



**Single
Resolution Board**

11/22/2017 | **6th Industry Dialogue: Critical functions and
bank reportings**

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AGENDA

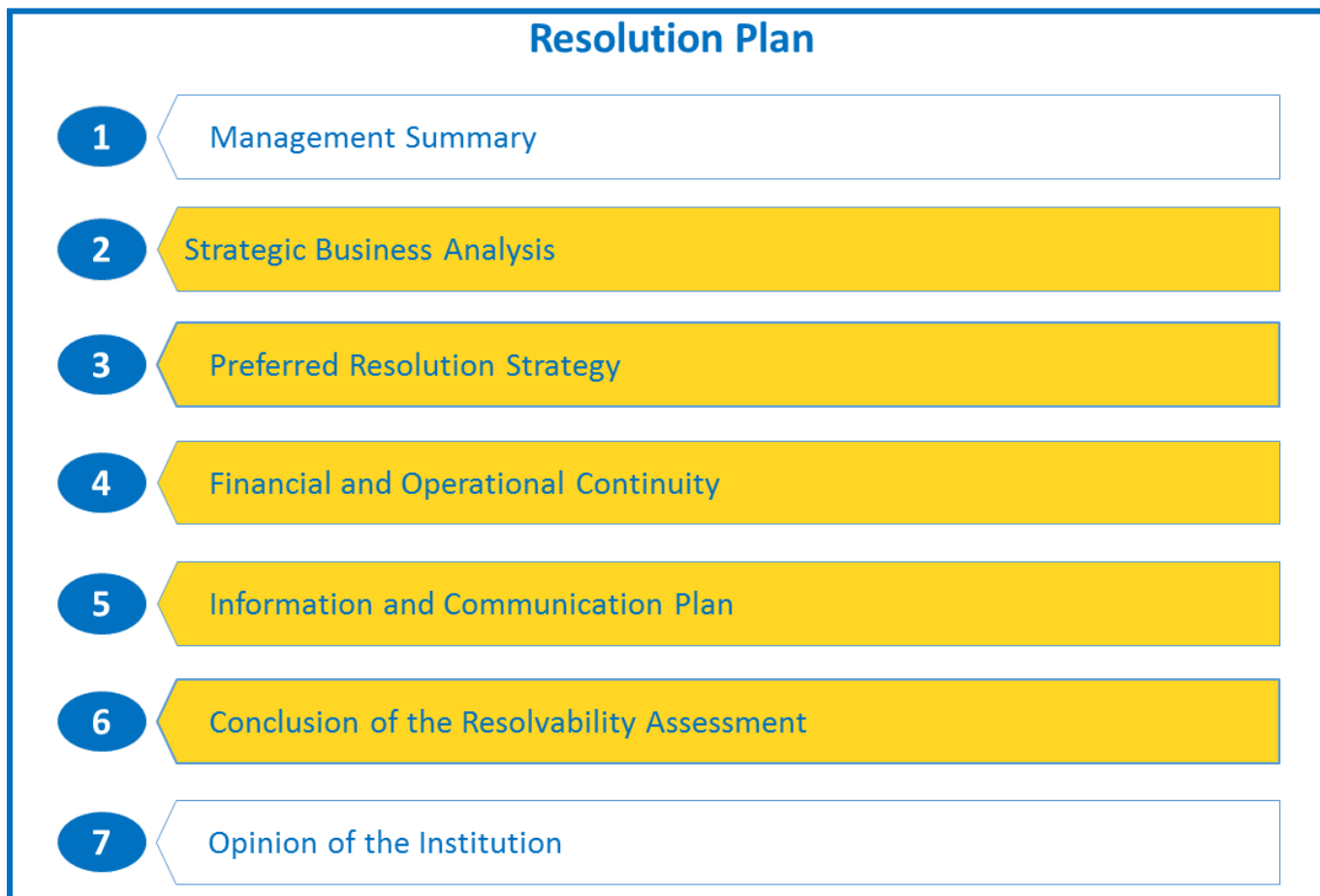


1. Introduction
2. Critical Functions Reports by Banks
3. Benchmarking Exercise by SRB
4. Conclusion and next steps

INTRODUCTION

Critical functions: a key element in resolution plans

- Critical functions come into play in nearly all chapters of resolution plans

