BANK RESOLUTION: delivering for financial stability

Conference Report

Single Resolution Board

Annual Conference 2021

14 OCTOBER BRUSSELS

#SRBRESOLUTION2021

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Executive summary

On 14 October 2021, the **Single Resolution Board (SRB)** held its sixth annual conference: **Banking Resolution: Delivering for Financial Stability**. The hybrid event was live-streamed, and viewers had the opportunity to submit questions using the Twitter hashtag #SRBresolution2021 and other digital tools.

The day's discussions were split into three panels, focusing on the evolution of the resolution framework, the home-host balance, and — an inevitable topic — the impact of the Covid-19 pandemic on the banking sector. **Overwhelmingly, speakers agreed that the banking sector had proven resilient throughout the crisis**.

The pandemic was also seen as spurring progress in some areas, for instance in digitisation, and in ultimately improving collaboration and communication between banks, policy-makers, and regulators, both at EU and Member State level. That said, **rapid advancement can also bring new hurdles**. The increasing prevalence of cyber threats in the face of digitisation was one example cited.

Looking at the big picture, all agreed that there is still much work to be done beyond the immediate response to the COVID-19 crisis. Points of discussion included the European Deposit Insurance Scheme (EDIS), European Stability Mechanism (ESM) backstop, and Capital Markets Union (CMU). A general need for greater harmonisation in insolvency regimes was likewise flagged as an ongoing issue still in need of improvement.

The day's discussions further flagged risks ahead. **The economic fallout of Covid-19 is ultimately expected to be asymmetrical, with some Member States recovering better than others are**. In the face of such disparity, a harmonised Banking Union, with all three pillars firmly in place, is more important than ever. A cohesive EU approach will be the key to success both in responding to the aftershocks of the pandemic and building a strong, resilient, and globally competitive European banking sector long-term.

Welcome

Elke König

CHAIR, SINGLE RESOLUTION BOARD

Elke König, Chair, Single Resolution Board, opened the day's events by comparing the current situation favourably to the previous year's uncertainty: "This year, I am speaking to you in a much more positive context, both in terms of the public health situation and the economic outlook. **We can look to the future with cautious optimism, buoyed by progress in vaccinations and recent economic and earnings forecasts**."

Elke König

König highlighted three other reasons for a positive outlook. First, the **banks under the SRB's remit have delivered good progress towards resolvability**, particularly in building up loss-absorbing capacity. The SRB has likewise delivered in the past year, notably on resolution planning for banks, setting clear expectations and monitoring progress on resolvability. Finally, she noted, **the financial stability framework has delivered during the Covid-19 crisis**.

König tempered this optimism with a word of caution: "I would not like to give the impression that our work here is done. Far from it." Looking to her own organisation, she highlighted key points of focus for the SRB in 2022, notably **liquidity and funding in resolution, separability and reorganisation plans, and information systems and data capabilities**. "Our resolvability heat-map will help gauge and assess performance in these, and other, areas," she explained.

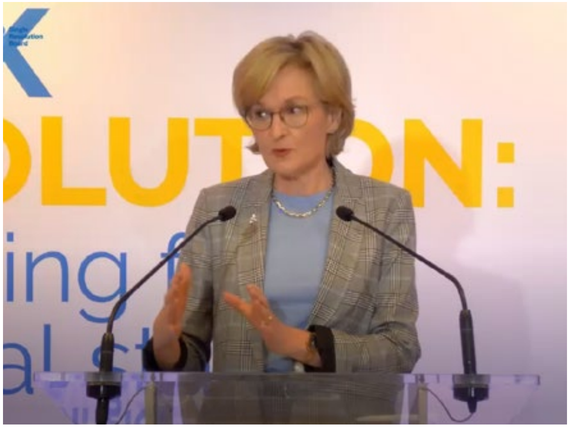
Taking a long-term view, **there is also still work to be done on the Banking Union (BU)**: "Our framework contributed to helping the EU cope with a huge health crisis, and to avoiding it becoming a broader financial crisis. But we are not bringing the full benefits of the Banking Union to European citizens or to the banking sector while it is not yet complete."

Looking ahead, **König welcomed the Commission and the Eurogroup's shared focus on carrying out the reforms needed for more efficient, fair, and effective solutions for bank failures**. "There is much to do over the coming years, particularly as we get ever closer to the milestone of full resolvability for all banks by 2023," she stated, before concluding with a succinct call to action: "**Let us continue to deliver for financial stability**."

Opening Keynote

Mairead McGuinness

EUROPEAN COMMISSIONER FOR FINANCIAL SERVICES, FINANCIAL STABILITY AND CAPITAL MARKETS UNION



Mairead McGuinness

Mairead McGuinness, European Commissioner for Financial Services, Financial Stability and Capital Markets Union, began her opening keynote with a strong call to complete the banking union: "If we don't complete the BU, we can't live up to the promise of stability in the future." The first two pillars work are in place. However, this is not enough.

The Covid-19 pandemic was and still is an exceptional crisis, McGuinness noted. While massive support to those most affected by the crisis indirectly supported banks' asset quality in this instance, McGuinness cautioned that "We can't assume that this level of public support would be available in a more typical financial crisis." For this, she asserted, there is need to complete the BU and advance the **Capital Markets Union (CMU)**.

McGuinness also called for a build up the European Deposit Insurance Scheme (EDIS): "We are convinced that a more ambitious EDIS setup involving loss mutualisation is needed in the steady state of the Banking Union. This can make national schemes less vulnerable. It also ensures banks can keep financing businesses and supporting economic growth while protecting EU taxpayers." The Commission is, she noted, discussing the **possibility of a hybrid model — national schemes plus a single central fund** — that will be designed to evolve over time.

