



# **The Single Resolution Mechanism**

**Elke König**

**Chair of the Single Resolution Board**

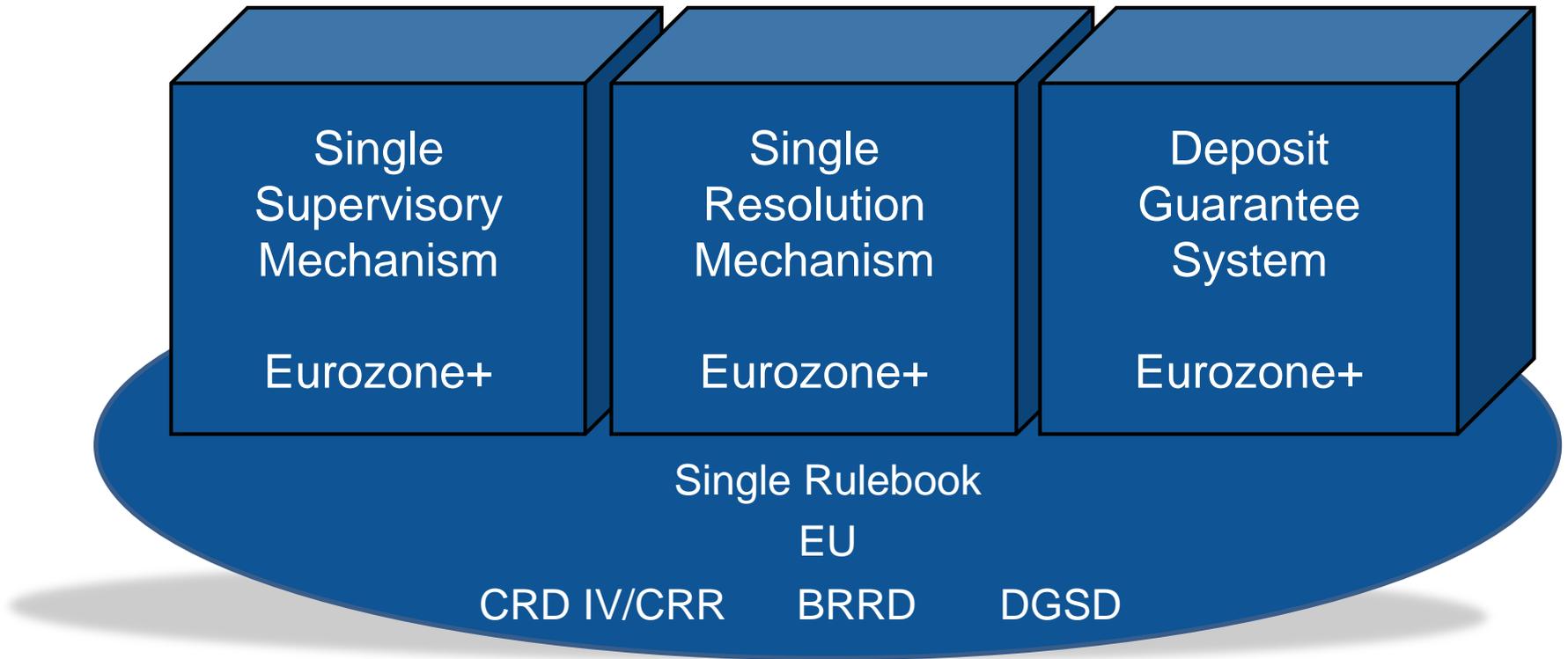
**FDIC Systemic Resolution Advisory Committee**

**14 April 2016**

# Introduction

- **The Single Resolution Board**
- **Resolution objectives and resolution planning**
- **Obstacles to resolution**
- **The Single Resolution Fund**
- **Our 2016 Work Programme**