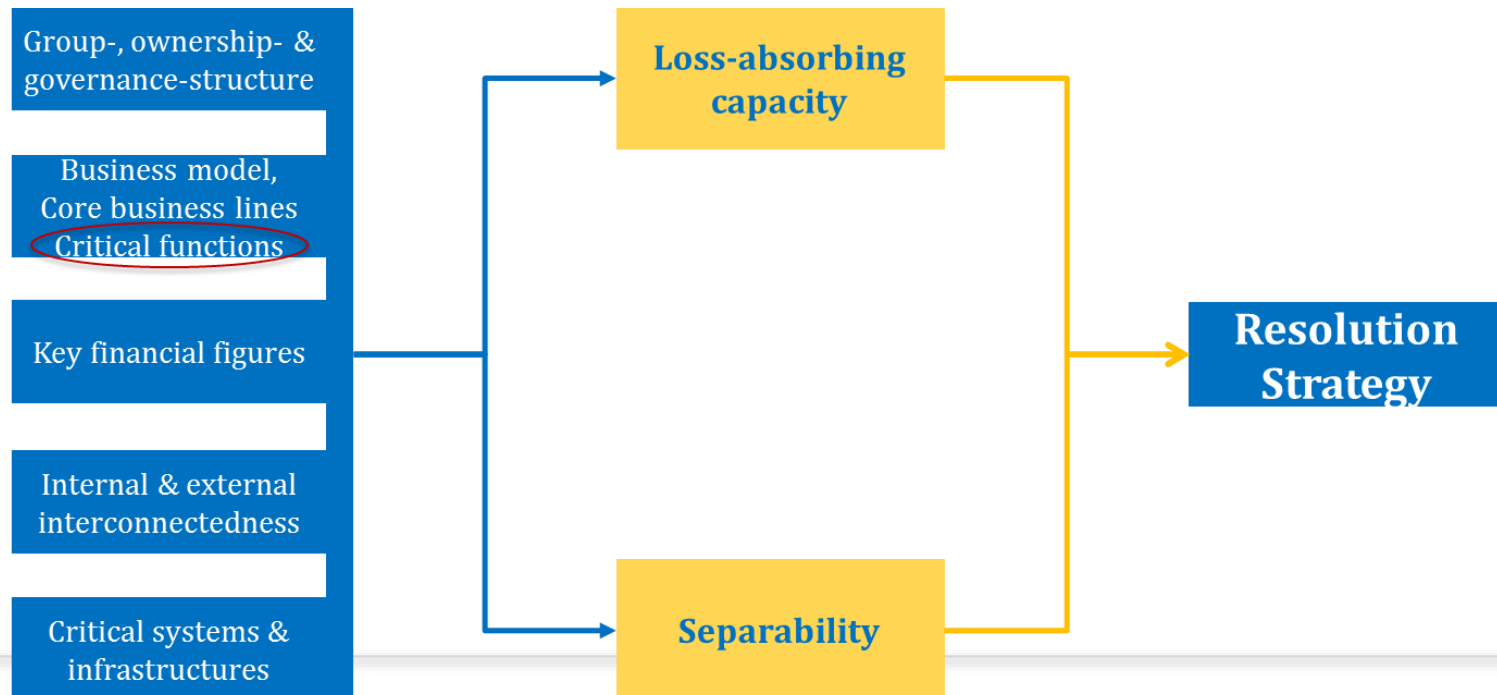


INTRODUCTION

Critical functions: a key element in resolution plans

Critical functions have consequences for the

- ✓ Determination of (available and necessary) **loss-absorbing capacity** and (internal) **MREL**
- ✓ **Separability** analysis, and (efforts supporting) **financial and operational continuity** and, finally,
- ✓ Determination of the **preferred resolution strategy**, the **resolvability assessment** and the identification of **impediments to resolvability**