McGuinness also noted the need for a more robust mechanism to provide sufficient liquidity in resolution and safeguard against large shocks. On top of that, **there are external considerations that come with a quickly evolving world**. McGuinness highlighted a few: Digitalisation is creating structural change; fintech companies are entering the market; cyber threats are increasing; environmental factors are coming into play; and, of course, there are unknowns, like Covid-19.

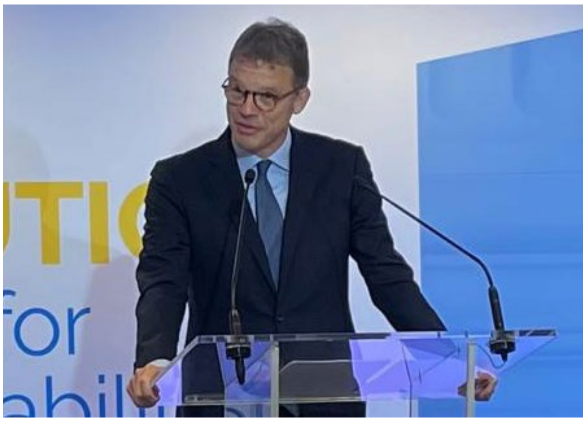
Frustration is a common sentiment when talking about the work on the completion of the Banking Union, McGuinness admitted. However, the cost of a partial BU is too great to allow frustration to stand in the way of progress. The Commissioner concluded by noting that while she sees frustration among the parties involved in efforts to complete the BU, she also sees **something that's cause for hope: doggedness and determination to get the job done**.

Opening Keynote

Christian Sewing

CEO, DEUTSCHE BANK

Christian Sewing, CEO, Deutsche Bank, presented the perspective of the banks with his opening keynote. "As we look at post-pandemic recovery, banks clearly want to remain part of the solution for Europe, its economy, and, most importantly, the societies banks operate in," he said. Towards this end, **banks must refocus their business models and strengthen their balance sheets while bolstering systems and infrastructure**.



Christian Sewing

Further, the competitiveness of European banks as a whole needs to be re-examined. **Currently European banks don't operate in a competitive market**, Sewing asserted. Policy must change for this to improve. "This impacts our resilience and the strength of the overall market," Sewing said, adding, "A truly single market for financial services in Europe is still needed."

Sewing went on to highlight four issues where ongoing regulatory and supervisory support would have a material impact on building a more competitive and stable banking sector. First, there is the **Final Basel III implementation**. According to EBA estimates, the Basel package would up capital requirements to 19%, which will impact lending, Sewing warned.

Second, there is the **Single Resolution Fund, SRF**. "Currently, the SRF impedes EU banks' abilities to finance the transformation of our economies and to invest in their own future digital strategies," Sewing stated. "By now the SRF has gathered funds of more than €50 billion. **These funds now sit idle and don't support economic recovery. We think it's time for adjustments**." For example, the remaining contributions in 2022 and 2023 could go to a direct lending fund, he proposed.

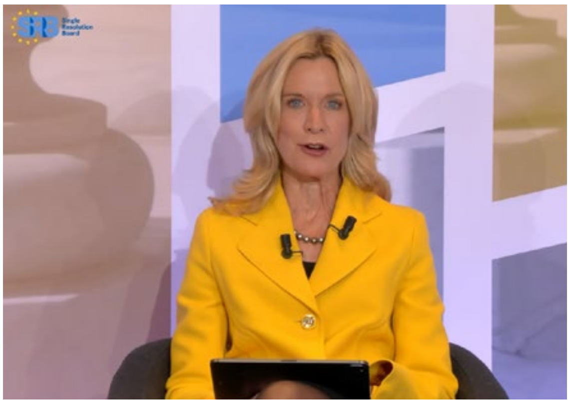
Sewing then came to the point of **UK central counterparties (CCPs)**. Without an extension of equivalence, clearing will remain in the UK, and European banks will lose market share, leading to less financial stability. Finally, Sewing affirmed the **importance of completing the BU and further stressed the significance of a stronger CMU**.

If such points aren't addressed, Sewing expressed doubt that Europe will have any globally competitive banks a few years from now. He concluded with a strong call to action to increase the EU banking sector's competitiveness: **"In a time of growing geopolitical tension, it would be a strategic mistake to put ourselves in a position where we heavily rely on non-European banks."**

Session I

The resolution framework – evolution, not revolution

Melinda Crane, Chief Political Correspondent, Deutsche Welle TV, was the day's moderator and introduced the first panel discussion on the state of the resolution framework. **Harald Waiglein, Director General for Economic Policy, Financial Markets and Customs, Ministry of Finance, Austria**, began the conversation, addressing the potential merits of a common liquidation regime for small and medium-sized banks and how this could be integrated in the **ongoing review of the Crisis Management and Deposit Insurance (CMDI)**.