# The Banking Union



# Single Resolution Board

## Who we are

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**CHAIR**

Elke König



**VICE-CHAIR**

Timo Löyttyniemi



**MEMBER OF  
THE BOARD**

Mauro Grande



**MEMBER OF  
THE BOARD**

Antonio Carrascosa



**MEMBER OF  
THE BOARD**

Joanne Kellermann



**MEMBER OF  
THE BOARD**

Dominique Laboureix

European Bank Resolution Authority

c.150 employees. Target for 2017: 300

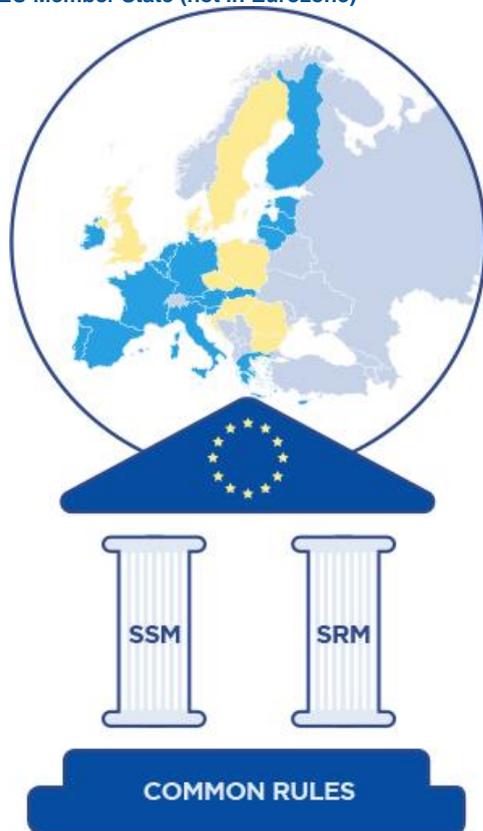
# Single Resolution Board

## What we do

The SRB is focused on resolution planning, setting of MREL, removing of obstacles as well as on anticipating and avoiding any possible negative consequences of a resolution. Together with the National Resolution Authorities (NRAs) of participating Member States, it forms the SRM, the second pillar of the Banking Union.

 Eurozone

 EU Member State (not in Eurozone)



### Responsibilities

- establish rules and procedures for resolution
- establish a unified resolution regime
- enhance bank resolvability

### Outcomes

- a safer banking system
- greater market confidence
- reduced cost of bank failure
- improved financial stability across the EU

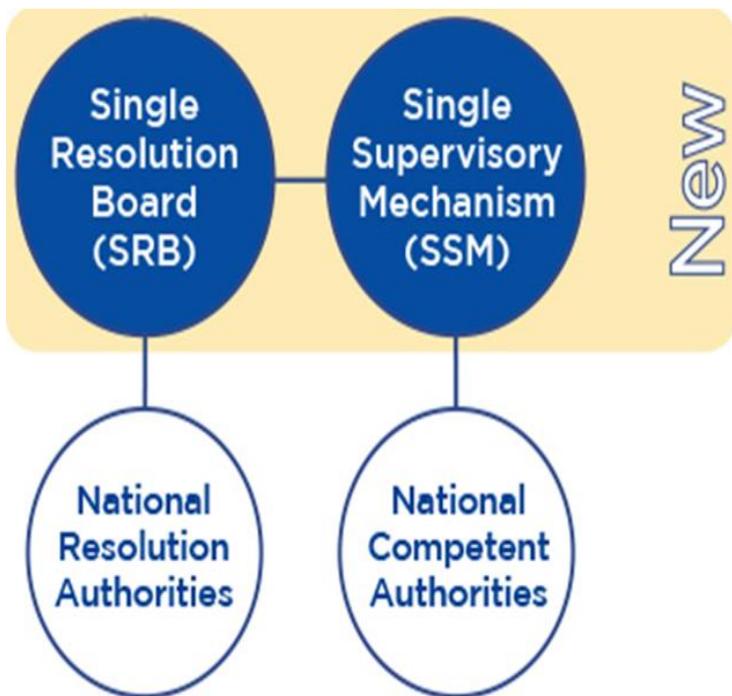
**to the benefit of banks, taxpayers and depositors**

# Single Resolution Board

## How we work

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The Single Resolution Mechanism (**SRM**) allocates specific tasks to the SRB and NRAs



The SRB is directly responsible for:

- Large banks
- Cross-border banking groups
- The functioning of the SRM

NRAs are directly responsible for all other banks

The SRB closely cooperates with NRAs, the ECB, the European Commission and institutions outside the Euro area

# Resolution objectives

## Resolution objectives

- **Continuity of critical functions**
- **Financial stability**
- Protection of public funds
- Protection of depositors
- Protection of client funds and assets

# What are Critical Functions?

## FSB

Guidance on Identification of Critical Functions and Critical Shared Services

## FSB Key Attributes

paragraphs 11.6 “Resolution Plan”, I-Annex 3 paragraph 4.1 and 4.2.