CRITICAL FUNCTIONS REPORTS

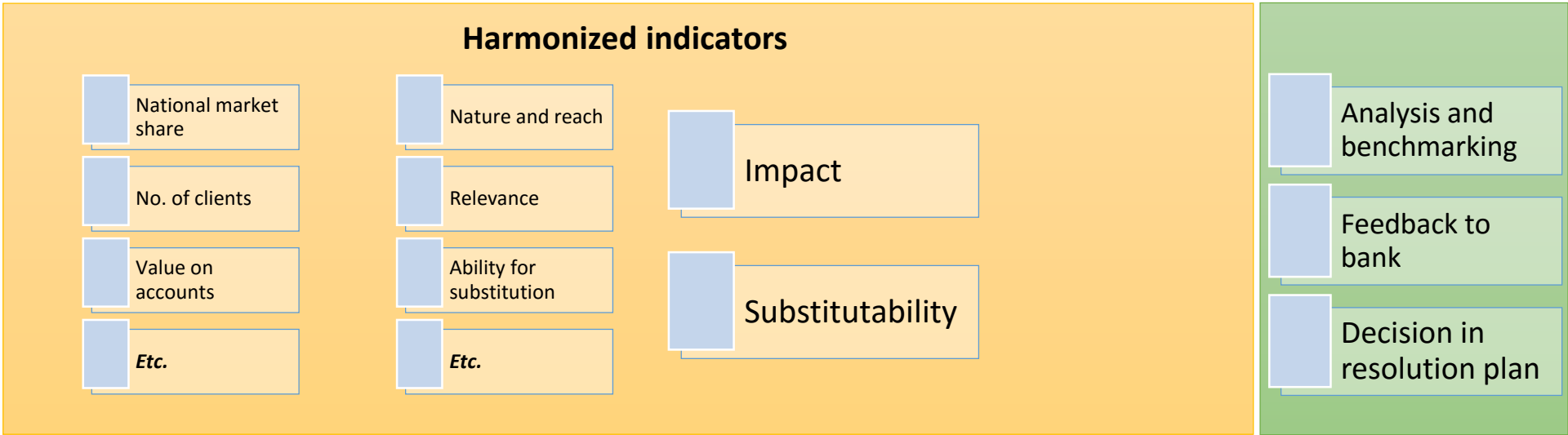
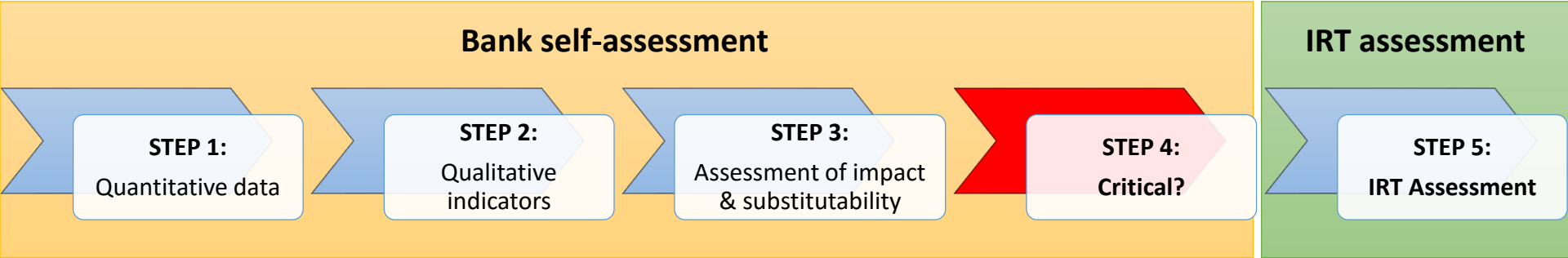
An essential input