Melinda Crane

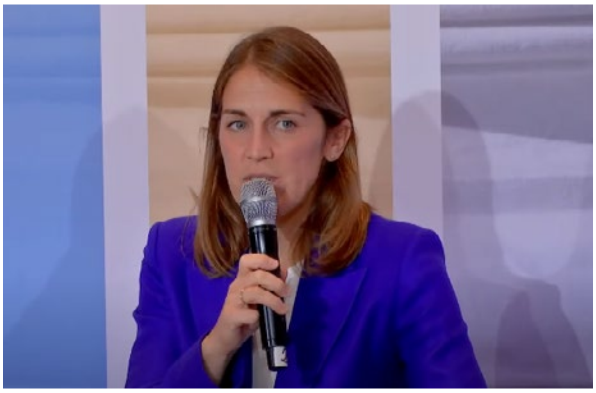
Waiglein stressed the economic advantages, noting that, based on U.S. experience, normal insolvency procedures drawn up with corporations in mind don't work well with banks. **"Banks' liabilities are much more volatile than those of corporations. That's why in the U.S. there are two systems, one for banks and one for corporations,"** he explained, encouraging adoption of this model in both Austria and Europe at large.

Harald Waiglein

Providing insights into the Austrian market, he noted that the country's *Sparkassen* banks operate primarily at local level and don't see the EU as relevant for them, sparking hesitation about EDIS: "**They are driven by a fear that they'd have to contribute to a fund used to bail out — for example — banks in Italy**. It's a very political debate, which makes it that much harder to resolve. We have to give those stakeholders confidence that a European system is trustworthy and won't be used for disguised bailouts of problem banks in other countries."

Paula Conthe, Chair, FROB, Spain, picked up the conversation, providing the national resolution authority's point of view. As **the first national resolution authority, NRA, to implement an SRB bank resolution decision under the current framework (of Banco Popular in June 2017)** she shared lessons learned throughout the process and its aftermath. What learnings could feed into the revision of the current framework in the context of the Commission's current CMDI review?

Conthe began by underlining the success of the framework designed in 2014: **"The Popular resolution put the new framework to test and achieved the objectives of protecting financial stability, protecting covered depositors and avoiding the use of taxpayer's money."** However, this case also highlighted elements that should be considered in the CMDI review, she noted,



Paula Conthe

notably the lack of options for liquidity in resolution and the virtues of the "sale of business strategy." For Popular, she explained, the sale of the entity was the best, perhaps the only, option. In addition to the necessary preparatory work on the entities in the planning phase, notably on separability, she suggested that the current review of the crisis management framework should also take this into account and introduce the necessary legal changes to facilitate the implementation of the sale of business and make it more probable to find a buyer (e.g. through the access to funds to offer asset protection schemes and guarantees). This could be achieved for instance by expanding the role of DGS in a resolution scenario.

Picking up on the topic of the CMDI review, **John Berrigan, Director-General, Financial Stability, Financial Services and Capital Markets Union, European Commission**, provided insights regarding the public consultation of the CMDI review, which came to an end on 20 April 2021. Numerous contributions were made, and Berrigan elaborated a few key points. He summarised the response thusly: "**There was general support for the basic objectives of the framework. But there was a concern that the framework isn't usable enough**... We need to use the tools more effectively and more consistently across the framework."

Elaborating further, Berrigan noted that there is a perception that the framework has been used restrictively in the past. In particular, there was tension around the funding question. While some called for a rigorous application of the legislation, others wanted access to funding made more flexible and proportionate across the full range of banks. The feedback also stressed **a need for consistency between the resolution framework and insolvency frameworks at national level**, as well as the use of insolvency frameworks across Member States.

John Berrigan

"Another sentiment that came across very clearly is that insolvency should lead to market exits," Berrigan added. Regarding **deposit guarantee schemes, DGS**, he noted concern around the protection of covered deposits if the hierarchy of claims was to be changed. Berrigan noted that this seemed to be based on a misconception, asserting, "You can change the hierarchy of creditors without affecting the protection of creditors themselves."

Finally, he noted that there was a lot of support for EDIS: "The strongest support was for a fully-fledged EDIS, although there was recognition that hybrid could be a first step." Further, regarding **failing or likely to fail (FOLTF)**, Berrigan identified calls for greater intervention earlier on; a general support for precautionary recapitalisation; and, finally, support for the use of DGS in a more preventive way.

Christian Sewing

Christian Sewing, CEO, Deutsche Bank, responded with the banks' point of view on what concrete steps are most needed to improve the crisis management framework. While acknowledging the importance of the framework in making banks more resilient, Sewing countered this with the need to ensure bank's profitability. "We need a solid planning basis and no more dramatic changes. **At the end of the day, a bank's resilience is not only made up by its capital ratio or liquidity ratio. It's made up of its sustainable profitability.** This line of thought needs to be put into the agenda going forward."

In this respect, he flagged the **SRF as a burden for European banks**, which dramatically changes their planning going forward: "Why can't we think about more flexible and alternative solutions, like setting up a fund to finance the mid-cap corporates? The money sitting in this tower is needed to fund the European economy."

Jan Reinder De Carpentier, Vice-Chair, SRB, whose remit includes the SRF, addressed the banks' concerns. While noting that the SRB is open to discussion, he emphasised the importance of building up funds in peace time that may be needed in a time of crisis: "A strong SRF is of great importance to handle future crisis situations."

Regarding the CMDI review, **De Carpentier stressed the lack of progress on EDIS as a central concern**: "We must be ambitious and make a plan because we need to build this house now and wait not for the next storm to make progress." He further spoke on the potential for expanded DGS capabilities and the need for further harmonisation to level the uneven playing field currently created by different national insolvency regimes.

Jan Reinder De Carpentier

Waiglein spoke on the **Austrian Council Presidency's 2018 attempt to unlock the political discussions on EDIS by introducing a hybrid model to the debate**. While acknowledging that a hybrid model could be a solution, Waiglein highlighted the importance of looking to models that have been proven in practice — such as the Federal Deposit Insurance Corporation (FDIC) in the U.S.: "While there are limits due to legal system differences, there are elements that can work. **There is no reason we need two funds at the European level, an SRF AND EDIS**. The FDIC as we know has only one fund." He added that to make the system abuse-proof, a strict least-cost test, similar to the FDIC's, would be needed.