## BRRD

Art. 2(1)(35-36), Art. 10(7)(c), Art. 15(1), Art. 31(2)(a), Annex Section B (4)

## SRMR

Art. 8(9)(c), Art.10(3-4), Art. 14(2)(a)

## Delegated Regulation (Feb '16)

Commission Delegated Regulation on Critical Functions & Core Business Lines

## EBA/Op/2015/05

Technical advice on delegated acts on Critical Functions & Core Business Lines

## EBA/RTS/2014/15

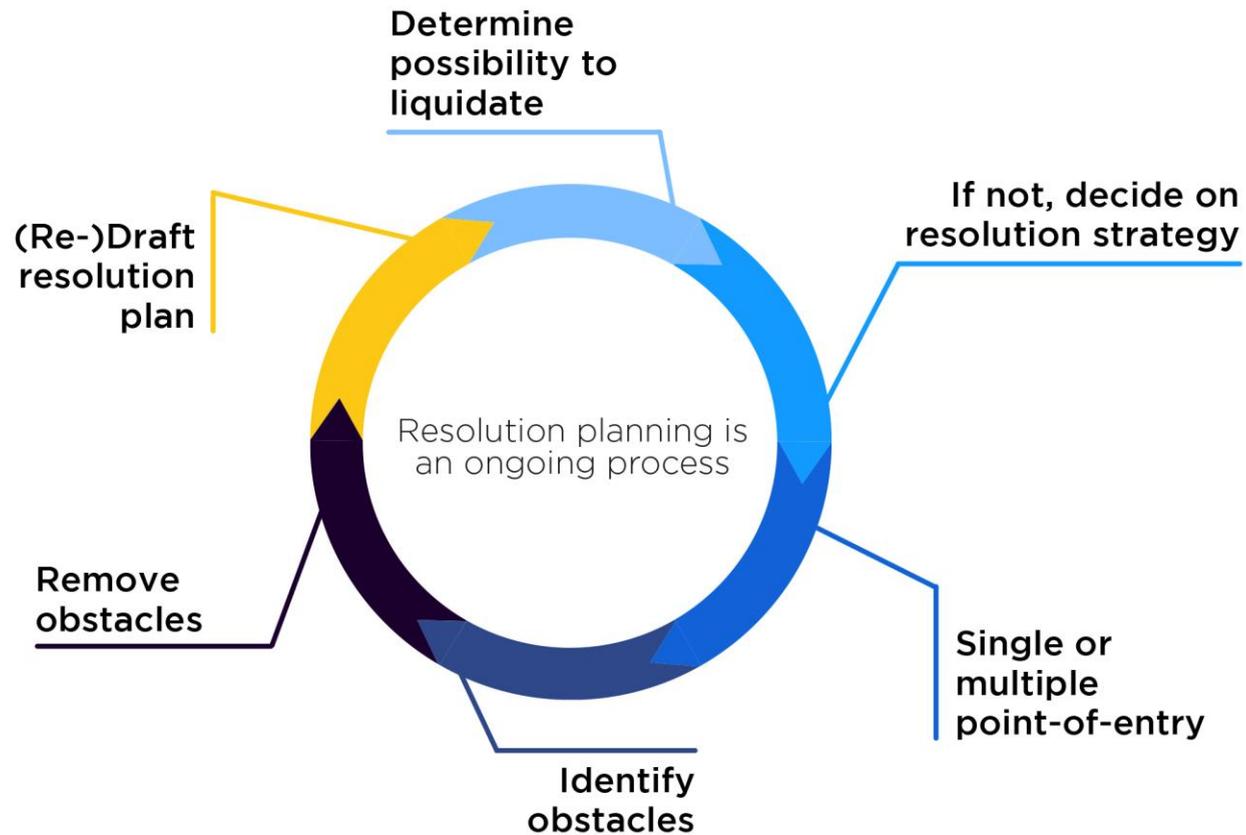
Art. 3(c)(ii)

**International standard setters proposed a widely accepted definition for Critical Functions**

### Keywords:

- Systemic relevance (size, complexity, contagion, interconnectedness, market confidence, etc.)
- Substitutability (market shares, barriers to entry, capability and willingness of competitors, etc.)

