

SINGLE RESOLUTION BOARD

Conference 2019 THURSDAY, 10 OCTOBER 2019 / Brussels



Bank Resolution Turning Policy into Action

Conference Report

 #SRBresolution2019

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Single
Resolution Board

08:15 – 09:00	REGISTRATION AND WELCOME COFFEE
09:00 – 09:15	WELCOME Speaker: Elke König, Chair, Single Resolution Board
09:15 – 09:45	OPENING ADDRESS Speaker: Margrethe VESTAGER, Commissioner for Competition, European Commission Speaker: Jean Pierre MUSTIER, CEO, UniCredit
09:45 – 10:55	SESSION I: Banking Industry: Progress In Resolution <i>Moderator: Melinda Crane</i> <ul style="list-style-type: none">• Panellist 1: Boštjan JAZBEC, Member of the Board, Single Resolution Board• Panellist 2: Diony LEBOT, Deputy CEO, Société Générale• Panellist 3: Jean Pierre MUSTIER, CEO, UniCredit• Panellist 4: Stefan SIMON, Senior Group Director, Deutsche Bank• Panellist 5: Guntram WOLFF, Director, Bruegel Q&A with audience
10:55 – 11:15	Coffee Break
11:15 – 11:30	KEYNOTE SPEECH Speaker: Sasha MILLS, Executive Director, Bank of England
11:30 – 12:40	SESSION II: Liquidity In Resolution: A More Robust Framework <i>Moderator: Melinda Crane</i> <ul style="list-style-type: none">• Panellist 1: John BERRIGAN, Deputy Director-General, DG Financial Stability, Financial Services and Capital Markets Union• Panellist 2: Sharon DONNERY, Deputy Governor, Central Bank of Ireland• Panellist 3: Dominique LABOUREIX, Member of the Board, Single Resolution Board• Panellist 4: Sasha MILLS, Executive Director, Bank of England• Panellist 5: Fernando RESTOY, Chairman, Financial Stability Institute Q&A with audience

12:40 – 14:00	Networking Lunch
14:00 – 14:15	KEYNOTE SPEECH Speaker: Dietrich DOMANSKI, Secretary-General, Financial Stability Board
14:15 – 15:25	SESSION III: Operational Continuity: A Debate <i>Moderator: Melinda Crane</i> <ul style="list-style-type: none"> • Panellist 1: José Manuel CAMPA Chairperson, European Banking Authority • Panellist 2: Antonio CARRASCOSA, Member of the Board, Single Resolution Board • Panellist 3: Arthur J. MURTON, Deputy to the Chairman for Policy, Federal Deposit Insurance Corporation • Panellist 4: Casper VON KOSKULL, CEO, Nordea Q&A with audience
15:25 – 15:40	CLOSING REMARKS Speaker: Sebastiano LAVIOLA, Member of the Board, Single Resolution Board
15:40 – 16:30	Press Q&A with the SRB Chair



SINGLE RESOLUTION BOARD ANNUAL CONFERENCE 2019

Bank Resolution Turning Policy into Action

EXECUTIVE SUMMARY

On 10 October 2019, the **Single Resolution Board (SRB)** held its fourth annual conference. In contrast to previous years' events, which focused on policy development and definition of resolvability mechanisms, this year's discussions tackled topics related to the actual implementation of such policy. Aptly titled "**Bank Resolution: Turning Policy into Action**", the conference explored rising challenges to practical resolvability.

Pertinent issues identified included completing **the Banking Union (BU)**; the lack of a functioning **Capital Markets Union (CMU)**; the need for a more robust framework around **liquidity in resolution**; and newfound **information technology (IT) issues** that impede the efficiency of resolution and operational continuity. In comparing the EU to other jurisdictions, the **lack of a European market** was flagged repeatedly as cause for concern: With investors still viewing banks on national terms — i.e. "German" versus "Italian" instead of "European" — the EU is not an appealing market to investors.

Conference participants overall agreed that the task of "turning policy into action" is one that can only be achieved through a strong team effort. While it is for firms to make themselves resolvable, resolution authorities need to be clear on what this means. An overall need for **greater clarity** and, with it, **increased transparency** was identified.

All of these points underlie the central tenet of successful resolution: **trust**. After a resolution weekend, a solvent bank is the expected outcome. For resolution to succeed in practice without destabilising broader financial systems or economies, the markets need to be confident that this outcome has been achieved by the time they reopen after a resolution weekend. By identifying hurdles that remain in terms of establishing this trust, the 2019 SRB conference pushed ahead in its goal to ensure that resolution plans are truly actionable.