Picking up the discussion of EDIS, **Conthe** offered her view on what is needed to bolster trust and achieve this missing piece: "There's a lack of alignment. Authorities deciding whether an entity goes into resolution or not are the ones who are later facing the cost of insolvency. We are putting that cost on national funds and even taxpayers. **The best way to correct that misalignment is to have a harmonised approach to all banks. This could be done by expanding the Public Interest Assessment (PIA) tests or via a common liquidation regime** that is harmonised and follows the same standards throughout Europe."

De Carpentier concluded by assessing the strength of the SRF. Is it big enough? "It's sizeable and credible. But I also know there are scenarios where it seems that in case of a need for big liquidity support, additional funds may be needed." He concluded that a solution for liquidity in resolution still needs to be found.

The panel concluded with a globalised view. Asked what ideas from other jurisdictions he would like to see rolled out on a wider scale, **Sewing noted the utility of a single point of entry (SPE)** when it comes to a resolution strategy. "It's key for a global bank like DB that we have cross-border regulatory cooperation on resolution. Further, if we don't ensure a level playing field of implementing deposit schemes, it makes resolution harder, more complicated, and more expensive."

Berrigan concluded the panel by reiterating the need for a holistic approach: "If we have a discussion on CMDI, which is going to be complex as it covers many issues, it needs to be in the context of progress as a whole. **We need a work plan for the BU within which to situate the work we're doing on crisis management. Otherwise, there's a risk that we will start something we can't expect to finish in a reasonable timeframe**."

Keynote Speech

Paschal Donohoe

MINISTER FOR FINANCE, IRELAND & EUROGROUP PRESIDENT

Paschal Donohoe, Minister for Finance, Ireland & Eurogroup President, began his keynote speech by reflecting on the banking sector's performance during the pandemic: "The response demonstrated the unity of purpose we've built in the Euro area… **Our banking system has proven to be a resilient source of strength, not of vulnerability**." Nonetheless, Donohoe urged caution, pointing to a lengthy economic recovery ahead: "There is no time for complacency. We need to continue our efforts to build a stronger and more competitive banking system, that provides capital and liquidity that fuels the economy."

Paschal Donohoe

Donohoe pointed to a number of achievements, such as the plans to proceed with the **European Stability Mechanism, ESM, backstop**, which is set to be introduced in January of 2022. This common backstop to the SRF is one of many financial safety nets that can help support a confident recovery, he noted, doubling the firepower of the SRF and assuring greater financial stability.

Donohoe also highlighted other accomplishments of the past year, such as the stringent monitoring for NPLs in the system, continual build-up of **MREL-related capacity (Minimum Requirement for own funds and Eligible Liabilities)**, and advancement of crisis management initiatives. However, Donohoe emphasised the need to keep an eye out for new and emerging risks on the road to recovery.

Looking ahead, Donohoe outlined some **key needs, including a common deposit insurance fund, better handling of sovereign exposure, and improved cross-border integration**. "We need our banks to be competitive on a global scale," he asserted, adding, "We need to ensure consistent treatment across the BU to level the playing field."

Donohoe further spoke on the need for greater liquidity in resolution and touched on the upcoming implementation of Basel III, stating that the finalisation measures will improve banks' abilities to absorb shock. Ultimately, Donohoe concluded that although the response to the COVID-19 pandemic was effective, **"Resilience can't be taken for granted."** To fully embrace our economic recovery from Covid, we need to ensure a financial sector that is fit for purpose and prepared for the future.

Session II

Achieving a home-host balance

Due to technical issues, the Single Resolution Board hosted the online debate “Home-host issues in the banking sector” as a follow-up event to the 2021 SRB Conference Session II (see Page 18).

Session III

The impact of the Covid-19 crisis on the banking sector

The third panel of the day addressed the impact of Covid-19 on the banking sector. **Christian Stiefmüller, Senior Research and Advocacy Adviser, Finance Watch**, started the discussion with his assessment of the banks' response to the pandemic. Overall, Stiefmüller commended the swift financial response at both EU and Member State level, which provided rapid and substantial support for the economy, and acknowledged the role of the banks in safeguarding stability throughout the pandemic.

Christian Stiefmüller

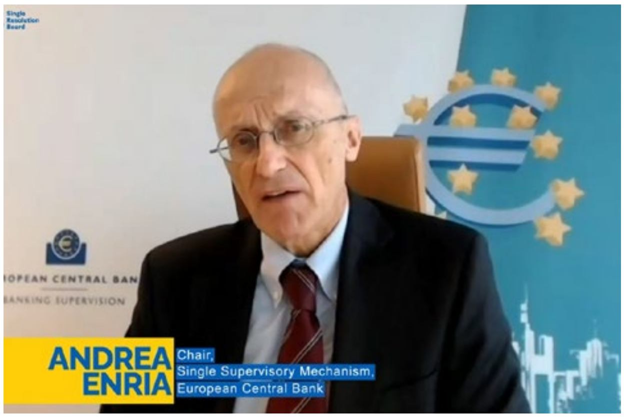
However, he noted the dangers of a disparity between Member States in economic recovery going forward. "By the end of the year, at the earliest, **we will have empirical evidence as to how the pandemic aftermath will affect households and small businesses**... In particular, we need to ensure that customers aren't disproportionally affected by portfolio sales and the likes if asset quality were to deteriorate. Banks should be willing and able to manage their loan portfolios responsibly throughout the cycle". He concluded that, for the banking sector to truly become part of the solution, it must have adequate internal loss-absorption capacity and internal safety nets must be fully funded.