# Resolution planning process

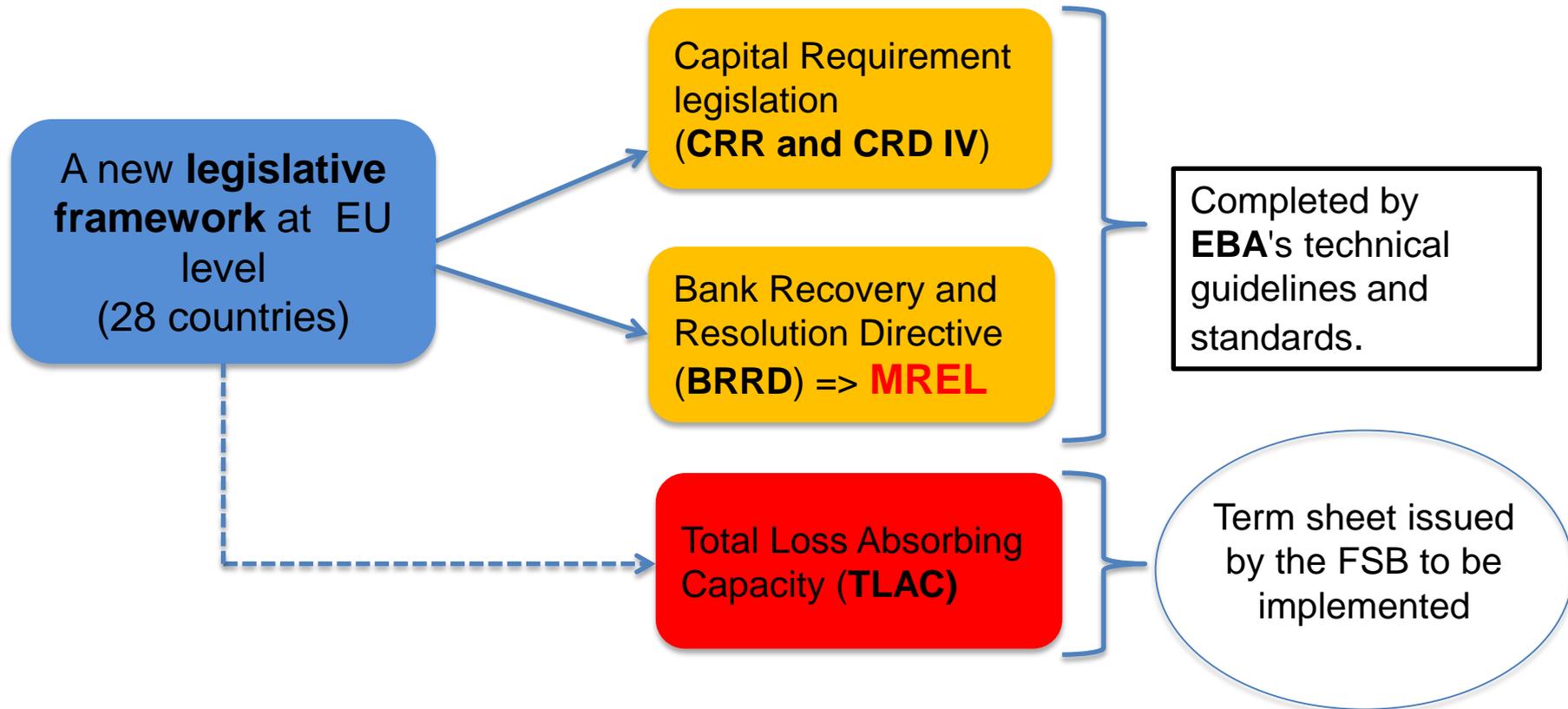


# Obstacles to resolution

- Multiple interdependencies within a G-SIB
- Inadequate IT and reporting systems
- Where critical support functions are allocated
- Capital structure (sufficient bail-in able debt)
- MREL / TLAC [see following slides]
- Cooperation between authorities
- Cross-border recognition of resolution measures