Elke König, Chair, Single Resolution Board



Elke König

Elke König, Chair, Single Resolution Board, welcomed conference participants by emphasising the forward-looking mission of the day: turning policy into action. “The aim is that resolvability would not only become a part of day-to-day business but a part of a bank’s DNA,” she said. She acknowledged that continued teamwork is essential if this is to be achieved. The SRB and the **National Resolution Authorities (NRAs)** remain essential players. “Implementing policies means being clear on what we want the banks to do,” she said.

She provided a brief overview of the SRB’s work towards this end in 2019, including:

- ▶ The publication of the second part of the SRB 2018 **MREL (Minimum Requirement for own funds and Eligible Liabilities)** policy;
- ▶ Publication of a **framework for valuation**. With the European Banking Authority (EBA) finalising its requirements for valuation, this will encourage harmonisation across European banks;
- ▶ Publication of a **Public Interest Assessment (PIA)** outlining how the SRB determines when resolution is in the public interest;
- ▶ Publication of the [public consultation Expectations for Banks](#)¹, which defines expectations to ensure an appropriate level of resolvability.

She further noted that an updated MREL policy is to be released in early 2020. In terms of what needs to be worked on in future, König touched on four points. First, there is still the need for a backstop in the **Single Resolution Fund, SRF**. Second, there is the lingering issue of liquidity in resolution. Third, she raised the point of harmonising insolvency regimes. Finally, she flagged the need for a functioning CMU. With these needs clearly defined, the conference set an ambitious “to do” list of what should be accomplished now if resolvability is to be successful in future.

¹ Published on 23 October 2019

Margrethe Vestager, Commissioner for Competition, European Commission

In her remarks, **Margrethe Vestager, Commissioner for Competition, European Commission**, focused on the concept of trust: “It is no coincidence that the word for credit comes from the Latin word *credere*, which means trust,” she noted. That trust was shaken in 2008. “In the first place, it’s for banks to restore this trust,” she said. “Rules themselves don’t restore trust; it depends on how they are enforced. It’s in the action and the responsibility that you take.”

That doesn’t mean that firms are left without support: From the SRB to the European Commission, “we share a mission in desiring a stable and competitive banking system.” Towards this end, a number of issues need to be dealt with. Europe must address its bad loans, for instance. Vestager also flagged bank governance as an issue. Additionally, “banks haven’t finished building adequate levels of own funds to address a positive resolution.” Finally, efforts are needed towards completing the BU.



Margrethe Vestager

The Commission’s mandate is to balance the public interest with possible distortions to competition. On the same day as the SRB conference, Vestager noted, the Commission approved a market-conform asset protection scheme for banks in Greece. With the protection scheme, named **Hercules**, Greece will be remunerated in accordance with market conditions for the risk it assumes when it grants a guarantee on securitised non-performing loans. According to Vestager, this shows how Member States can help banks clean up their balance sheets.

Vestager pointed to the aptly named Hercules scheme, noting that those in the room could take inspiration from the Greek hero. After all, it took him not only supernatural strength but also determination and patience to complete his 12 tasks — over a period of 12 years. In turning resolution policy into action, “We need to tap into these characteristics,” she said, adding with optimism: “Unlike Hercules, we do not work alone but as a team.”

Jean Pierre Mustier, CEO, UniCredit



Jean Pierre Mustier

Jean Pierre Mustier, CEO, UniCredit, opened his remarks with a call for clarity. While having new regulations in place is well and good, the persons and institutions responsible for implementing them can only do so if they fully comprehend them. He pointed to **MREL** and **TLAC (Total Loss-Absorbing Capacity)** as examples, saying that investors need better understanding of these new regulations. “We must do more jointly to enhance understanding,” he said.

In addition to the importance of improved communication, improvements are needed on the operational side. In the case of UniCredit, Mustier pointed to the bank’s efforts to simplify governance as well as data sets. This is useful not only in terms of

resolution but also for streamlining the bank’s own efficiency. “We need to turn a regulatory requirement into an opportunity to better manage the bank,” he said.

He flagged improved IT management systems and more streamlined data sets as of especial importance at this point in the mission of achieving resolution preparedness. “Data sets must have the granularity needed to allow for efficient decision-making,” he said. “Granular data will further help in identifying critical functions and defining the allocation of responsibilities and commitments.”

Taking a step back and looking at European resolution from a big picture perspective, Mustier flagged fragmentation as a point of contention. UniCredit, he noted, is a pan-European bank, making the free flow of liquidity and capital important. Towards this end, cooperation is needed within the EU. Internal MREL could result in further fragmentation, Mustier stated, whereas a more level playing field is needed. Compared to other jurisdictions, the EU is at a disadvantage.