Boštjan Jazbec, Board Member, Single Resolution Board, spoke on the SRB's response to the pandemic, emphasising the initial focus on operational relief for banks. "**We realised that banks were ready to be a part of the solution, not the problem**," he noted. Operational relief was thus offered, e.g., by shifting deadlines for data. "We gained confidence and saw that we were able to fully control and manage the process required by the legal framework," Jazbec said.

The **SRB also had to consider measures introduced by sister institutions, such as the European Central Bank, ECB**, reducing SSM capital requirements. "This affected things like how we approached MREL requirements, setting intermediary MREL requirements for January 2022 and the final for January 2024," he said. Jazbec concluded that the pandemic ultimately helped to improve communication and connectivity.

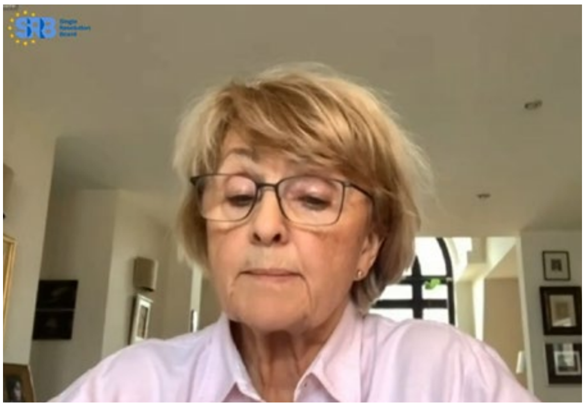
Boštjan Jazbec

There was a clear consensus among the day's speakers that banks had been part of the solution, not the problem, in this economic downturn. But has public trust in the resilience of banks been restored as a result? **Andrea Enria, Chair, Single Supervisory Mechanism, European Central Bank**, agreed that banks have played a positive role in this crisis: **"Banks have acted as a shock absorber, not a shock amplifier**." However, Enria made it clear that now is not the time to stop.



Andrea Enria

He pointed specifically to the need to **implement the final Basel package: "This isn't raising the bar; it's ensuring a fair distribution of capital across banks, ensuring more consistency**." He concluded on a cautious note, flagging potential risks ahead: "The extraordinary level of support has supported the economy. However, it also allowed market participants, including banks, to keep supporting higher levels of leverage, financial complexity and opaqueness in search for higher yields. We need to be alert to these types of risks going forward if we want to retain trust in the banking sector."



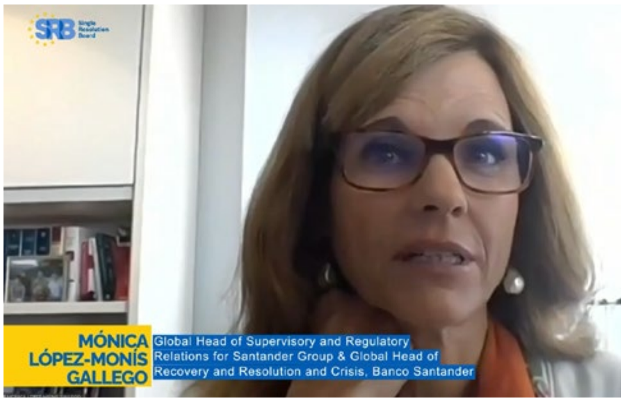
Danuta Hübner

Danuta Hübner, MEP, European Parliament, served as rapporteur for the EP's Banking Union Annual Report, in which she commended the banking sector's resilient response to the Covid-19 induced crisis. She pointed to the two completed pillars of the BU (the **Single Supervisory Mechanism (SSM)** and **Single Resolution Mechanism (SRM)**) as being largely responsible for setting banks up for this resilience. However, she likewise agreed that there is still work to be done: "We are only halfway through the reforms and it's too early to declare victory."

The EU banking sector isn't yet perfect in terms of the regulatory environment in which it operates, Hübner noted. Further, **we are not in a stable environment, and new risks, such as inflation expectations, are rising in the future**. She flagged the need for EDIS to cover greater liquidity and for better solutions in how sovereign debt is treated. Further, she pointed to a lack of a willingness to compromise among Member States as an ongoing issue.

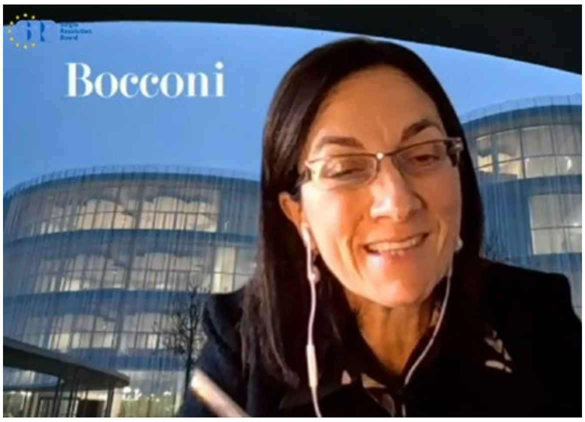
Mónica López-Monís Gallego, Global Head of Supervisory and Regulatory Relations for Santander Group & Global Head of Recovery and Resolution and Crisis, Banco Santander, provided the banks' perspective on lessons learned from the pandemic. — notably the critical role played by the crisis management framework. "**Our crisis management framework comprehensively envisages the full spectrum of stages of stress, from BAU (business as usual) all the way to recovery and resolution**," she said. "Thanks to these frameworks, the competent governing bodies adapted in an adequate and timely fashion."

