

# **SRB – BANKING INDUSTRY DIALOGUE MEETING**

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SRB Expectations for banks

Tuesday, 18 June 2019

Presenter: **Sebastiano LAVIOLA**



Single Resolution Board – Industry Dialogue

## **1. OVERVIEW OF "EXPECTATIONS FOR BANKS"**

## “EXPECTATIONS FOR BANKS”

- ▶ One of the SRB’s multi-annual priorities is to further deepen the analysis of banks’ resolvability as well as to identify and assess potential impediments.
- ▶ To that end, the SRB is working on the “Expectations for banks”, which complements the Resolvability Assessment.
- ▶ This document aims to make the banks under the direct remit of the SRB aware of its general expectations regarding the steps and initiatives which aim to ensure that a bank is resolvable. Individual work programs will be tailored on the basis of a dialogue between Internal Resolution Teams (IRTs) and banks.

## BANKS' ROLE IN ACHIEVING RESOLVABILITY

***“Working together” is crucial in building resolvability.***

- ▶ Banks play an important role to make themselves resolvable, inter alia, in the process of identifying and removing impediments.
- ▶ Where impediments are identified, banks are expected to propose possible measures to address or remove those impediments.
- ▶ The SRB will monitor banks' efforts and involvement throughout the process. In particular, the SRB will assess whether the actions taken by banks are sufficient to mitigate or eliminate impediments to resolvability in a timely manner.
- ▶ If pursuant to an assessment of resolvability the SRB determines that there are substantive impediments to resolvability, it initiates a procedure to remove or address those impediments under Article 10(7)-(9) SRMR.

## “EXPECTATIONS FOR BANKS”: STRUCTURE OF THE DOCUMENT (1/2)

Structure of the document:

- ▶ Governance;
- ▶ Loss absorption and recapitalization capacity;
- ▶ Liquidity and Funding in resolution;
- ▶ Operational continuity and access to FMIs;
- ▶ Information systems and data requirements;
- ▶ Communication;
- ▶ Separability and restructuring.

These dimensions are underpinned by “objectives”, “principles” and “expectations”, which banks are expected to meet in principle to be considered resolvable.

## “EXPECTATIONS FOR BANKS”: STRUCTURE OF THE DOCUMENT (2/2)

### Objectives

- The objectives (first layer) describe a steady state and the steps banks, in principle, are expected to take towards resolvability.

### Principles

- Each objective is further substantiated by principles (second layer), which together form the objective in the respective dimension.

### Expectations

- In order to operationalize the principles, for each principle, the document sets out expectations banks are expected to meet in principle to be resolvable (third layer).

# THE OBJECTIVES (1/2)

<b>1 Governance</b>	<p>Banks have in place robust governance processes that facilitate the preparation as well as the implementation of the resolution strategy. Robust governance arrangements ensure (i) a timely and accurate provision of relevant information on regular and ad hoc basis, (ii) effective oversight during resolution planning and in crisis and (iii) efficient decision making.</p>
<b>2 Loss Absorption and Recapitalization Capacity</b>	<p>Banks have available sufficient loss absorbing and recapitalization capacity at the point of entry into resolution to comply with the conditions for authorisation and to regain market confidence post-resolution, allowing, <i>inter alia</i>, to continuously perform critical functions during and after the resolution event.</p>
<b>3a Operational Continuity</b>	<p>Banks have safeguards in place supporting, ahead of and during resolution, the availability of relevant services, operational assets and staff necessary for the performance of critical functions and core business lines as well as the effective and timely implementation of the resolution strategy.</p>
<b>3b Access to FMIs</b>	<p>Banks have established the necessary processes to maximise the likelihood of maintaining access, ahead of and during resolution, to Financial Market Infrastructures and to payment, clearing, settlement and custody services provided by intermediaries.</p>

## THE OBJECTIVES (2/2)

<b>4</b> <b>Liquidity and Funding in Resolution</b>	Banks have established processes and developed capabilities to (i) estimate the liquidity and funding needs for the implementation of the resolution strategy, (ii) measure and report the liquidity situation in resolution and (iii) identify and mobilise available collateral that can be used to obtain funding during and after resolution.
<b>5</b> <b>Information Systems and Data Requirements</b>	Banks have in place adequate MIS, valuation capabilities and technological infrastructure to provide the information necessary for (i) the development and maintenance of resolution plans, (ii) the execution of a fair, prudent and realistic valuation, and (iii) the effective application of resolution action, also under rapidly changing conditions.
<b>6</b> <b>Communication</b>	Banks have in place communication plans to ensure timely, robust and consistent communication to relevant stakeholders supporting the implementation of the resolution strategy. Governance arrangements ensure an effective execution of the communication plan.
<b>7</b> <b>Separability and restructuring</b>	Banks' structure, complexity and interdependencies do not present obstacles to, and ideally support, the operational implementation of the resolution strategy.

