRB is the central resolution authority and represents one of the pillars of the BU, next to the Single Supervision Mechanism, led by the ECB.
- The two BU pillars interact and complement each other. At a very high-level, the division of roles can be described as follows: While the SSM is responsible for minimising the probability of a crisis ex-ante, the SRB is mandated to limit the damage to the public should a failure be inevitable in spite of increased prudential measures.
- I firmly believe that today we have better tools available to ensure an orderly resolution should a bank fall in trouble. And I am also convinced that as a consequence market

expectations that banks will receive public support, if they get into financial difficulty have decreased.

- I arrive at this conclusion, because we put to practice the new crisis management framework several times successfully over the last year.
- Here, I am referring to BPE – our only resolution case so far – but I also allude to our deliberate decisions NOT to resolve certain banks, but to opt for an un-winding under national insolvency. The framework is sound/robust [BUT of course nothing is so good that it cannot be improved].

## Achievements and what we expect looking ahead

- In previous speeches I covered in detail the SRB's progress (and our 2017 Annual Report is soon to be published).
- In my remarks today, I want to focus on some key SRB achievements and spell out what is expected from banks going forward

*****Achievements resolvability*****

- 2017 was a busy year for the SRB. We continued to embed ourselves as a reference resolution authority in Europe and globally and dedicated a major share of our efforts on "Resolvability".
- In close cooperation with NRAs, we have drafted and refined more than 100 resolution plans during the previous cycle.

- This means, today we have a precise idea and the capabilities to act for the majority of banking groups in the BU, if need be.
- The development of the SRB's 2017 MREL policy - which is a core tool to ensure resolvability - marked another important milestone. The approach, which is published on our website aims to provide clarity to the market and other relevant stakeholders.
- The application of the MREL policy is reflected in the determination of bank-specific MREL targets.
- In 2017, for the first time binding MREL targets at consolidated level were set for the majority of the largest banking groups within the SRB's remit, while informative targets were communicated to most of the other banking groups.

***** What are the expectations? *****

- This year, we aim to achieve binding MREL targets at consolidated level for all relevant banking groups, but we will kick off work on MREL targets at material entity level as well.
- The SRB is doing its utmost to be transparent and predictable about its decisions by engaging constant dialogues with the banks under its remit.
- To the representative of SRB banks present today: Bank Letters have recently been submitted to your institutions, setting out individual working priorities, including first conclusions concerning the assessment of resolvability

aspects. These obviously differ, but as Mauro will later explain they prominently relate to:

  - entities' legal structures and their complexity,
  - arrangements to cater for funding or liquidity in resolution
  - capabilities to timely generate information
  - aspects of operational continuity

- Please read the text of the Letters carefully and proactively work towards enhancing resolvability. In a first step, the SRB will monitor progress. In times of favourable economic conditions, banks should rather anticipate than wait for SRB determinations, this concerns in particular MREL.

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**Policy topics**

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- Regardless of how well we work together within the SRM, including the cooperation with banks, we also depend on some external factors.
- As mentioned in the beginning, I would like to use the last minutes to address some policy issues, which determine the SRB's ability to act in the medium-term.

- Regarding the current ongoing political negotiations on the risk reduction package, particularly implementation of the international TLAC standard EU law, we welcome the recent efforts to reach an agreement and encourage a quick progress in the trilogue negotiations. In the current discussions, legislators seem to share our view that minimum subordination requirements should be mandatory not only for G-SIBs, but also for other systemically relevant banks to avoid cliff effects.

- It is important that the legislative review does not limit the discretion of resolution authorities to tailor MREL targets on a bank-specific basis to the individual riskiness and resolution strategy.
- And let us all hope that the new rules will not be overly complex.
- Once the new provisions have been finalised, they will feed into the SRB’s resolution planning process.

- Another topic of enormous relevance for all resolution authorities is funding, i.e. liquidity in resolution. We therefore continue to work on this important issue in several areas also in 2018. As a first line of defence, the banks themselves must prepare for potential liquidity outflows and ensure adequate funding paths and in a case of crisis, all private solutions will be investigated first.
- But clearly, there needs to be a last resort arrangement to provide liquidity until market confidence returns. Here, the SRB can play a role, but the SRF, including the Common Backstop will not be best suited and be too small to bridge liquidity needs of a large bank or a series of failing banks.

- [I consider the SRB as "Risk Manager of Last Resort and not "Lender of Last Resort". While we can "foam the runway" and prepare for an emergency plane landing, we still need a number of fire trucks on the runway for support. Let's be realistic, there is a role for national central banks or even the ECB in this scenario]

- Lastly, a word on EDIS: work to find agreement on EDIS is another key reform and it has been ongoing for some time now. It seems that we are running a marathon rather than a sprint. Regardless, it is important that we finish the run. The Banking Union has been built on the assumption that it will stand on three pillars and it is vital we complete it.

## Conclusion

- To conclude let me recall that we have made significant progress since the outbreak of the financial crisis when it comes to the handling of bank failures.
- The EU supervisory and resolution framework has been substantially strengthened and efforts will continue to make the banking system more resilient going forward.
- This will be a mutual effort. While the SRB is gaining experience and expertise, our resolution plans are maturing and growing in substance.
- At the same time, it needs to be ensured that major banks can support their own resolvability. Here we rely on the

willingness and capacities of banks themselves and we will proactively engage in dialogues with banks to communicate areas of work.

- Across all banks, already today rooms for improvements in some specific areas can be observed which relate to: MREL quantity and quality; ad-hoc data provisioning in times of crisis; challenges from complex legal structures, also bearing in mind the potential effects of BREXIT and financial continuity in the wider sense.
- Having said that, I wish you all an insightful day and interesting panel discussions!