“We need to make sure European banks are attractive for investors and think about investors who bring capital to European banks,” he said. Fragmentation is a roadblock. In his view, the priority is not the **European Deposit Insurance Scheme (EDIS)** but a way to overcome fragmentation and assure “a truly European banking sector.”

BANKING INDUSTRY: PROGRESS IN RESOLUTION

Melinda Crane, Chief Political Correspondent, Deutsche Welle TV, was the moderator of the day and opened the first session with a request for a status report: “What has been accomplished and what are the chief priorities going forward?” In response, **Boštjan Jazbec, Member of the Board, Single Resolution Board**, encouraged those present to avoid a “glass half full vs. half empty” attitude and to instead focus on the overall progress made: “Thanks to joint effort with the NRAs, the SRB has drafted resolution plans covering all banking groups under our remit. Today the SRB has a precise idea of how to deal with a failing bank... This is significant progress compared to pre-crisis times.” He also noted that the first MREL targets at consolidated and individual levels have been set and, in part, met.



Melinda Crane

Paraphrasing John Donne’s remark that “no man is an island”, Jazbec emphasised that no bank is working alone: “Achieving resolvability is a joint effort with banks, which play the most active part in the process.” Towards this end, he highlighted the SRB’s upcoming publication **Expectations for Banks**, which will define general expectations vis-à-vis banks to ensure resolvability.

While acknowledging such progress, **Jean Pierre Mustier, CEO, UniCredit**, reiterated his call to contextualise the situation globally. “U.S. regulation is more favourable than European regulation,” he said. “If you look at what’s happening in the U.S. in terms of resolution, only the **G-SIBs (globally systemically important banks)** are in compliance with TLAC. In Europe, all banks will be subject to regulatory requirements with MREL (and the level will be higher).” This would be fine if European banks were seen as safer by investors but this isn’t the case, he added.



Boštjan Jazbec

He also highlighted discrepancies in requirements for European banks and subsidiaries of U.S. banks operating in Europe. U.S. banks in Europe are subject to regulation of a 75% requirement coming from a third-party entity while European subsidiaries are subject to higher requirements. “There is fragmentation and we need to make sure MREL doesn’t create greater fragmentation,” he said.



Stefan Simon

Stefan Simon, Senior Group Director, Deutsche Bank AG, followed on Mustier's previous comments that steps taken to improve a bank's business operations can align with resolution principles. On July 7, 2019, **Deutsche Bank, DB**, outlined plans for a significant transformation and restructuring. "While the overall trigger for our adjusted strategy is the question of profitability, in terms of adjusting the business model there is overlap with questions that are asked in resolution planning," he noted. "Looking at the capital structure, liquidity structure, and MREL and TLAC, Deutsche Bank is in a strong position," he added.

The DB plan centres on three main pillars. First, there is the question of which businesses the bank is in versus which businesses it is pulling out of (i.e. equities). Second, there is the question of operations; Simon flagged plans to reduce the DB workforce. Finally, the July 7 announcement highlighted the creation of a new **Capital Release Unit (CRU)** "to manage the efficient wind-down of assets related to business activities that are being exited or reduced."

Shifting from the industry standpoint, the conversation continued with insights from **Guntram Wolff, Director, Bruegel**. Earlier in 2019, Bruegel published an article about the difficulty of assessing resolution credibility when transparency is lacking. Wolff started by noting that there has been a fundamental shift in the system in terms of dealing with banks that are **failing or likely to fail (FOLTF)**. Unlike in the past, "now it's about minimising cost to taxpayer." Experience in this regard is limited, however, he noted, pointing out that the SRB has only stepped in once².

Wolff spoke on a lack of transparency in terms of resolution plans: "Investors into bank bonds and equity need to have an understanding of the risks they are taking... The resolution plans are not public and the basics of these plans are not clear to investors." Additionally, there is a lack of cohesion in terms of national regimes. "If a bank is not deemed to be in the public interest, you move to the insolvency regimes. And we've seen different interpretations of how those national insolvency regimes are applied." This results in uneven protection for investors across countries.

The harmonisation of insolvency regimes requires more attention in future, agreed **Jazbec**. Asked about the SRB's upcoming priorities, he touched on a number of points. "A key task in the coming years will be achieving resolvability by addressing impediments to resolution," he said. In 2020, the SRB will prioritise work in three areas: bail-in execution, access to FMI, and operational continuity. Completing the BU with the third pillar, EDIS, also remains a concern. Finally, he flagged the importance of liquidity in resolution.

