



11 January 2017

SRB Press breakfast

9h30 – 11h00 (-1 Athens Room)

Elke König

CHECK AGAINST DELIVERY

Ladies and Gentlemen,

Thank you for joining us today and a very warm welcome to the Single Resolution Board - warmer than last year actually, for those of you who were here.

As the New Year has just begun, I would like to talk about what we have achieved in 2016 and what we are going to focus on in 2017.

So first, let me take you back a little bit...

[I. 2016 Achievements]

We have truly come a long way. In 2016, the SRB has focused its work on four main operational areas: ensuring resolution readiness, setting up and managing the Single Resolution Fund – which our Vice Chair will tell you more about - , fostering and broadening cooperation with our European and international counterparts and growing our staff capacity which, by the way, grew from 97 staff members in January to 171 in December 2016 – with more to come in the weeks ahead.

[Resolution readiness]

As of the first of January 2016, as you are aware of, the SRB has gained its full resolution powers. This also meant that the full set of rules under the Bank Recovery and Resolution Directive (BRRD) became effective, giving resolution authorities a solid toolkit. But it also means that – like in any other business – shareholders and creditors will bear the burden if a bank falls into trouble.

By the end of 2016, we developed around 70 Resolution Plans and around 30 so-called Transitional Resolution Plans (TRPs – which include a less detailed analysis) for banks, meaning that these plans were prepared, both internally and in resolution colleges, and are now in the final process of being approved. This was a huge step forward, but this is by far not yet “mission accomplished”.

If you want to have a better view of what resolution planning really means, you should have a closer look at the “Introduction to resolution planning” which we published in September. It describes the information required for us to be able to carry out our mission and the structure and content of a resolution plan.

Let me remind you that our work is forward-looking: thanks to our planning we can actually help making banks more easily and safely resolvable compared to the past. When we were set up, many expected that our main work would be in resolution, but that is far from reality. We don't just simply sit and wait for a bank to fail and then resolve it, we actually do much more and

most of our work is preventive. The SRB's work is intended to end bail-outs, incentivising private sector creditors to find a solution without use of public funds. Banks not only need to be resolvable – but they also need to have sufficient loss absorbing capacity. This will reduce volatility in the sector and promote trust and financial stability. And just to repeat it: the resolution framework favours a private solution at all times. I tend to believe that the credible threat of bail-in has already proven to work as an incentive to find private solutions for weak banks.

In 2016, we made progress on enhancing resolvability by identifying initial barriers to resolution and by starting to provide guidance on ways to remove them, as well as guidance on the Minimum Required Eligible Liabilities - MREL.

On MREL specifically: in 2016, we focused on developing the key features of MREL for parent level entities, i.e. banking groups.

In fact, one of our Board Members keeps saying that setting MREL is a journey or a process, not a product – and he is entirely right. It indeed holds true for resolution planning in general. Sufficient loss-absorbing capacity - that is all MREL is meant to be - is central to changing the answer to the “who pays?” question from taxpayers to shareholders and creditors.

I am sure MREL is a topic about which you will have lots of questions in a few minutes.

In terms of managing actual failures, we further developed a first version of our internal Crisis Management Framework which aims to set out a common understanding of how resolution processes should be operationalised within the Euro area.

One of the hardest challenges in ending “too big to fail” is actually dealing with the failure of systemically important banks that operate in a number of jurisdictions. To this end, we have also carried out crisis simulation exercises - both internally and

with other jurisdictions - in order to improve resolution preparedness. This gave us valuable input for further work.

[Fostering cooperation]

We all want to make sure we remove resolution obstacles, and this can only be achieved in close cooperation with our partners in the Euro area, but also beyond.

In particular, we have further developed our cooperation with the ECB/SSM building on the bilateral MoU agreed at the end of 2015 as well as with national resolution authorities both within the EU (with an MoU just signed with the Swedish authority) and in third countries.

Of course, we engage with the banks under our remit not just through bilateral meetings but also through organising industry dialogues where we focus on certain areas of interest: MREL is of course a recurring topic but also the Single Resolution Fund,

etc. These ongoing dialogues will continue in 2017 and these presentations are always published on our website.

You will also remember our first SRB Conference which took place in April last year. This is now the occasion to announce that we will organise our second Conference in October (3rd) this year. You will receive a Save the Date in due course.

[Italy]

Yet, 2016 finished with the spotlights on one Member State part of the Euro area. I don't want to focus on this for too long but I know you will ask – so, I will address the topic directly.

In 2016, no bank under our remit had to be resolved, although we had several Less Significant Institutions in the Eurozone going through insolvency proceedings – without any impact on financial stability.

The European Commission has recently authorised the prolongation of the Italian bank guarantee scheme, which covers liquidity support measures in favour of solvent credit institutions in Italy for use in case of need. Such schemes are currently in place in several Member States. These liquidity measures aim at securing the liquidity position of banks in case of need.

They are separate from any public interventions that aim to ensure that banks have sufficient capital.

The BRRD and SRMR make up for a fully-fledged rulebook for Bank resolution - taking into account the lessons of the last financial crisis. One of the measures to be used in specific cases by Member States - under the control of the European Commission - is "precautionary recapitalisation". The Italian government has announced that they want to further strengthen its banking sector in compliance with EU law. And of course this is welcome. The details are yet to be announced. The SRB in its resolution capacity closely follows all relevant developments.

But back to SRB topics, leaving 2016 behind us and looking ahead ...

[II. 2017 & looking ahead]

A lot has been achieved in the Single Resolution Mechanism's first full year, and the SRB's focus on addressing "too big to fail" will remain unchanged for 2017. Sound resolution planning and resolution readiness, as well as an efficient management of the Single Resolution Fund, are key priorities. All these activities feed into being prepared for any resolution action to come - at any point in time for any bank under our responsibility.