- In 2016 critical functions assessments used different approaches and terminologies in recovery and resolution plans
- To promote consistency, the SRB developed a **new template for critical functions (CFT)** supporting the identification of critical functions, **in cooperation with the ECB and the EBA**
 - ✓ The SRB and ECB are working together to align critical functions in recovery and resolution plans
- ✓ Standardised format and content
 - > New methodology and template used for the **first time in 2017**
 - > All banks follow **pre-defined self-assessment** steps in line with Delegated Regulation
- ✓ Harmonised methodology
 - > Quantitative information informs qualitative assessment
 - > No fixed thresholds, but well-informed expert judgement
- ✓ Improved quality of assessments by banks and IRTs
 - > Enables comparisons across banks and countries and benchmarking of results
 - > Ongoing process: working together to achieve further improvement

CRITICAL FUNCTIONS REPORTS

...To a systematic approach

- Banks' self-assessments are essential material for the assessment by IRTs
- For each of the five economic functions, **banks** self-assess how critical they are (Steps 1-4)



SRB BENCHMARKING EXERCISE

- Benchmarking reported CFT of 71 banking groups
 - > Only subsidiaries (“entities”) located in the Banking Union
 - > Comparison of banks’ self-assessments only, not IRTs’ conclusions
- Sample consists of banks of different sizes:

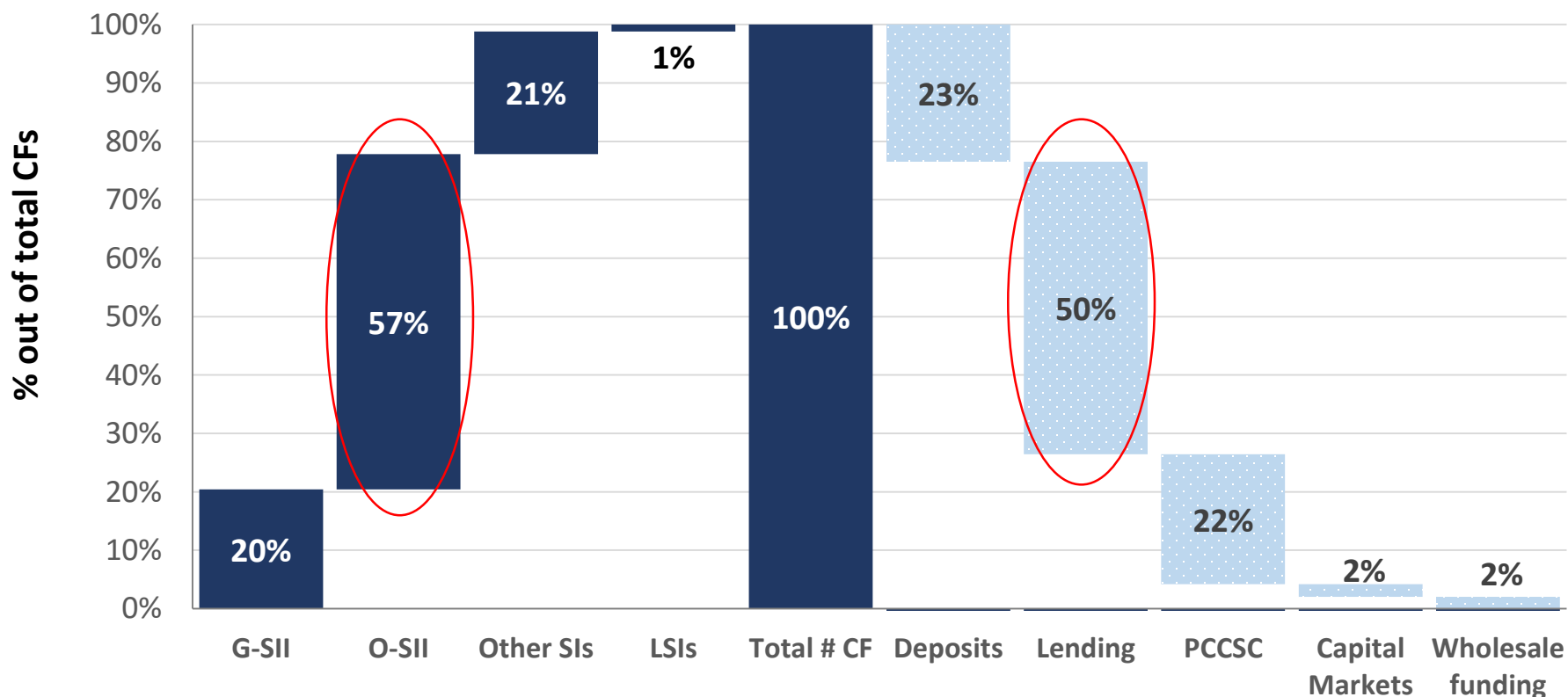
↑ banks' size

Type of banking groups included in sample	# banking groups	# entities
Globally systemically important institutions	8	96
Other systemically important institutions	34	180
Significant Institutions (excluding O-SIIs & G-SIIs)	22	53
Less Significant Institutions	7	24
Total	71	353

SRB BENCHMARKING EXERCISE

Bank assessments tend to earmark lending activities as critical, while O-SIIs tend to declare more critical functions than others

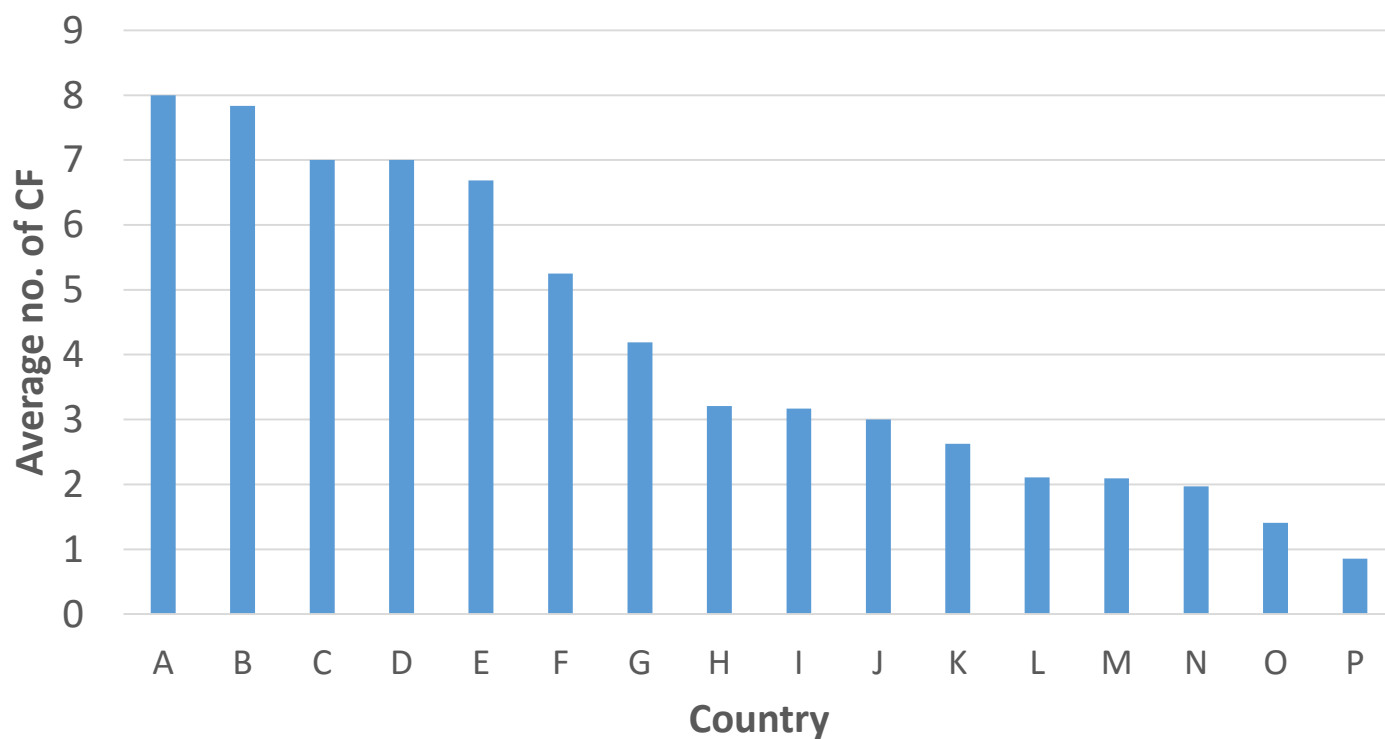
- Most identified critical functions (50%) within the lending category
- Lending often reported as critical by O-SIIs