She further stressed how geographic diversification, along with continuous communication with subsidiaries, enabled resilience in the pandemic's early days. All of this contributed to the bank's ability to support consumers: "**By the end of 2020, our measures had supported more than six million customers in all our geographies**, including moratorium loan payments directed at more than four million customers amounting to more than 100 billion euros… Today, 92% of the total moratoriums has already expired, implying a payment performance in line with expectations."



Mónica López-Monís Gallego

Elena Carletti, Professor of Finance, Bocconi University, picked up on the issue of rising non-performing loans (NPLs) because of the pandemic and discussed how banks might proactively tackle this issue. She noted that the NPLs thus far are much lower than anticipated. However, that doesn't mean that there aren't challenges ahead. For example, most of the debt in question is maturing in 2024, she noted. It's important to remain vigilant. Towards this end, **Carletti** laid out some actions banks can take to prepare.



Elena Carletti

First, they should accumulate sufficient provisions and, given the current positive macro-economic scenario, keep those provisions instead of releasing them prematurely. Second, **banks should change their credit assessment methodology to take a more forward-looking analysis**. "It's clear that they can't rely on existing models of the past as much," she noted. Finally, and most importantly, Carletti stressed the need for banks to pay sufficient attention to early detection and a need to manage troublesome assets early. "**The Covid crisis will result in asymmetric shocks**," Carletti warned, something monetary policies alone can't address. It's important that there are complementary fiscal policies.

Continuing the discussion of NPLs, **Enria noted that banks project a continuous reduction in the NPL ratio in 2021 and 2022**. "There is a perception that this cliff effect is an issue of the past. However, we can't yet rule out problems when support measures are withdrawn," he explained, suggesting specific issues are more likely than a generalised cliff effect. For instance, there are some sectors, like food and accommodation that may not return in full force. Looking ahead, Enria also noted **novel challenges, such as the rising risk of cybersecurity threats — up 54% in the past year alone — that accompanies digitalisation**.

Stiefmüller followed up on Covid's role in accelerating digitalisation. What risks might this pose for consumers? He pointed to an emerging line of thought that "data is the new oil," a common mantra in the era of digitalisation, and flagged this view as hugely problematic in terms of data protection: "**European citizens' personal data are not commodities**," he cautioned, noting the need to prioritise security over profitability.

Jazbec spoke on the SRB's experience in digital acceleration. **The SRB's Covid response unveiled logistical hurdles in terms of cooperation with banks**: "We face more mundane risks in respect to data and digitalisation. For me personally I would be very happy if we could set up management systems in the banks that gives us the data when we need it. This is something we need to work on, taking into account cyber risks."

Returning the discussion to the incomplete BU, **Hübner questioned whether Covid-19 might accelerate progress in EDIS**. "The issue here is that moving forward always depends on willingness to compromise and we don't see much of that," she stated. She noted that **even a hybrid EDIS could solve many issues** and expressed hope that the incentives of decision-making power at EU level can be aligned at national level.

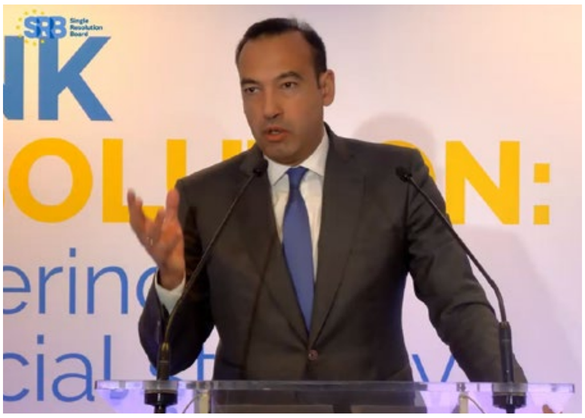
The panel concluded with a discussion of what measures can be taken to improve profitability while safeguarding resilience. **López-Monís** pointed to the ability of banking consolidation to improve profitability: "**The lack of integrated financial market in Europe undermines scale of economies and access to M&A that would enable efficiency gains and competitiveness**. A fully integrated EU financial system is needed."

Carletti reflected on what recommendation she, as an academic, would give to policy-makers based on the learnings of the pandemic. First, she highlighted **the need for flexibility, which proved paramount in minimising economic stress during the pandemic**. Second, she noted the need for coordination between fiscal and monetary policies and financial regulation. Finally, she stressed the need for clarity in terms of modalities and timing when it comes to exit strategies.

Closing Remarks

Pedro Machado

BOARD MEMBER, SINGLE RESOLUTION BOARD



Pedro Machado

Pedro Machado, Board Member, Single Resolution Board, concluded the day's events on a forward-looking note. He cited Johann Wolfgang von Goethe: **"The greatest thing in this world is not so much where we stand as in what direction we are moving."** The message was clear: Progress has been made but more is needed. This is especially true given the unpredictable and unknown nature of the Covid-19 pandemic itself, he noted.

Regarding how to best move forward, Machado raised three key points. First, he called for a focus on implementation: **"Resolution is not only about planning, resolution is also about implementing… Our plans must be able to be executed, at short notice and in the heat of a bank failing."** Banks must deliver on the expectations communicated, while the SRB — together with the NRAs — has to make sure that the plans are implementable (e.g., through deep-dive exercises, operational documentation, and dry runs).