Asked to describe a perspective from the private sector regarding progress made towards resolvability thus far — and hurdles seen ahead — **Mustier** noted that UniCredit has undergone a transformation in terms of both management and resolvability. Costs have been reduced by €1.7 billion while capital in the amount of €20 billion has been raised. In terms of resolution, UniCredit aims to remain at the upper part of the **Common Equity Tier 1 (CET1)** buffer, as this influences the positive perception of investors.

² Referring to the 2017 resolution of **Banco Popular Español S.A.**, which was deemed "too big to fail." The SRB and the Spanish National Resolution Authority, **FROB**, decided that a sale was in the public interest as it protected depositors of Banco Popular and ensured financial stability.

With the aim of staying ahead of TLAC requirements, UniCredit turned to the U.S. market to secure a private placement of \$3 billion in November of 2018. “Looking at the European market, the liquidity was not there — pure and simple,” Mustier said. This speaks to market liquidity issues that will undoubtedly affect other banks, especially smaller firms, in future: “The largest bank in Europe can easily raise TLAC-eligible securities but even smaller banks will need to be able to do this and we have to see if the European market will be able to absorb that.” There are both capacity and availability issues, he noted: “A buffer is needed because you have to take into account that capital markets can close.”



Jean Pierre Mustier

Simon echoed Mustier’s sentiments and went on to highlight another hurdle in terms of TLAC/MREL — the technical challenges. “What is the amount of loss that needs to be absorbed in a bail-in case? You need to be sure that in a short amount of time you can come up with a solid valuation of losses that need to be absorbed by TLAC capacities,” he stated, adding that this is a point DB continues to work on. Accurate but efficient valuations are essential: When listing new shares in a case of bail-in, “you want to be sure that these can be listed quickly.”

This also raises technical issues. “IT is a major driver in terms of when, how, what, and how fast you can transfer a business or portfolio,” he said. In terms of resolution, “you need to think through how difficult or easy it will be to cut off specific pieces of the infrastructure and transfer it to a possible acquirer.” Even if the market provides a positive value for a portfolio, he explained, it can be difficult to transfer portfolios due to technical reasons.

Asked for his views on what still need to be addressed to allow for resolution in practice, **Wolff** flagged EDIS and the CMU as two integral missing pieces of the puzzle. Fragmentation is also an on-going issue. Investors remain wary, asking themselves whether a bank might be resolved under a European scheme or put into insolvency under a national regime. The quality of protection as a depositor varies across countries.

“International investors will only be ready to say ‘European market’ if they see a certain degree of risk sharing, a common fiscal budget, which is basically backstopping the system,” he said, adding: “How can you ask an investor to invest in a bank in another country if your own government isn’t ready to share that risk?” In his view, this is the fundamental crux of the BU issue. “While we’ve made technical progress, we haven’t advanced on this fundamental point,” he concluded. The need to address such fragmentation was a point that all on the panel could agree on. If the BU is to be competitive in the global market, this issue cannot be avoided.



Guntram Wolff

Sasha Mills, Executive Director, Bank of England

In her keynote speech, **Sasha Mills, Executive Director, Bank of England (BoE)**, reiterated the day's earlier calls for clarity. "Authorities had attempted to convince the banks and markets that it was 'constructively ambiguous' as to whether or not it would bail out a failing bank." This was initially thought of as constructive as it meant banks would not rely on bailouts while giving authorities flexibility to take action. However, "bailouts" have now been replaced by "bail-in".



Sasha Mills

The progress we have made since should mean that the outcome of a resolution "weekend" would be a solvent, recapitalised, and authorised bank. Despite this, private market participants may stand back from providing liquidity. The UK has supplementary facilities for providing resolution funding, and has sought to provide greater confidence and transparency to markets in advance through the Resolvability Assessment Framework, published in July 2019. It includes a new disclosure regime, requiring firms to publish on their own resolution mechanisms, with the BoE likewise publishing a public assessment of the bank's resolvability.

In addition to these disclosure requirements, which is designed to cover eight barriers including liquidity, the Framework highlights some of the capabilities domestic firms are expected to demonstrate.

A resolution liquidity framework would also **enhance transparency and reassure markets, investors, and consumers.** "Clarity over a temporary liquidity backstop lets us be confident ahead of time that resolution will be successful," according to Mills. "But ultimately, firms need to take ownership for their own resolvability, which requires up front investment *outside* of a crisis." To minimise the risk of moral hazard, any resolution liquidity needs to *truly* function as a backstop, she stated.

