



EP Hearing

Elke König, Chair of the Single Resolution Board

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CHECK AGAINST DELIVERY

Mr Chairman,

Honourable Members of Parliament,

I am very pleased to address you again today and present some of the most important developments in 2016, as well as the main issues the SRB is working on in 2017.

Changes in the regulatory framework

Since the crisis that basically started in 2007 a lot has changed. Supervision has been strengthened and aligned, Capital Requirements raised, The Banking Union was created, a whole new resolution regime introduced, and we are currently discussing resolution regimes for central counterparties. A study by the European Central Bank published earlier this year shows that top EU banks will survive – without a snowball or contagion effect - if one of them is shut down. This is indeed proof that since the financial crisis much has happened to make the financial system more resilient and banks less inter-connected. So we can say with confidence that the situation has improved a lot, though it is still not “mission accomplished”.

Of course, we are aware that there remain legacy issues in some Member States and the transition into the new framework is challenging for certain banks or markets. **It is important for these issues to be addressed as quickly as possible in a form that does not put the overall framework of the Banking Union into question.**

In general terms: We are not only better prepared for a bank failure, but we can also confidently say that **most banks in Europe are now in such a shape that their failure would not endanger financial stability and that they can be resolved if they fail** - like any other business in the market economy – through regular insolvency procedures. To be clear, **if a bank fails this is not a failure of the system. The extra safety net of resolution is only for the few, not the many. Resolution tools will only be used where the SRB assesses that it is necessary in the public interest.**

Beyond resolution, we should also remember the two other sides of 'the triangle' that make bank failure safer and potentially more cost effective; an effective insolvency regime and a common deposit protection scheme within the Banking Union. Further work is still needed on these elements.

MREL – where are we and where are we going this year?

The SRB does resolution planning for those banks which could possibly enter resolution, basically the banks under the SRB's remit. **Setting the Minimum Requirement for own funds and Eligible Liabilities or MREL, is an integral part of the SRB's work on resolution planning.** MREL is the SRB's key tool to achieve resolvability of banks. In 2016, we made progress on enhancing resolvability by identifying barriers to resolution and by starting to provide guidance on ways to remove them, as well as starting to develop guidance on MREL.

The main take-away from the SRB's work on MREL so far is clearly that, as of today, following detailed analysis based on a sample of banks, the Euro area banks show a significant, though manageable, shortfall. It will

be by no means as high as some experts have estimated. The “8%” – considered as a benchmark - would be an issue only for a small number of banks. In most cases, the application of the delegated act result in higher requirements.

As I have said many times before, 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 to make them resolvable.

Sufficient loss-absorbing capacity - that is all MREL is meant to be - is central to changing the answer to the “who pays?” question from taxpayers ... to shareholders and creditors. The questions of the quality and location of MREL, and many more, will have to be discussed in the coming months.

However, beyond the MREL setting and the implementation of the bail-in tool, the resolution authorities will have to work on other aspects of resolution planning, too.

We will also have to take care of the operational continuity of **critical services** after the resolution. The banks’ capacity to raise funding, the access to financial market infrastructures or the restoration of the market confidence are also key elements to take into consideration. Our work in 2017 will be about operationalising resolution plans, thus achieving resolvability.

Ins and outs of Banking Union

Resolution strategies and plans should enable the resolution of any firm feasible without severe systemic disruption and without taxpayer solvency support. In practice, the SRB will account for the structure of a group and the local regimes in the key jurisdictions where it operates when preparing a resolution strategy, including when setting internal MREL for banks operating across the Banking Union. The SRB is committed to working with Member States across the EU to make these

strategies work. There will, of course, be **no discrimination** against non-Banking Union Member States.

The Single Resolution Fund

On top of resolution tools, as last resort, the SRB also has financial resources available, the Single Resolution Fund or SRF. The SRF is being built up during eight years starting from 2016: it is going to represent at least 1% of Euro area banks' covered deposits.

But keep in mind: its capital support is only available after at least 8% of total liabilities of a failing bank have been bailed-in. We have collected so far a little over 10 billion euros to the SRF, with the next annual contribution due on June 30 2017. There is still a lot to be considered, including work on a common backstop; but at least the safety net of loan facility agreements was completed in early 2017.

The Commission's proposal

Finally, I will talk through some of the SRB's key points on the Commission proposal.

On the Commission's proposed implementation of the international TLAC-standard as Pillar 1 MREL, with additional MREL being a Pillar 2 requirement, it is important that we avoid any cliff effect between G-SIBs and other institutions which are systemic in Europe. The level playing field has to be preserved. We therefore have great sympathy for the EBA recommendation to extend mandatory subordination to other systemic institutions with adequate transition periods and more generally **we would support a Pillar 1 requirement for other systemic institutions**. I believe it would be helpful for the European Parliament to consider this topic, too.

It is also important to give or at least maintain the existing flexibility for resolution authorities to tailor the MREL level and quality to the resolution strategy and the resolvability of the institution.

For Pillar 1, the transition period should be set to ensure the EU meets international requirements, i.e. in 2019 and 2022. For Pillar 2 MREL, resolution authorities will need the flexibility to set appropriate transition periods, with an adequate balance to avoid having an endless phase-in period given the risks of a prolonged transition should a bank be put in resolution.

On the creditor hierarchy, the SRB welcomes the decision to prioritise this file, and views that rapid progress would provide needed certainty around junior debt issuance. It is important that the proposal is sufficiently robust and **no ambiguity** be left in the proposal with respect to the treatment of existing successful national approaches.

Finally, on the moratorium tool, we view this as sitting at the interface of going- and gone-concern. It is primarily a tool which allows the authorities to safeguard the financial means of an institution prior to resolution. For this tool to work, it will be essential for the resolution authority and competent authority to co-operate effectively. Given the potential difficulties in returning a firm to the market after applying supervisory moratorium, it is very likely the firm will enter resolution if a supervisory moratorium is applied and so coordination is necessary.

Let me conclude by saying that while there is still much work to be done, both with the banks and on policy matters, **the SRB will be prepared to handle a resolution if and when necessary.**

Thank you very much for your time!