Next, Machado noted the importance of the **SPE resolution strategy**, which seeks to address the home-host issue in the BU. **"We should be mindful that, when we are implementing resolution under an SPE model, we should not discriminate among subsidiaries, no matter where they are located,"** he said. "We should treat resolution from a group perspective and target the exercise of the resolution powers at parent level." Guaranteeing the sound implementation of SPE might be the best way to unlock excessive prepositioning of resources at subsidiary level, and thus live up to the foundation of a true BU.

Finally, Machado spoke on the joint regulatory efforts still to be made to deliver on the completion of the European banking regulation according to international financial standards. **The Basel III post-crisis reforms will further strengthen our framework**, he noted. "Whilst we have to recognise that the Covid-19 pandemic created the need for exceptional measures, these reforms remain critically important for addressing shortcomings in the existing framework."

Machado concluded: **"It is time to move in a direction that will help us to deliver together on our shared goal, to achieve full resolvability of banks, promote financial stability, and protect the taxpayer."** With this clear call-to-action, the sixth annual SRB Conference came to an end, leaving participants with many key insights on what is needed to definitively deliver for financial stability.

SRB Debates

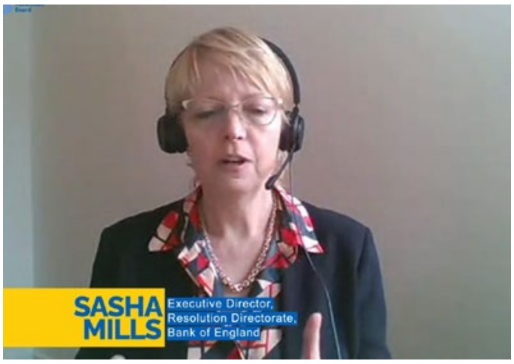
Home-host issues in the banking sector

On November 23, 2021, the Single Resolution Board hosted the online debate "Home-host issues in the banking sector" as a supplementary panel to the 2021 SRB conference. The event was live-streamed and audience members could pose questions online via the Twitter hashtag #SRBdebates2021 and other digital tools. **Melinda Crane, Chief Political Correspondent, Deutsche Welle TV**, moderated the session.

Elke König, Chair, SRB, began by noting that the inherent lack of unity regarding home-host continues to be an issue in the Banking Union (BU). She pointed to a lack of trust as an ongoing hurdle — trust in resolution strategies, trust in the SRB, and trust in the ability to enact a genuine single-point of entry (SPE) strategy. König also touched on concern regarding ring-fencing, asking: "How can we move towards a unified Euro-wide approach towards resolution of cross-border banks?" This was a key question of the discussion.

Elke König

Sasha Mills, Executive Director, Resolution Directorate, Bank of England, began by providing insights based on the Brexit experience. "SPE resolution strategies across the bank mean that home-host authorities are dependent on one another, regardless of whether the banks are structured as branches or subsidiaries… That dependence means cooperation and coordination are needed to maintain trust," she noted.



Sasha Mills

How can that trust be more firmly established? "We need to set the incentives up that promote the right behaviours by authorities and banks, regardless of where they're located in the world," Mills stated. She said that the best way to manage cross-border risks for a globally active bank is via internationally agreed standards and close cooperation. "We need to be able to have confidence in banks' resolvability and in the comparability of host regimes. Trust is needed to supervise and carry out resolution," she concluded.

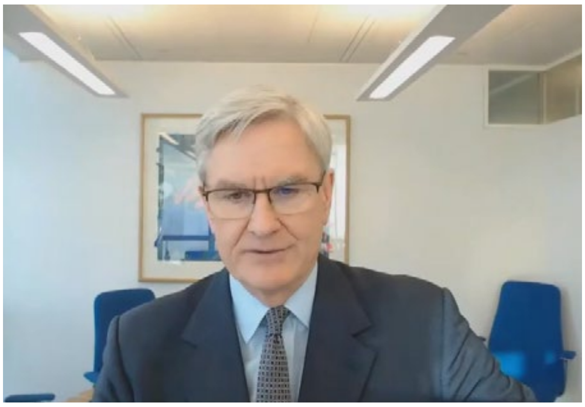
Tobias Tröger, Director for the Cluster of Law & Finance, Leibniz Institute for Financial Research (SAFE), picked up on the thread by discussing a recent SAFE analysis regarding the differences in banking supervision structures. He explained that risk rates were seen to increase under European Central Bank, (ECB) supervision and stay flat under national supervision. "Macroeconomic scenarios and stress tests are likewise key parameters indicating a tougher or more lenient supervisory stance," Tröger went on. "The UK assumes a deeper dip but also a faster recovery from shocks," he noted.

Tobias Tröger

The SAFE analysis also looked at the Federal Reserve's 2021 stress test, which aligned closely with the UK approach. Compared to the EU, "The UK authorities may take a somewhat different and arguably less demanding approach. But they aren't partaking in any kind of competition that might be described as a race to the bottom." Tröger concluded by reiterating the importance of trust: "We need mutual trust in supervisory approaches, information sharing, and resolution planning. Resolution colleges will be key towards this end."

David Livingstone, CEO EMEA, Citi, provided the view of a multinational Global Systemically Important Bank (G-SIB). Asked how Citigroup can provide assurance to subsidiaries that they won't be left alone or see their resources depleted in a crisis, he stressed a practical approach taking into account three key points. First, the prepositioning of resources: "In the host country and within our framework, we need to preposition resources that are ready to be deployed in the need that losses need to be transferred."