# MREL and TLAC

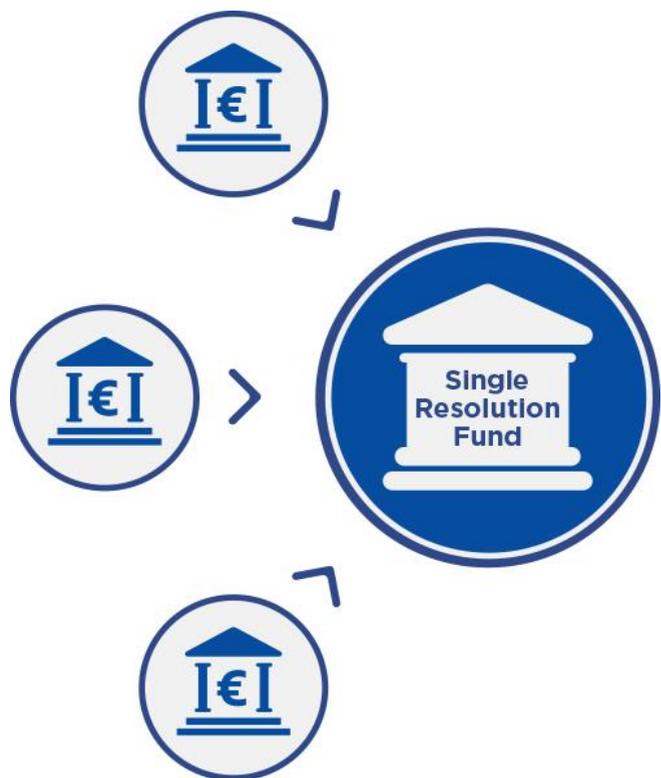
The Financial Crisis called for a strengthened EU legislation



# MREL and TLAC

	MREL	TLAC
Scope	<ul style="list-style-type: none"> <li>All the institutions in the scope of BRRD as of <b>2016</b></li> </ul>	<ul style="list-style-type: none"> <li>G-SIB as of <b>2019</b></li> </ul>
Target level	<ul style="list-style-type: none"> <li><b>Pillar 2</b> requirement, i.e. institution specific</li> <li>However, 8% of bail-in of total liability is a minimum criterion to get access to the Single Resolution Fund</li> </ul>	<ul style="list-style-type: none"> <li>Common <b>pillar 1</b> requirement</li> <li>16% of RWA and 6% of the Basel III leverage ratio denominator (first phase)</li> </ul>
Level of requirements	<ul style="list-style-type: none"> <li>Solo and consolidated (i.e. around 500 MREL decisions)</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated B/S of the resolution group</li> </ul>
Eligible instruments	<ul style="list-style-type: none"> <li>Maturity &gt; <b>1 year</b></li> <li><b>Senior</b> and <b>subordinated</b> liabilities meeting MREL criteria and not explicitly excluded from bail-in (...)</li> </ul>	<ul style="list-style-type: none"> <li>Maturity &gt; <b>1 year</b></li> <li>Nothing else than <b>subordinated</b> debts and 2.5% of <b>senior debt</b> (first phase).</li> </ul>

# The Single Resolution Fund



- Within the SRM, the national funds will largely be replaced by the **Single Resolution Fund (SRF)**.
- The SRF is operational from **1 January 2016**.  
Target funding level: 1% of covered deposits in the SRM area, to be reached in **eight years**.
- 2016 – 2024 → national compartments that will progressively merge into a single, fully-mutualised pot.
- Financed by *ex ante* contributions of the banks. Contributions comprise a **flat part** and a **risk-adjusted part**. They are calculated at European level but collected at national level and transferred to the SRF in accordance with the **Intergovernmental Agreement (IGA)**.
- If need be, **ex post** contributions can be raised, and the SRF can **borrow** money to make up any shortfalls.
- The NRAs transferred the contributions that they collected for **2015** to the SRF at the end of January. It currently stands at **4.3 billion** Euros.
- Regarding **2016** contributions, they will be transferred to the SRF by **30 June 2016**.