Like last year, the SRB will focus in 2017 on four main operational areas: Resolution readiness by sound resolution planning and further developing our policies, the Single Resolution Fund, Cooperation with the European and international counterparts and building up our internal resources.

We have to make progress on developing bank specific preferred resolution strategies, the preferred tools, the identification of the critical functions and the identification of the substantive impediments to resolvability. That is to say, we need to operationalise the identified strategy and way forward for the banks under our remit.

For 2017, the objective will be to cover almost all banks under the remit of the SRB, either by making further progress in operationalising resolution plans, step by step, for major banking groups or through TRPs for the remaining banks.

Resolution planning also means setting MREL. This is central to the SRB's role as resolution authority in the Banking Union. MREL is the SRB's key tool to achieving resolvability of banks. We have to make sure that there are the right incentives for banks to be resolvable. Only by setting an adequate MREL can we ensure that banks will have sufficient loss-absorbing capacity at the point of resolution to enable resolution authorities to effectively

protect critical economic functions without use of taxpayers' money.

There is no "one size fits all". MREL is a bank by bank decision and the SRB follows the methodology spelled out in the Delegated Act adopted by the EC in May 2016.

Let me stress the importance of the resolution authority being able to apply sufficient discretion and judgement when determining MREL. Any constraints compared to existing European law must be avoided.

MREL of not less than 8% of total liabilities - but on a case by case basis possibly well above – will generally be required for the largest banks in the Banking Union. Please keep in mind that in case of a resolution the Single Resolution Fund requires a minimum burden sharing and none of us wants to be in a position to realise when entering into a resolution that there is simply not enough bail-inable liability left.

I trust that you have all seen the presentation on our website that outlines our current MREL policy and also some results based on a sample of banks. The main take-away is clearly that as of today, the Euro area banks show a significant - though in principle manageable - shortfall. The "8%" considered as a benchmark would only be a real issue for very few banks.

The SRB will continue to refine its policies on consolidated MREL targets in 2017 and will start developing MREL at entity level within banking groups in the SRB's remit. At the same time we will also start to address the quality and location of MREL within banking groups.

We are analysing the European Commission's proposal on the implementation of the Total Loss-Absorbing Capacity (TLAC) international standard into EU legislation. Until that proposal is finalised and passed into law, the current legislative framework stands and we will implement the key features of TLAC in our coming binding MREL targets for G-SIBs and beyond. And let me reiterate that this is feasible.

We are aware of the challenges related to meeting the MREL targets in certain markets and for certain banks and we will take them into account. Setting MREL and implementing TLAC in the EU must lead to a stronger, more credible resolution regime; it is not the time to weaken the current MREL framework. But at the same time it has always to be kept in mind that MREL is linked to the resolution strategy. It is more than a mere mathematical exercise.

In order to promote a level playing field for resolution plans across the banking union, the SRB will also conduct horizontal benchmarking exercises.

Resolution readiness and the Single Resolution Fund operations require a strong resolution framework for the SRB to be an effective authority. In 2017, the SRB will therefore continue to foster cooperation with its main partners, i.e. the National

Resolution Authorities, the EU institutions and non-EU countries' authorities, as well as the relevant international bodies and fora.

The oversight function of the SRB over Less Significant Institutions – which entails a prior assessment by the SRB of draft resolution decisions of NRAs on LSIs aiming at ensuring consistency of resolution actions within the SRM - will gradually be developed.

The regulatory framework is still developing and the SRB will – just like in the past - contribute to all policy and legislative initiatives that can potentially impact on its activities. More concretely, the SRB will: (i) contribute to the revision of the Bank Recovery and Resolution Directive (BRRD) and SRMR, (ii) contribute to the transposition of total loss-absorbing capacity (TLAC) into EU legislation, (iii) provide input in the European Deposit Insurance Scheme (EDIS) discussion and (iv) contribute to the development of a resolution framework for financial market infrastructures (FMIs) – just to mention the most important topics.

Of course, to achieve our priorities and to ensure the smooth running of its operations, the SRB will continue to grow and develop its resources in 2017.

[III. Conclusion]

Since the crisis a vast amount of work has gone into ensuring that major cross-border banks are no longer too big to fail. And a lot has been achieved.

Our core business so far has been – and will remain – developing and updating resolution plans for the banks under our remit and we will follow the procedures foreseen in the BRRD and in international commitments.

Once again, planning for, and removing obstacles to resolution is the best safeguard and the most effective way to make sure that we know very well in advance what to do when resolving a failing bank – or can even avoid resolution as private solutions become easier feasible.

With an organisation such as the Single Resolution Board, we have a realistic chance to make bail outs a thing of the past. Through effective planning of resolution work, we can make sure that we strengthen the Banking Union and contribute to financial stability. Our job is also to make sure that the costs of the resolution must be imposed on shareholders and unsecured creditors of the failed bank and not on public funds and taxpayers.

A lot is being said about Financial Stability when we talk about bank failure. Let me be absolutely clear – not all bank failures are threats to financial stability. On the contrary, regulatory and technical developments since the 2008 crisis mean that today fewer banks than ever before pose a risk to financial stability in their failure. The BRRD framework was created specifically to make sure that banks can be resolved safely and without adverse impact on financial stability and we'd be doing the European taxpayer and also future generations of Europeans a huge disservice if we refused to use these tools.

I will now hand over to the SRB's Vice-Chair, Timo Löyttyniemi, who will go into further detail on the Single Resolution Fund, which I am sure you are eager to hear about.

* * *