The Role of SRB and Resolution Framework in General

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A CRISIS OF HISTORIC PROPORTIONS

2008

- Collapse of Lehman Brothers

Banks too big or too interconnected to fail
- The threat of bank failures meant that the health of government finances became more important than ever
- What started as a banking crisis became a sovereign debt crisis

2008 2009

- Banks failed in Europe
- Market losses
- EU governments came to the rescue
- Damage to the taxpayer
- Ensuing economic crisis & recession
  > GDP damage
  > General Unemployment soared
  > Youth unemployment rose

March 2009

EU Commission endorses the de Larosière recommendations and calls on EU leaders to move fast on financial market reform and show global leadership at G20 in April.

Policy Challenges & Responses

Decisions to end era of implicit taxpayer guarantees & bail outs
- Crisis prevention (regulatory & supervisory initiatives)
- Crisis control and mitigation (joint strategy from policymakers)
- Crisis resolution (stress test, restructuring)
SRB: WHY WAS IT ESTABLISHED?
To end sovereign-bank doom-loop

SOVEREIGN-BANK DOOM-LOOP

- Crisis deepens
- Banks need government support
- Government’s fiscal position weakens
- Refinancing costs rise; higher debt yields
- Banks’ balance sheets weaken

G20
2011 /2014
Financial stability Board

BANKING UNION & BRRD
2014
Single Supervisory Mechanism - ECB
2015
Single Resolution Mechanism - SRB

European Deposit Insurance Scheme

PILLAR 3
The mission of the SRB is to ensure an orderly resolution of failing banks with minimum impact on the real economy and the public finances of the participating Member States of the Banking Union.

- The SRB together with the National Resolution Authorities (NRAs) forms the SRM.
- The SRB is directly responsible for:
  - Significant banks
  - Cross-border banking groups
- NRAs are directly responsible for all other banks. SRB could ‘take over’ direct responsibility.
- The SRB closely cooperates with the NRAs.
Objectives of Resolution - Goals of SRB action

- Ensure continuity of critical functions
- Maintain financial stability
- Protect public funds
- Protect depositors and investors
- Protect client funds and assets

Each objective is of equal significance

OBJECTIVES OF RESOLUTION & SRB’S TASKS

PROTECT AND CONTROL
**WHAT IS A RESOLUTION?**

**WHAT ARE THE RESOLUTION TOOLS?**

**RESOLUTION**

means the restructuring of a bank by a resolution authority through the use of resolution tools, to ensure, *inter alia*, the continuity of its critical functions and preservation of financial stability.

**CONDITIONS**

for resolution are triggered when the authorities determine that:

- a bank is failing or likely to fail;
- there is no other private sector intervention or supervisory action that can restore the institution back to viability within a reasonable timeframe; and
- resolution is in the public interest.

Different **tools** can be used to **safeguard public interest**, including the continuity of the bank’s critical functions and financial stability, at minimal costs to taxpayers.

**SALE OF BUSINESS**

Part or all of the shares or other instruments of ownership or assets, rights and liabilities can be sold to a private purchaser.

**BRIDGE BANK TOOL**

Part or all of the shares or other instruments of ownership or assets, rights and liabilities can be transferred to a temporary entity.

**ASSET SEPARATION TOOL**

Assets, rights and liabilities can be transferred to an asset management vehicle, totally or partially publicly owned, if liquidation of the assets could cause market disruption.

**BAIL-IN**

Equity and debt can be written down and converted, placing the burden on shareholders and creditors of the bank rather than on the public.

Safeguards – **No Creditors Worse Off principle**

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30/03/2017
RESOLUTION PLANNING

If not, decide on resolution strategy

If not, decide on resolution strategy

Determine possibility to liquidate

Determine MREL

Identify obstacles

Remove obstacles

Single or multiple point-of-entry

Resolution plans are to be drafted and updated at least annually

RESOLUTION PLANNING IS AN ONGOING PROCESS
SRB - 2016 vs. 2017
Resolution Planning phases

• In 2016, 3 degrees of planning:

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• In 2016, SRB drafted 65 Phase-2 Plans, 31 TRPs and reached Joint Decisions for 6 host cases.

• SRB discussed preliminary informative MREL targets at consolidated level with banks (workshops).

