



**Single
Resolution Board**

Fifth Industry Dialogue

Critical Functions and Access to FMIs: *New Templates for Resolution Planning*

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CRITICAL FUNCTIONS: KEY FOR RESOLUTION (i)

Continuity of critical functions: One of the five resolution objectives

*Critical functions are functions that **are provided** by an institution **to third parties** not affiliated to the institution or group, whose **sudden disruption** would likely have a material **negative impact on the third parties**, give rise to contagion or undermine the **general confidence of market participants**.*

→ Ensuring continuity of critical functions:
one of the five resolution objectives

→ Identifying critical functions is essential
in resolution planning

Why?

✓ Ensure the continuity of critical functions

✓ Avoid a significant adverse effect on the financial system [...]

✓ Protect public funds by minimising reliance on extraordinary public financial support

✓ Protect covered depositors and investors [...]

✓ Protect client funds and client assets

CRITICAL FUNCTIONS: KEY FOR RESOLUTION (ii)

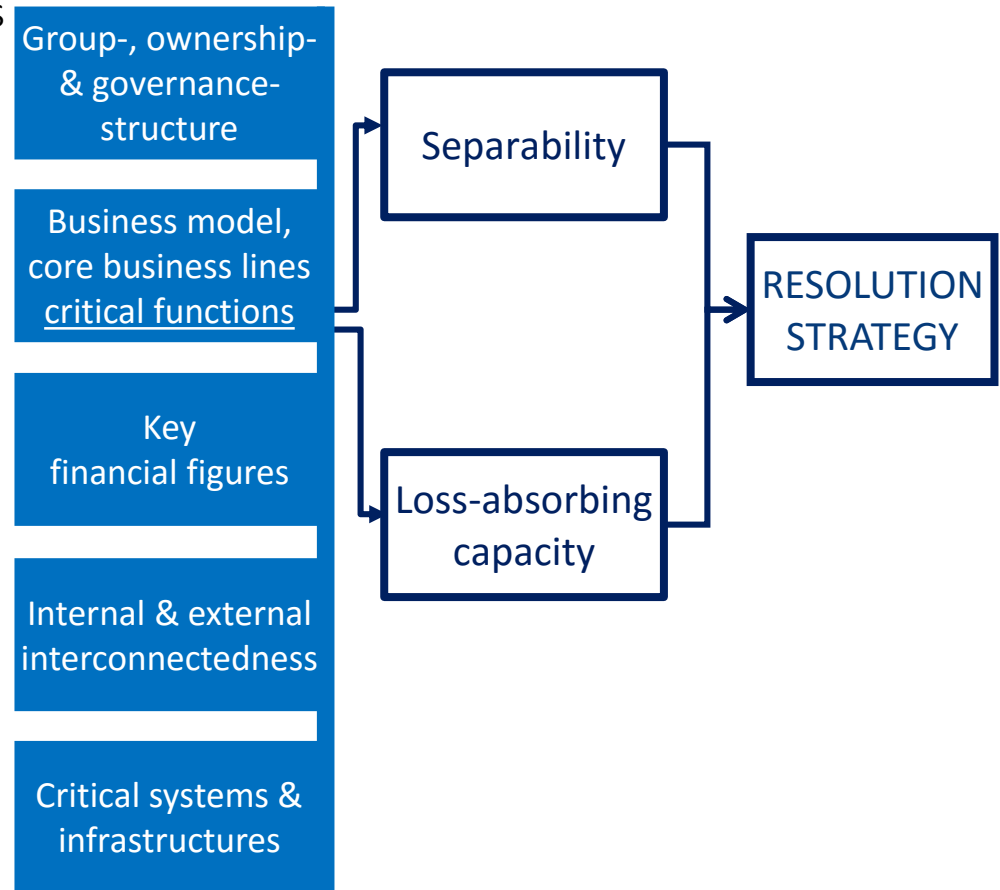
Critical functions: a “node” in resolution plans

Part of the first chapter of resolution plans
(i.e. Strategic Business Analysis)

Important to assess:

- **Separability**;
- **Loss-absorbing capacity** (MREL):
quantum and location

This has consequences for the preferred
resolution strategy and tools



IDENTIFYING CRITICAL FUNCTIONS: COMMON APPROACH (i)

Developing a common approach for the Banking Union

- Toolkit for banks and Resolution Authorities:
 - Package for banks: template and guidance note
 - Package for Resolution Authorities
- The bank package can be used for resolution and recovery plans



IDENTIFYING CRITICAL FUNCTIONS: COMMON APPROACH (ii)

The SRB is developing a common approach for the Banking Union

- Bank package provides guidance on:
 - > Definition of critical functions
 - > Methodology for assessing criticality (impact and supply-side analyses)
- First version tested on pilot banks
- Complementary to the EBA template:
 - > EBA template focuses on mapping critical functions to legal entities and core business lines.