# 2016 Work Programme

## RESOLUTION PLANNING

- Draft resolution plans
- Undertake resolvability assessment for all GSIBs
- Set consolidated MREL
- Resolution planning tool (tracks the progress made by each unit in meeting all deadlines)

## RESOLUTION READINESS

- Internal resolution teams
- Resolution colleges
- Crisis simulation exercise

## SINGLE RESOLUTION FUND

- Collect all 2016 *ex ante* contributions
- Adopt investment strategy
- Strategies for alternative funding

# 2016 Work Programme

## Main objectives

### Ensuring resolution readiness

- Further develop resolution plans for entities under SRB's remit
- Further develop the Resolution Planning and Crisis Management Manuals as well as policy orientations for the use of resolution tools
- Make progress on enhancing resolvability by identifying barriers to resolution and by providing and implementing concrete guidance on ways to remove them, including on MREL
- Become the centre of expertise for resolution-related topics
- Contribute to the review of existing legislation and relevant regulatory activities
- Improve preparedness by carrying-out crisis simulation exercises

### Fostering cooperation

- Operationalise MoUs with the ECB and the EC
- Establish MoUs with non-Banking Union European partners
- Establish MoUs and cooperation agreements with partners beyond the EU
- Develop a *culture* of efficient cooperation with NRAs
- Establish Resolution Colleges

### Operationalising the SRF

- Define funding and financing for the SRF
- Develop and implement investment strategy for the SRF
- Ensure timely contributions to the SRF

What's the plan?



# Conclusion

The Single Resolution Mechanism enables the orderly resolution of failing banks. It will minimise adverse impacts on both the real economy and public finances.

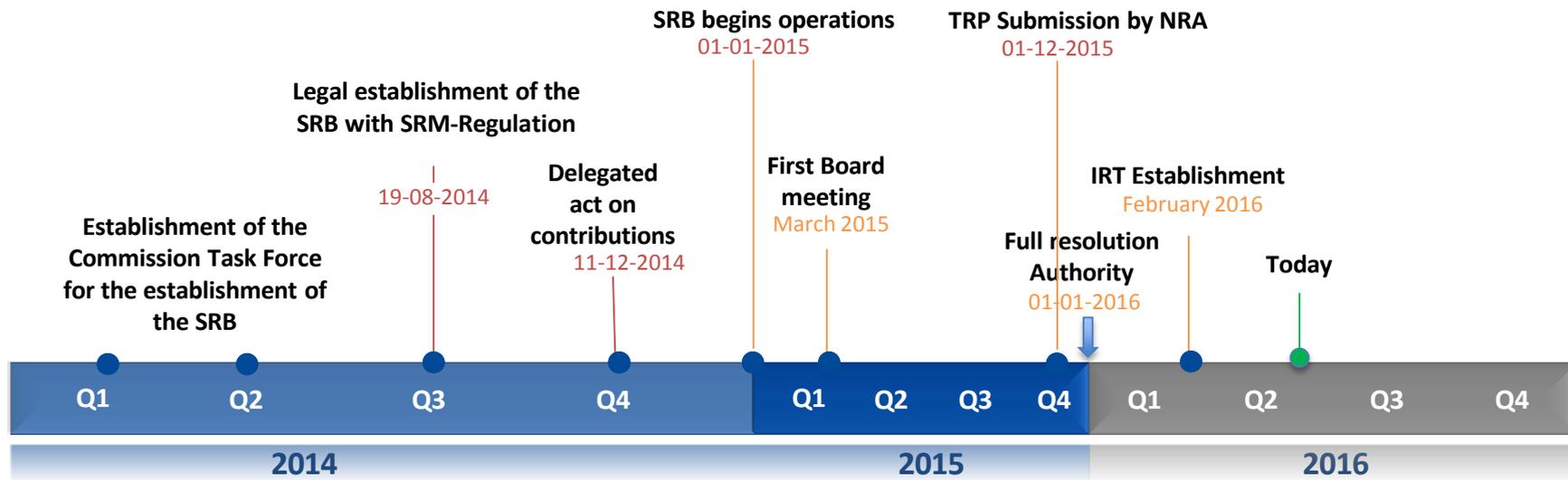
The Single Resolution Mechanism will help to avoid future bank bail-outs and place the burden of bank failure firmly onto shareholders and creditors, not governments and taxpayers.