Second, there is the need for preparation at parent and local level: "In addition to the business-as-usual liquidity requirements, operational risk measures are in place so that prepositional resources are identified (and stress tested)." Finally, he highlighted the need for preparation in terms of decision-making and governance in resolution. On this point, he said, improvements have been drastic over the past decade.



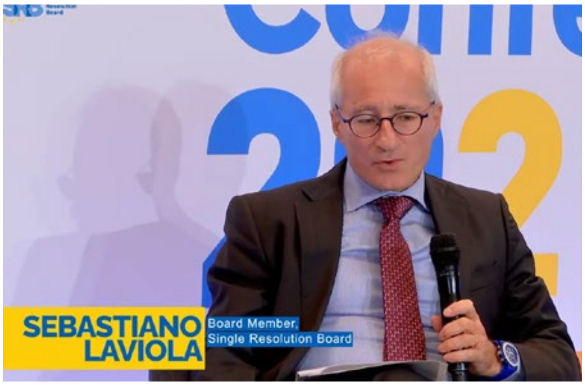
David Livingstone

Sebastiano Laviola, Board Member, SRB, turned the conversation to the topic of total loss-absorbing capacity (TLAC). All eight G-SIBs headquartered in the BU are already comfortably fulfilling the requirements to hold a TLAC amount of 18% of risk-weighted assets or 6.75% of leverage exposure. Does this mean that the G-SIBs are fully resolvable, and hosts' concern are fully alleviated?

According to **Laviola**, “The situation today in terms of high-level available TLAC reached by the BU provides some comfort towards ensuring losses are not assumed by taxpayers, financial stability is safeguarded, and economic function upheld. However, this is not the last step… When we speak of full resolvability of G-SIBs, loss-absorbing capacity is a very important and a crucial pillar — but it’s not the only one.” What is needed beyond financial resources? Examples cited by **Laviola** included the capability of information systems and credible arrangements for operational continuity.

Discussing what is needed to make an SPE strategy work in practice, **Livingstone** reiterated the importance of prepositioning and preparation — and, just as important, trust: “There also needs to be confidence that prepositioning resources are there and available to be used. How the G-SIBs have approached this is to put in place legally binding arrangements between the host and parent entities.” In a resolution event, funding lines need to be clear, understood, practiced, and as frictionless as possible.

Speaking further on existing challenges, **Tröger** highlighted the complexities surrounding public interest assessments. “The problem with the current framework is that resolution is currently for the few, not the many. The public interest assessment is done by the SRB in the way that it only catches a very few institutions,” he explained. “It’s important to convey to the markets that the SRB will take on resolution cases regardless of the significance of the institution if there are cross-border cases,” he concluded. Both public interest assessments and the regulatory intervention/crisis management frameworks need tweaking.



Sebastiano Laviola

Asked what modifications could improve the current crisis management framework, **Laviola** cautioned against jumping to make legislative changes on the public interest assessment (PIA). He believes that, within certain harmonised boundaries, some discretion has to be left to resolution authorities in the conduct of the PIA, because each crisis is different. As concerns the innovations of the banking package in the home-host field, he underlined that it widened the scope for internal MREL requirements and introduced safeguards to assure host member states regarding the existence of sufficient resources to be absorbed at the parent level — and the downstreaming of capital and upstreaming of loss. However, a lack of trust or confidence remains: “Before resorting to changes in the legislation, I’d see what’s possible to do in terms of improved understanding,” he stated.

The discussion next turned to crisis management groups (CMGs). Asked about her experience in overcoming disparities in CMG approaches, **Mills** stressed the importance of preparation: “We only have one shot at getting it right. That makes the preparations that we do locally and globally very important. And we need to assure ourselves of what’s in place at firms.” The CMGs play an important part in the ability to act collaboratively in crisis, she noted. She also stressed the need to understand one another’s regimes, for instance via specialist deep dives — e.g., when it comes to valuations, can the entity valuate their books efficiently? “It’s about lifting the lid and looking down into an organisation,” she concluded.

Livingstone then provided the G-SIB experience with CMGs. He likewise stressed the need for greater alignment, noting that the field isn't static but constantly evolving — and the SRB's work is thus dynamic. "The CMG has a critical role not only in oversight of individual banks but also in keeping up-to-date regarding progress of different resolution entity supervisors."

The conversation then shifted to the prepositioning of MREL. Asked how much trust she thinks host authorities should have in the availability of "unallocated" TLAC resources, **Mills** confirmed that both home and host want to have more MREL in their jurisdiction that they feel like they can control. "But if they *trust* that those resources can and *will* flow if needed, that's key," she said, noting that these "resources need to be observable, tested, predictable, and mobile."

Tröger summarised many of the challenges in the home-host debate by noting the fact the BU remains less unified than the term itself might indicate: "The idea of the BU is romanticised. The reality is more brutal. If you think about the BU as an institutional arrangement to overcome fragmentation in banking markets, it didn't really work that well. All the national preferences thus resurface in a resolution weekend. The home/host description signifies significant divergences in incentives. Normatively, we should be somewhere else."

Laviola underlined that the SRB has a firm commitment to fully operationalising the SPE approach, which is the most common one adopted by banks under the SRB's remit. He emphasised that this should be according to the most suitable legal base and be compatible with national procedures, including the possibility to put intragroup contractual arrangements in place.

Discussions like the ones held during the November 23 panel are one step towards achieving this shift. Tackling the tough topics — and preparing for them not only theoretically but also practically — is critical. As **Laviola** concluded, boosting preparedness in times of peace enhances readiness in times of crisis.

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