FSB (2013) Guidance on Identification of Critical Functions and Critical Shared Services
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)
EC Delegated Regulation on Critical Functions & Core Business Lines, Feb 2016
EBA/Op/2015/05 Technical advice on delegated acts on Critical Functions & Core Business Lines
EBA/RTS/2014/15 Art. 3(c)(ii)
Resolution Planning Manual Chapter 2.2.5

IDENTIFYING CRITICAL FUNCTIONS: COMMON APPROACH (iii)

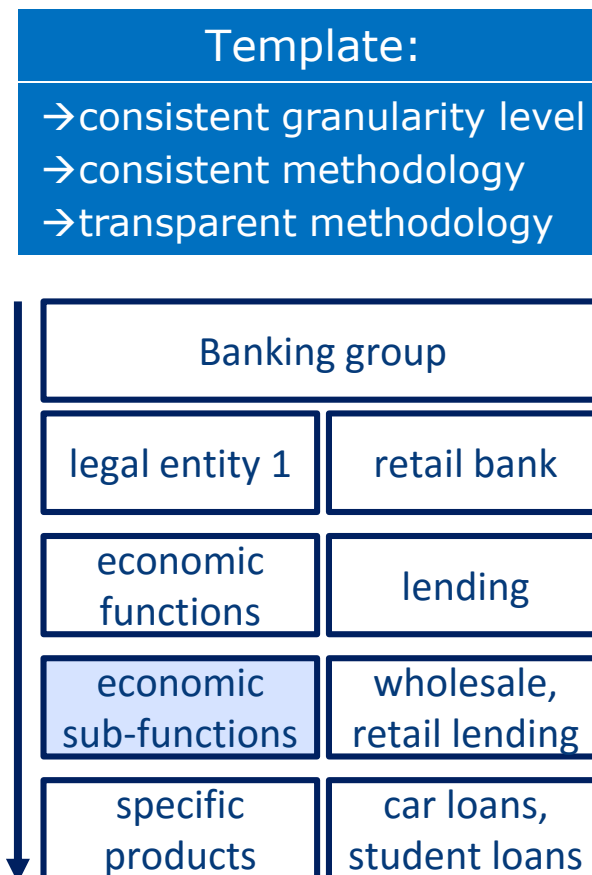
Increasing harmonization while maintaining flexibility

Harmonization of:

- Granularity: economic sub-functions
- Indicators: mix of quantitative indicators and qualitative expert judgement
- Geographical scope: Member State is mandatory

Flexibility:

- Additional sub-functions could be added in special cases and some are optional



MAIN FEATURES CRITICAL FUNCTIONS TEMPLATE (i)

Part 1: select applicable sub-functions

Economic functions

- ✓ Key economic sub-functions based on the five economic functions retained by FSB
- ✓ Banks can add sub-functions (in grey cells)

Snapshot
(deposits)

Part 1: select applicable functions			
Economic (sub-)functions			
	Code	Sub-function	Applicable? (yes or no)
Deposits	F.1	Households	please select
	F.2	Non-financial corporations - SMEs	please select
	F.3	Non-financial corporations - other	please select
	F.4	General Governments	please select
	F.5.1	Additional function [specify if provided]	

MAIN FEATURES CRITICAL FUNCTIONS TEMPLATE (ii)

Part 2: report quantitative data

Data input cells

- ✓ Harmonised geographical scope (national market shares are mandatory, regional/global can also be provided)

Part 2: report quantitative data (only for applicable functions)

Data Input Cells when a function is marked as applicable (column G), report data in blank cells in # (thousands) or € millions, or as otherwise indicated. Exclude intra-group transactions.

Q.1	Q.2	Q.3	Q.4	Q.5	Q.6	
national market share	optional: regional market share	value on accounts	number of clients	number of accounts	cross-border value	
based on value on residents' accounts (in %)	based on value on regional residents' accounts (in %)	(in € Mn.)	(in # thousands)	(in # thousands)	value on accounts of deposits of non-residents (in € Mn.)	