SRB BENCHMARKING EXERCISE

Bank assessments show that the number of critical functions varies depending on countries

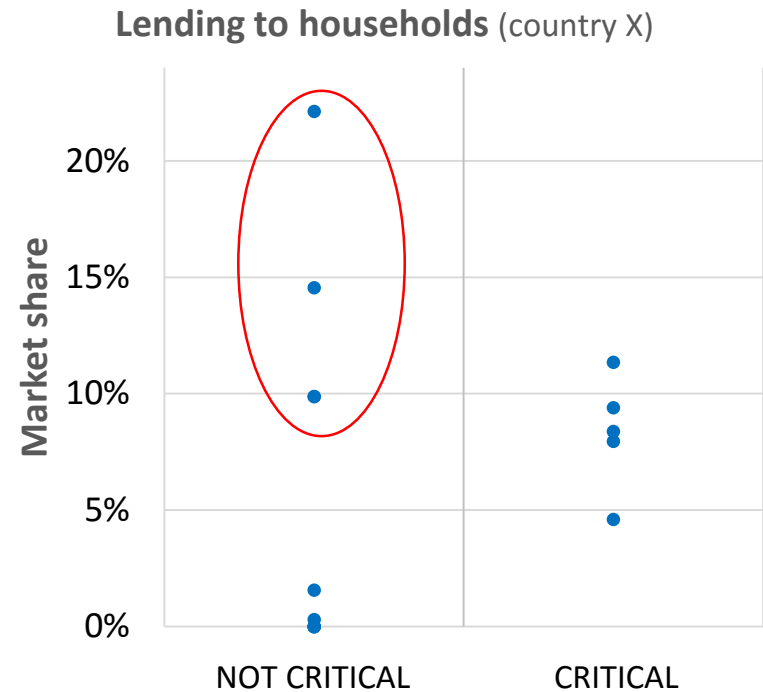
- The average number of critical functions per country varies
 - ✓ only partially driven by number of banks (reporting entities), country or bank sizes.



SRB BENCHMARKING EXERCISE

Bank assessments show some internal inconsistencies

- **Example “lending to households”:** some banks with market shares above 10% did not consider the function critical, in contrast to others with smaller market shares
- This holds for all functions for which the SRB has identified outliers.



CONCLUSION AND NEXT STEPS

- Overall, the **self-assessment by banks** of critical functions has **improved** in comparison with the previous resolution planning cycle
- Some **inconsistencies** in the way banks assess critical functions still emerge from the benchmarking analysis
 - > The approach leaves room for qualitative/ expert judgment by banks
- The **IRTs, based on internal guidance**, assessed and in certain cases challenged the banks' self-assessment
 - > Leading to changes of banks' conclusions
- The **SRB is drawing lessons** from the first application of the approach, also in terms of need for:
 - > Enhancing benchmarking and peer analyses
 - > Updating the guidance to banks and IRTs
- The outcome of the critical functions assessment will feed into the further development of resolution plans



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THANK YOU

For more information, please contact:

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