Mills concluded on a forward-looking note. "We can't focus only on fighting the wars of the past. We must also look ahead," she said, adding that recent changes in the banking industry and beyond have amplified challenges. She cited the rapid spread of information on **social media** as one example. In such fast-paced and potentially turbulent times, the need to inspire confidence and demonstrate coordination between domestic and international authorities becomes all the more important.

LIQUIDITY IN RESOLUTION: A MORE ROBUST FRAMEWORK



The second panel picked up on a point already raised on multiple occasions throughout the day: the need for a more robust framework surrounding liquidity in resolution. **Moderator Melinda Crane** began by turning to **John Berrigan, Deputy Director-General, DG Financial Stability, Financial Services and Capital Markets Union**. Some in the media see the next financial crisis around the corner, she noted. The SRF now holds €33 billion. Realistically, is that big enough to address a liquidity shock of a resolved bank?

According to Berrigan, there is no one answer: “It depends on the circumstances of resolution. How big is it? How much capital is on the balance sheet? What’s the reputational damage?” These are just a few considerations. In general, “the more easily accessible this backstop is, the more credible it is, and therefore the less likely that you will actually have to use it,” he asserted. He also followed up on previous comments regarding fragmentation. “Cross-border support raises issues among Member States, such as principles of equality,” he said. The onus is on policymakers to study and exhaust as far as necessary all possibilities to come up with arrangements for liquidity provision that would not involve the state.



John Berrigan



Sharon Donnery,
Dominique Laboureix
and Sasha Mills

Speaking on liquidity in resolution, **Sharon Donnery, Deputy Governor, Central Bank of Ireland**, highlighted what she referred to as an “asymmetric information” issue. “The resolution authority and bank management are perfectly informed while the market has limited details regarding the financial condition of a newly restructured bank,” she said. She noted the need to delicately balance transparency while also safeguarding against the risk over-sharing and making a delicate situation more fragile in the face of institutional difficulties.

Communication is thus an essential consideration, in Donnery’s view. “The bank needs to think carefully about its communication plan and what — and when — to communicate to stakeholders and the public,” she said. Ireland learned a great deal from the banking crisis as to what information is safe to be disclosed, she added. Greater clarity around resolution frameworks would lay the groundwork for clearer communication.

Picking up on the noted need for preparedness, **Dominique Laboureix, Member of the Board, Single Resolution Board**, noted that bodies like the SRB are “paid to worry.” The SRB is a crisis management organisation, he said. Looking at liquidity, he noted that he was “comfortable” with some cases but not all. “For small and medium-sized cases, we may be well covered. The situation is not the same for big players. The financial means to address liquidity needs for a failing G-SIB or a series of failing G-SIBs could be insufficient,” he acknowledged.

In addition to the amount of liquidity available being limited, he flagged that there could be technical challenges to accessing funds quickly enough. For instance, some funds are invested in bonds. “Only central banks could provide a very important amount of money in a very short

period of time,” he said. This raises another issue, namely that the majority of official sector funding sources are asset-based in the sense that they need sufficient collateralisation.

Turning to **Sasha Mills, Executive Director, Bank of England**, Crane asked for her views on the looming impact of Brexit. The SRB published a paper about its expectations to ensure resolvability of banks in the context of the UK leaving the EU. Is there anything else the SRB or the banks themselves should be doing to facilitate the process? Mills pointed to the recently published **Financial Policy Summary and Record**, which set out that the UK financial system has sufficiently prepared for Brexit. “Major banks and insurers are strong enough and the biggest risks to users in the financial services sector have been addressed.”

In the case of a disorderly Brexit, she said, it’s clear that there may be sharp movements in, for instance, asset prices but less obvious to what extent a squeeze in liquidity can be expected. In 2016, sterling markets were able to function through market volatility. Today, they are likewise prepared: “The major UK banks hold over a trillion sterling of high-quality liquid assets, enabling them to meet their maturing obligations for months without the need to access wholesale funding or foreign exchange markets.” She added that, as a further precaution, the BoE has operations in place to lend in all major currencies on a weekly basis. “This means firms can access the liquidity they need in the form they need it at the time that they need it.”