Snapshot (deposits)

MAIN FEATURES CRITICAL FUNCTIONS TEMPLATE (iii)

Part 3: impact and supply-side assessments

Impact assessment

- ✓ Harmonised steps for assessing impact of discontinuation of a sub-function on third parties (from high to low)

Part 3: assess impact and supply-side using the pre-defined indicators and reporting buckets			
Impact Analysis - select from drop down list			
Nature and reach			Relevance
I.1	I.2	I.3	I.4
size indicator 1 - values within EU	size indicator 2 - national numbers	cross border indicator	national market share
expert judgement of size based on values (Q.3)	expert judgement of size based on numbers (Q.4)	number of EU countries in which the entity has >5% market share	expert judgement of national market share (Q.1)
H: large	H: large	H: >5 countries	H: large
MH: medium	MH: medium	MH: [4-5 countries]	MH: medium
ML: small	ML: small	ML: [2-3 countries]	ML: small
L: negligible	L: negligible	L: ≤1 country	L: negligible

Snapshot (deposits)

MAIN FEATURES CRITICAL FUNCTIONS TEMPLATE (iv)

Part 3: impact and supply-side assessments

Supply-side assessment

- ✓ Harmonised steps for assessing the degree of substitutability for each function (from high to low)

Part 3: assess impact and supply-side using the pre-defined indicators and reporting buckets				
Supply-Side Analysis - select from drop down list				
Market Structure		Timing	Ability for substitution	
S.1	S.2	S.3	S.4	S.5
national market share	market concentration	expected time for substitution	legal barriers	operational requirements
autofilled from indicator I.4	number of competitors that could substitute the function	time for the function to be absorbed by the market	barriers to market entry or expansion	organisational, infrastructural, and technical requirements
H: large	H: <5	H: >6 months	H: critical barriers	H: critical requirements
MH: medium	MH: [5-10)	MH: [1-6 months]	MH: substantial barriers	MH: substantial requirements
ML: small	ML: [10-20)	ML: [1 week - 1 month]	ML: some barriers	ML: some requirements
L: negligible	L: ≥20	L: <1 week	L: no major barriers	L: no major requirements

Snapshot (deposits)

MAIN FEATURES CRITICAL FUNCTIONS TEMPLATE (v)

Part 4: Criticality assessment

Criticality assessment

- ✓ Clear overview summarising the impact and supply-side analyses
- ✓ Conclusion of criticality assessment (yes/no)

Snapshot

Part 4: assess criticality (only of applicable functions)			
Criticality Assessment			
C.1	C.2	C.3	C.4
Impact Analysis on national market	Optional: Impact analysis on regional market	Supply-Side Analysis	Critical Function?
H: major impact		H: not substitutable	Yes
MH: significant impact		MH: difficult to substitute	Yes
ML: material, but limited impact		ML: reasonably substitutable	No
L: low impact		L: substitutable	No

NEXT STEPS

Submission process

- National Resolution Authorities communicate
 - which entities fall within the scope of the exercise
 - which cells of the EBA Template do not need to be filled in

Ultimate submission deadline: 28 April

▪ Today: template and guidance published on SRB website

▪ The template will serve as a basis for the identification of critical functions in 2017 resolution (and recovery) plans.

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FMI: KEY FOR RESOLUTION (i)

Access to FMIs: essential for ensuring resolvability

- Related to at least two of the five resolution objectives
- Critical functions cannot be preserved without access to FMIs
- Risk of losing access to FMIs mentioned as impediment to resolvability in resolution plans

✓ Ensure the continuity of critical functions

✓ Avoid a significant adverse effect on the financial system, **in particular by preventing contagion to market infrastructures**

✓ Protect public funds by minimising reliance on extraordinary public financial support

✓ Protect covered depositors and investors [...]

✓ Protect client funds and client assets

FMI: KEY FOR RESOLUTION (ii)

International standard-setting bodies and BRRD

FSB consults industry on “Continuity of Access to FMIs for a firm in resolution”