2016 vs. 2017 Planning*

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* Percentages shown in graph are relative to the total amount of Resolution Plans for each respective year.
KEY FEATURES OF THE SRB'S MREL POLICY

- Art. 12 SRMR requires the Board to determine MREL for entities listed in Art 7(2) SRMR, i.e.:
  - Entities and groups under ECB’s direct supervision
  - Cross-border groups

- The Commission Delegated Regulation (EU) 2016/1450 allows resolution authorities to set an appropriate transition period to reach MREL target level
  - Board intends to determine MREL for all major banking groups in Banking Union in 2017
  - MREL determination require a case-by-case analysis and individual decisions
  - Board will work with banks on individual implementation plans to reach MREL target ASAP
  - Board will require interim targets during the transition phase
  - Board may make decisions on quality of all or part of the MREL

- Each entity within SRMR’s scope is required to meet its own MREL: institutions must meet MREL at an individual level and parent entities at a consolidated level
  - In 2017, Board will focus on determining MREL at the consolidated level of each group only.
  - MREL decisions for subsidiaries will be made at a later stage (in 2018) based on their individual characteristics and the consolidated level set for the group and considering the possibility of waivers.
SINGLE RESOLUTION FUND

TARGET
- A single, fully-mutualised fund
- Financed by *ex ante* contributions
- Shortfalls may be financed by *ex post* contributions or borrowing

- Funded until 2024 to at least 1% of covered deposits, the SRF can be used to ensure the effective application of the resolution tools
- It can be used for liquidity support or for CAPITAL MEASURES

If it is used for capital measures, at least 8% of the losses of the bank must have been absorbed by shareholders & creditors of the bank first

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SRB RESOLUTION PLANNING ACHIEVEMENTS IN 2016

- Resolution planning is a multi-year process, not a product

Conducted Resolvability Assessment Process (RAP) and drafted resolution plans

Conducted initial MREL assessment

Hosted / Participated in Resolution Colleges and CMGs

Raised contributions to the Single Resolution Fund

Decisions on resolution plans (almost finalised)

First cycle of resolution plans almost finalised

Better understanding of banking groups enables us to ask the right questions and operationalise resolution strategies

Other achievements

- Published Resolution Planning Manual
- Developed horizontal policies and data collection templates
- Conducted industry meetings and workshops with banks

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SRB’s Cooperation with Estonian NRA

Two Estonian Banks under SRB’s Remit

- Swedbank
- SEB

Host Case (SNDO is GLRA)

- Parent entity located in Sweden → “Host case”
- SNDO is the GLRA
- SRB & Finantsinspektsioon participate in RC
  - 1st JD on the RP was signed in Dec 2016
  - In 2017 SNDO will update plan and set 1st MREL targets

SRB is Also Responsible for LSI Oversight

DNB/Nordea Merger

Following closely the merger between DNB/Nordea, for which the SRB will most likely become responsible as of 1 January 2018.
KEY FOCUS & TASKS AHEAD

2017 SRB WORK PROGRAMME:

1. **Ensuring resolution readiness and removing obstacles to resolution**

2. **Fostering Cooperation & Cross-border relationships**
   - Internal Resolution Teams (IRTs) & Resolution Colleges (RCs)

3. **Operationalising the Single Resolution Fund**
   - Total target size of the Fund will equal at least 1% of the covered deposits of all banks in participating Member States in 2024

Other focus points:

- **Minimum Requirement for Own Funds and Eligible Liabilities**
  - that the G20 agreed on for the globally systemic banks
  - 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

- **EDIS**
  - A functioning European Deposit Insurance Scheme is key to fulfil the objectives of the Banking Union and beyond – this is needed to safeguard the trust of depositors in their banks
CONCLUSION

The **Single Resolution Board** has been created to respond to the Euro area crisis and *establishes one of the pillars of the Banking Union*. By avoiding bail-outs and worst-case scenarios, the SRB will put the banking sector on a sounder footing – only then can we achieve economic growth and financial stability.

**ELKE KÖNIG**
Chair of the Single Resolution Board

• The **Single Resolution Mechanism** (SRB + NRAs) enables the orderly resolution of failing banks. It will minimize adverse impacts on both the real economy and public finances.

• **Resolution** will lead to greater stability in the banking system and support growth in the Eurozone.

• The **Single Resolution Mechanism** will help to avoid future bank bail-outs and place the burden of bank failure firmly on shareholders and creditors, not governments and taxpayers.

FINANCIAL STABILITY
Thank you!

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