The Single Resolution Board will thus ensure greater stability in the banking system and support growth in the Eurozone.



**Thank you!**

# ANNEX I - Timeline – Key steps in setting up the SRM

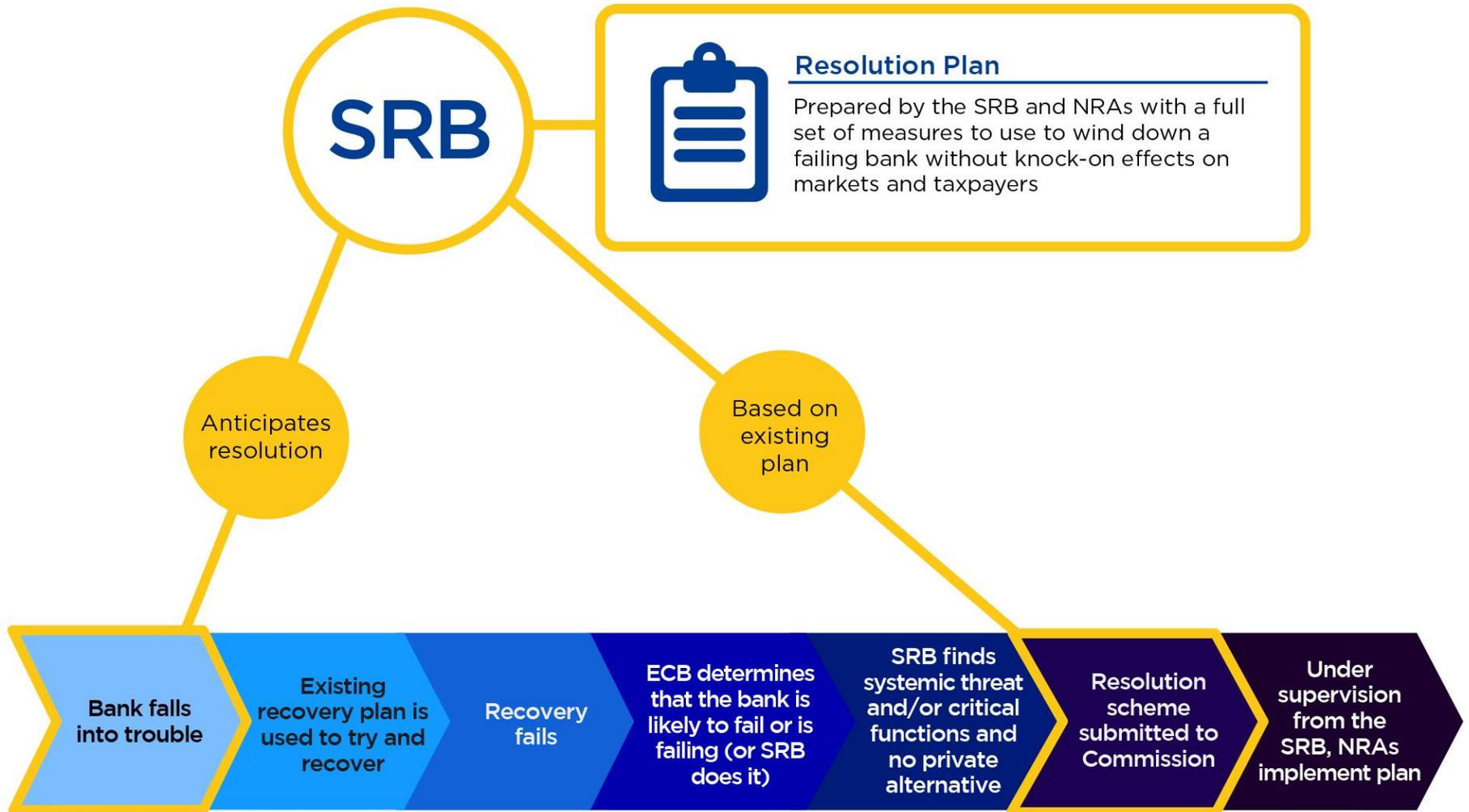


**Planning and implementation phase**



**Resolution Planning phase**

# ANNEX II - Resolution process



# ANNEX III - SRM process after SRB adoption of resolution scheme