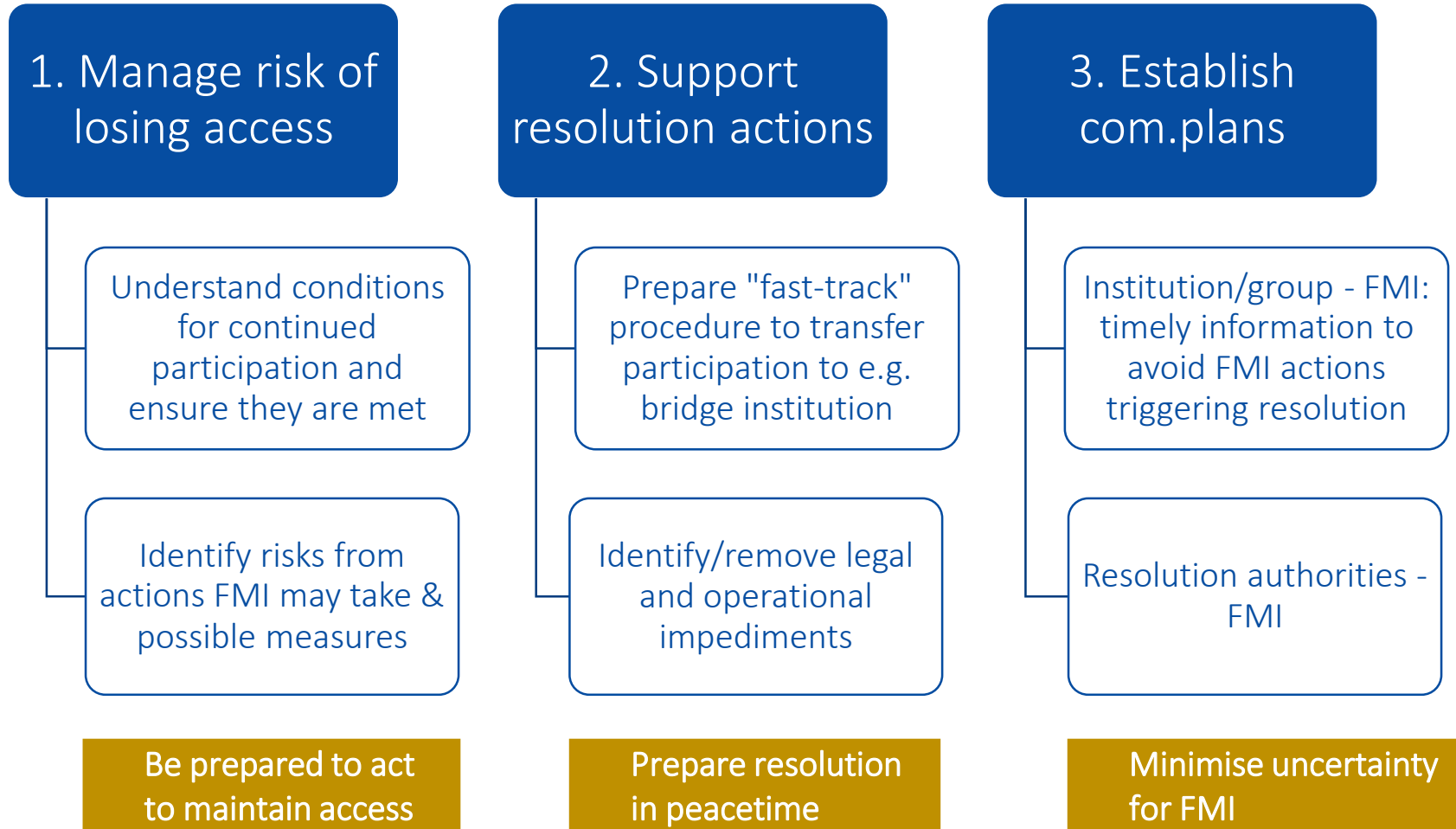
1- Providers of critical FMI services should take appropriate steps to consider and plan for the interaction between the resolution regimes and their own risk management framework; thereby clarifying the actions they may take in a resolution scenario.

2- Firms should take adequate measures to facilitate their continued access to critical FMI services in resolution (..), including by ensuring that obligations to FMI service providers are met throughout resolution and through the provision of information to the relevant authorities.

3- The relevant authorities of firms and providers of critical FMI services (..) should (..) have adequate cooperation arrangements in place.

FMI: KEY FOR RESOLUTION (iii)

SRB Initiative to liaise with FMIs – Three pillars



INFORMATION COLLECTION ON FMI PARTICIPATION (i)

FMI Access is important for resolution planning



Strategic Business Analysis

- Identify essential FMI accesses
- Understand potential FMI behaviour and impact



Operational Continuity

- Maintain access where necessary and possible
- Prepare orderly wind-down and discontinuation in other cases



Communication Plans

- Communication Plan should include FMIs

INFORMATION COLLECTION ON FMI PARTICIPATION (ii)