Asked if the current liquidity framework was sufficiently clear and robust to assure resolution in practice, **Fernando Restoy, Chairman, Financial Stability Institute**, pointed to the remarks of previous speakers who had flagged *confidence* as lacking. “Banks should come through the resolution process fully recapitalised — this is the target. So if they face liquidity stress, it’s normally because of a trust issue,” he said. He stressed the need for a framework that is sufficiently ample yet flexible enough to assure market participants and clients that a bank can withstand liquidity stress. “We cannot be overly restrictive in terms of the limits for liquidity and the conditions for liquidity support.” When central banks get involved, he added, a guarantee or indemnity of some sort is needed from the governmental/public sector.

In assessing different arrangements in different jurisdictions — such as the U.S., UK, or Japan — he highlighted the need to look at three main points: first, the availability of public government support; second, the lack of strict collateral requirements or the flexibility of such requirements; and, finally, the question of relatively ample limits. He also emphasised the importance of considering activation measures: Just how simple or difficult would it be to activate a measure like the **European Stability Mechanism (ESM)** backstop? “You would need unanimity from the ESM board, which may or may not be an issue.”



Fernando Restoy



Sharon Donnery and
Dominique Laboureix

Berrigan noted that EU Member States and institutions are currently working to ensure adequate liquidity support in resolution. While some Member States believe that the current funding framework would be adequate with some refinements of the current practices, others believe the current framework needs significant improvements on the source side — and place greater trust in a more centralised option based on the provision of public European guarantees. According to Berrigan, “it’s a matter of finding the right balance between the mandate of the lender of last resort and the usability and scalability of a public backstop for liquidity.”

When designing a feasible framework to deal with liquidity in resolution in future, **Donnery** — pulling from her experience coming from an organisation that has had to deal with failing institutions — highlighted two main points. Firstly, the fact that there are multiple players involved (i.e. the institution itself, its supervisor, the resolution authority) brings great complexity. In planning, “you have to be clear about how a tool is going to be used, who is going to be involved, and how will it be managed.” Short timeframes add a second level of complexity: “Whatever you design has to be operational in a high-pressure timeframe.”

Regarding the on-going discussions on funding in resolution, **Laboureix** noted that two options are being considered: “Under one, potential issuances of SRB bonds could be used to provide collateral to banks in resolution... The other option aims to protect the **Eurosystem** with guarantees against net losses.” The SRB, he said, has a clear preference for a guarantee model.

Coming back to the day’s theme of “turning policy into action” **Mills** highlighted the three main questions that, in her view, underlie resolution planning in practice: How much do you need; where is it coming from; and how do you know how much it is. With this information in hand, the next step is modelling potential situations. “The key thing is moving from collecting data and knowing where the information is, to *modelling* that — at speed — so the regulator and the board alike can make choices, for instance regarding monetising assets or moving collateral from point A to B.”

Asked if he could accept national solutions in case a European solution is not achievable, **Restoy** acknowledged that “financial stability is the first objective” and that “other things may have to be sacrificed to achieve this.” If liquidity is needed for effective resolution and the alternative is a destabilising liquidation, you have to assure this liquidity, by national means if needed. He stressed the drawbacks of this, however: If liquidity depends on public or state financing, he argued, how should investors and consumers maintain their trust in the resolution framework?

Dietrich Domanski, Secretary-General, Financial Stability Board

In his speech,³ **Dietrich Domanski, Secretary-General, Financial Stability Board**, focused on elements needed to maintain operational continuity when turning resolution policy into action. In June, the FSB submitted a summary of progress in implementing reforms to G20 leaders. Domanski highlighted key points: recovery and resolution planning processes are in place for systemic banks in 16 out of 24 FSB jurisdictions; **Crisis Management Groups (CMGs)** have been established; and TLAC/MREL resources are being issued. Yet the title of the FSB's 8th report on the implementation of resolution reforms is **Mind the Gap** — highlighting the fact that gaps remain.

First, there is TLAC. “How can we achieve a balance between prepositioned and non-prepositioned TLAC resources, and how can these be deployed flexibly?” Domanski asked.

Then, “authorities and firms must be able to successfully execute a TLAC bail-in transaction.” For instance, A TLAC bail-in may raise questions in connection with the suspension of trading or cancellation of shares. “The purpose of prepositioning is to assure hosts of the continuity of operations in their jurisdictions and to assure home authorities that the operations critical to their group as a whole can be maintained.” TLAC standards recognise these tensions, he said. By providing a range of 75 – 90%, they acknowledge that the balance must be found through effective dialogue between home and host.

Third, there is the issue of liquidity in resolution. Resolution authorities, supervisors, central banks, and resolution funds must work together to ensure clarity on respective responsibilities in providing liquidity support and access to public sector backstops. Finally, Domanski highlighted the need to address “continuity and access to central market infrastructures i.e. critical payment systems and CCPs.”