FMI Template

- Based on EBA template: Annex VIII on payment, clearing and settlement systems
 - > Common denominator across the EU
- Purpose: improve quality and detail of FMI membership analyses in resolution plans
 - > “Best of class” plans go beyond Annex VIII
 - > Annex VIII needs to be expanded to allow for a sufficient understanding of relation with FMI
- Provides a reasonably detailed overview of banks’ participation in FMIs, but should not replace in-depth discussion.
 - ✓ Ill-suited for extensive descriptions / legal considerations
 - ✓ Level of detail needed depends on criticality of FMI: for the most critical FMIs, template does not cover all needs
- Horizontal data gathered directly by resolution authorities
 - ✓ Membership requirements, termination clauses, mitigating actions that FMIs would take...
 - ✓ First for BU FMIs + CLS, expanded to cover all critical FMIs over time

INFORMATION COLLECTION ON FMI PARTICIPATION (iii)

Structure of the FMI Template

□ Characteristics of the FMIs and representative institutions providing indirect access to FMIs

Qualitative information on use of the system by the reporting institution

- Country / governing law
- Currencies
- Core and ancillary services received from FMI (or representative institution)
- Service providers needed to access FMI

Snapshot (new elements)

Operator	Country	Currency(ies) relevant for reporting entity	Core services provided by FMI	Ancillary services provided by FMI	Services provided to FMI	Communication service providers
A10	A20	A30	A40	A50	A60	A70

INFORMATION COLLECTION ON FMI PARTICIPATION (iv)

Structure of the FMI Template

□ Key metrics (new section)

Quantitative data showing the extent to which the reporting institution uses the FMI and relevant exposures

- Values/volumes
- Client/proprietary
- Available credit lines, peak liquidity requirements and estimated increased liquidity requirements under stress

Snapshot

Key metrics

Value of positions on proprietary accounts (EUR Mn)	Value of positions on client omnibus accounts (EUR Mn)	Value of positions on client segregated accounts (EUR Mn)	Number of clients covered by omnibus accounts ('000)	Number of clients covered by segregated accounts ('000)	Number of transactions on proprietary accounts ('000)	Number of transactions on client accounts ('000)	Value of transactions on proprietary accounts (EUR Mn)	Value of transactions on client accounts (EUR Mn)	Credit line (EUR Mn)	Peak of (intraday) liquidity or collateral requirements (EUR Mn)	Estimated additional liquidity or collateral requirements in a stress situation (EUR Mn)
Q	R	S	T	U	V	W	X	Y	Z	AA	AB

INFORMATION COLLECTION ON FMI PARTICIPATION (v)

Structure of the FMI Template

□ Potential impact of resolution proceedings

Qualitative information to understand impact of resolution or necessary at the point of resolution

- Termination triggers
- Time-to-substitution
- Contact for the bank within the FMI (e.g. relationship manager)

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PROCESS

SRB and EBA Templates

Templates for SRB data collection have been developed or improved in 2016....
replacing or complementing the EBA templates:

- LDT: more granular information on the liability structure than EBA Annex V
=> LDT replaces EBA Annex V
- CFT: assists in the identification of critical functions vs. EBA Annex III: mapping to legal entities and core business lines.
=> Some quantitative data cells of EBA Annex III are redundant
- FMI template: adds data requests to EBA Annex VIII
=> If FMI template is filled, then EBA Annex VIII does not need to be filled

PROCESS

Publishing and submission dates

Template	Start	Submission deadline	Publication
Liability Data Template	December 2016	15 May 2017	SRB website
Critical Functions Template	February 2017	28 April 2017	SRB website
EBA Template	February 2017	15 May 2017	EBA website
FMI Template	February 2017	15 May 2017	SRB website

PROCESS

Q&As

- Questions for which guidance is not yet available can be submitted to the National Resolution Authorities
- Critical Functions Template
 - ‘Frequently Asked Questions’ (based on the 2016 pilot exercise) in the guidance note
 - Dedicated worksheet for questions in the Critical Functions Template

PROCESS

Reporting Scope

Template	Institutions	Entities within scope
Liability Data Template	All institutions	<ul style="list-style-type: none">• C.f. LDT presentation
Critical Functions Template	Institutions for which full plans are being drafted	<ul style="list-style-type: none">• Resolution Authorities communicate entities within scope → includes, at a minimum, entities that were found to possess critical functions in 2016• Information collected on a consolidated, sub-consolidated or individual level, as defined by Resolution Authorities.
EBA Template	All institutions	<ul style="list-style-type: none">• Resolution entity level• Relevant legal entities
FMI Template	Institutions for which full plans are being drafted	<ul style="list-style-type: none">• Same scope as EBA Template



**Single
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1/31/2017 **THANK YOU**