The common thread all these points share is that they aim to provide the added certainty needed to build operational continuity. Overall, however, he concluded that many if not all FSB jurisdictions are in a much better position to address the “too big to fail” issue than they were a decade ago.



Dietrich Domanski

³ <https://www.fsb.org/profile/dietrich-domanski/>

OPERATIONAL CONTINUITY: A DEBATE

The third panel picked up on Domanski's remarks on operational continuity. Clearly there has been progress made on MREL but if operational continuity doesn't work then increased loss-absorbing capacity won't help. **Moderator Melinda Crane** began by asking the panellists for their opinions on the current status of operational continuity. According to **José Manuel Campa, Chairperson, European Banking Authority**, progress has been slow and more needs to be done — for instance in the identification of critical functions.

"Work still needs to be done both from the banks' point of view and the authorities' point of view," he stated, noting that, "Only a few authorities have published guidelines on operational continuity." EBA, he said, is working with supervisory authorities to help them create clear and common guidelines for banks on what is expected — for instance in terms of concretely identifying and mapping critical functions — across resolution authorities. "At the bank level, more progress has been made by the larger institutions in identifying critical functions and how those will be dealt with but less has been done by non-systemic institutions." In many cases, this will demand investments in IT and organisational changes, he noted.



Antonio Carrascosa

Antonio Carrascosa, Member of the Board, Single Resolution Board, began by clarifying what exactly is meant by operational continuity. "Disasters are rare but they do happen. By identifying possible risks and using them to make contingency plans, banks ensure that business will survive and even thrive after such serious incidents," he said. Resolution could be one such serious incident. He noted that the SRB has outlined its expectations for operational continuity in its **Expectations for Banks** publication.

He summarised the key points thusly: "First, we expect that banks identify relevant services, operational assets, and critical staff for the provision of critical functions. They should then map the interconnectedness of these services. In the process of this identification of services, they should consider the material impact of the interruption of services on the critical functions and the possibility of substituting these services." Finally, he concluded, with this information established, banks should be able to set up governance arrangements and information management systems that can ensure compliance and operational continuity accordingly. In light of these requirements, he noted that a key challenge is that there is no one-size-fits all model: "We have to adapt to the service delivery model, the governing law, and the preferred resolution strategy."



Arthur J. Murton

Arthur J. Murton, Deputy to the Chairperson for Financial Stability, Federal Deposit Insurance Corporation, discussed how operational continuity is being addressed under the U.S. framework. He began by highlighting the high-level strategy the U.S. has for its largest banks, namely **Single-Point-of-Entry (SPE)**. In terms of actual



José Manuel Campa, Antonio Carrascosa, Arthur J. Murton, Casper von Koskull and Melinda Crane

implementation, the U.S. has their **Title I Resolution Plans**, requiring that firms demonstrate that they can be resolved under bankruptcy without disruption to the broader financial system or economy. FDIC put out guidelines identifying well-known obstacles to resolution, such as capital and liquidity, global cooperation, counterparty actions — and operational continuity. The firms have had to solve these challenges in their resolution plans.

Elaborating on how this was accomplished, Murton outlined four steps. First, identification of services: “Are they internal shared services or external vendor contracts that are essential to supporting critical functions and core business lines?” Second, mapping of these services, “to understand the people, places, IT systems, intellectual property, and so forth involved.” He noted that the largest firms have built systems to do this, modelling their conclusions. Thirdly, legal entity rationalisation is needed. “This has been part of our resolution planning from the start,” he said. Legal entities should be aligned with business lines “because resolution is ultimately based on legal entities.” Additionally, service level agreements and vendor contracts have to be resolution-resilient. “You don’t want them to terminate in resolution but to continue their operations.” He added that contracts are ideally set up to withstand changes in entity ownership. Finally, he concluded that most banks have pre-funded six months of operations for those entities providing critical services.

Casper von Koskull, CEO, Nordea, provided the perspective of the CEO of a bank with operations across a number of countries. Asked how he considers operational continuity — whether it should be from the perspective of critical functions or also looking at important business lines — he asserted that both elements are relevant. He stressed the importance of focusing on structure, as “structure and strategy go hand-in-hand.” Nordea has a branch structure,

he explained: “We are a bank that is the result of a merger of four banks in four countries some 20 years ago. We are not a Finnish, Danish, Norwegian, or Swedish bank. We are a Nordic bank operating as one bank across those four countries.” Nordea is domiciled in Finland, making it part of the BU, he added.

He emphasised that practically realising this vision of “one bank” covers many aspects: “It’s not just a vision. Ways of working, processes, and systems need to be aligned.” He asserted that such a ‘one bank’ structure also helps resolution. “Anything we need to own legally, we own 100%... We have no minority holdings. We own 100% in a very simple structure,” he explained. This was done with an eye towards operational efficiency and resilience.

Campa echoed von Koskull’s assertion that structure and strategy must be aligned, and that structure matters in terms of resolution strategy. Asked whether he believes current operating models align with the needs of operational continuity, he pointed to the EBA guidelines on outsourcing arrangements as well as the minimum list of services required for transfers in resolution. There are two basic operating models at the moment: Critical functions may be provided in house or they may be outsourced to a third party or a different company within the group. “Both models are operational as long as they match with the bank’s structure and strategy,” he said. In either case,



José Manuel Campa

he emphasised, clarity is essential, namely “clarity of critical functions and clarity on information on basic assets and liabilities, so we can provide an effective valuation in resolution.” Across all of this, “adequate governance is needed” to ensure operational continuity.

Asked to compare the benefits and drawbacks of SPE versus **Multiple-Point-of-Entry (MPE)** models, **Carrascosa** agreed that this depends on a group’s structure. “For some groups, an MPE approach, where host resolution authorities would apply resolution actions at the level of the resolution group in their respective jurisdictions, would be more appropriate,” he stated. Since an MPE approach implies a high degree of separability, interdependencies can only be residual; they must be identified and properly addressed. With SPE, by definition, “there can be only one failure in the group; there can only be one resolution” while with MPE every part of the group can go into resolution. The point is then to avoid contagion. Ultimately, “we can’t say that MPE is better or worse than SPE.” The important point is that the model selected is appropriate to the firm and sufficiently robust.



Arthur J. Murton

Picking up on the MPE versus SPE discussion, **Murton** noted that while SPE is the main strategy for U.S. firms, they have also developed capabilities to address different scenarios in the resolution planning process. “One of the measures to do that has been what we call ‘separability’ — they should be able to separate parts of their businesses, business lines, or operations into ‘objects of sale’ so that they could divert them prior to or in resolution, as they are wound down,” he explained. Speaking on how U.S. firms address the continuity of shared services performed by entities in third countries in their resolution planning,

he said that these plans were actionable across borders. “Most of these services for our firms are internal; they aren’t controlled by a third party but by the firm, which simplifies aspects like the management of information flow.”

Asked for his views, **von Koskull** concluded that there is no one “right” model for everybody. “It really depends on the operating strategy and who you are. If you run large independent subsidiaries, MPEs are very natural and the right way to go because you can ring-fence and deal with issues in a particular entity country as needed,” he explained. Looking at Europe specifically, he said: “We are very far from creating a single market for financial services. We need one functioning BU and we also need a CMU, and we don’t have that. We have a balkanised financial sector, which I have sometimes said is un-investable today.” This call to overcome fragmentation was expressed repeatedly throughout the conference, by both public and private sector representatives.



Casper von Koskull

Sebastiano Laviola, Member of the Board, Single Resolution Board



Sebastiano Laviola

Earlier in the day, **Commissioner Vestager** had compared the long journey of turning resolution policy into action to the journey of Hercules: It took the Greek hero 12 years to complete his 12 tasks. Her comment that “unlike Hercules, we do not work alone, but as a team” was echoed by **Sebastiano Laviola, Member of the Board, Single Resolution Board**, in his closing remarks. He expressed appreciation for the diversity of individuals present, noting that the participation of all stakeholders is needed if banking resolution is to succeed in practice.

Laviola went on to highlight three takeaways from the day’s discussions. First, he flagged the need for **liquidity** in resolution. While the common backstop will cover all uses of the SRF, including liquidity in resolution, this would still

not address the liquidity needs of a large bank. The second takeaway pinpointed by Laviola was the need for **harmonisation**. Highlighting the 19 different insolvency frameworks in the BU, he acknowledged that cross-border banking resolution is a challenge because there are diverging outcomes depending on an institution’s home country. The third point Laviola addressed was the need for increased focus on **communication**.

Towards this end, the SRB will involve stakeholders more actively going forward, for instance through various forms of public consultation. All of this, he reiterated, is done with a single duty in mind, one that all stakeholders share: a duty to ensure the resolvability of all SRB banks, thereby protecting the taxpayer and promoting financial stability. On this note, the conference concluded and participants were left to return to the day-to-day duties that make up the overarching — some might say herculean — task at hand: **turning resolution policy into action**.



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