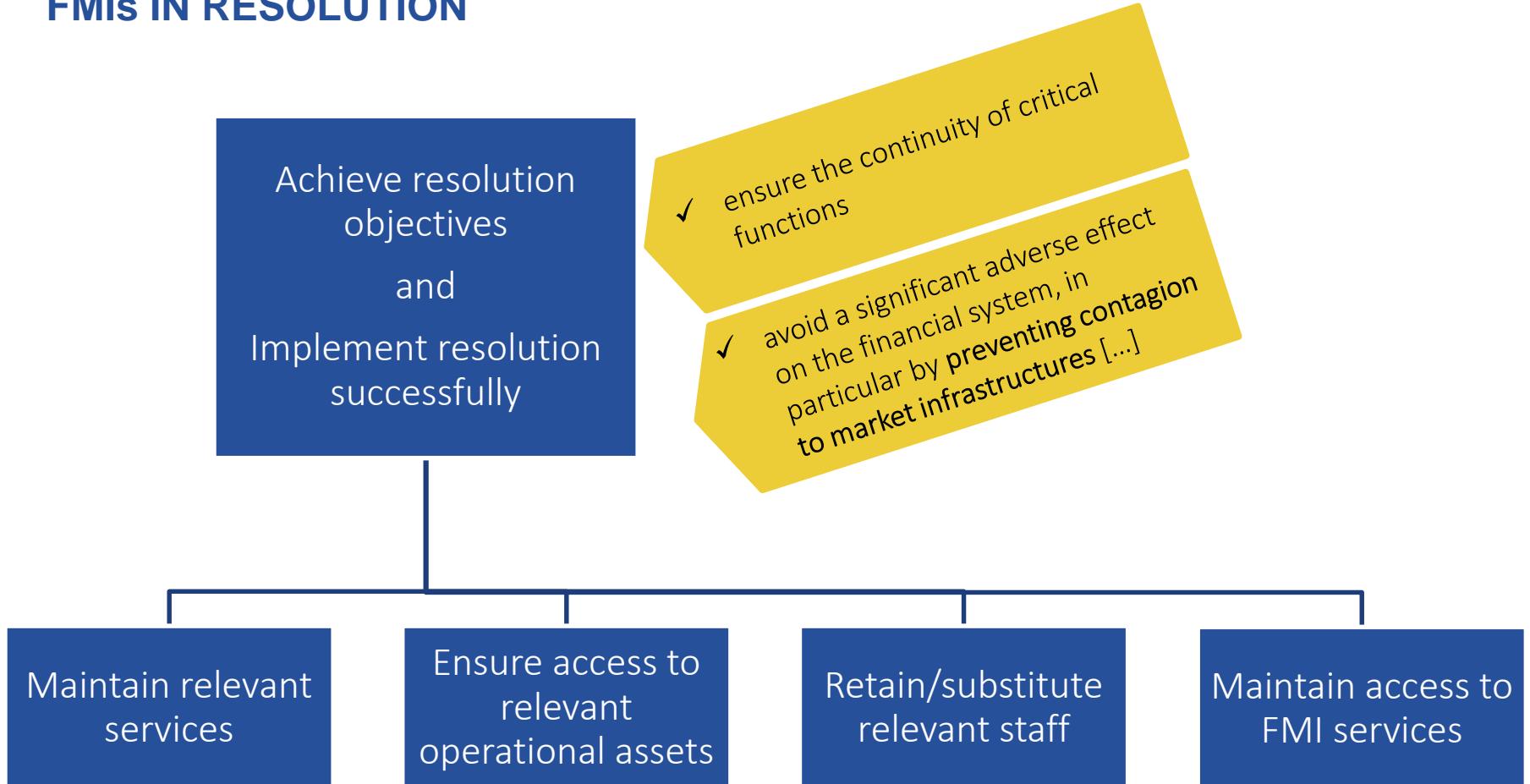
## OUTLOOK

- ▶ The SRB will consult the Industry on the “Expectations for banks” in Q4 2019.
- ▶ The expectations will be phased in over time.
- ▶ Like in previous cycles, the SRB will set priorities. For the resolution planning cycle 2020/2021 the work program will be tailored on the basis of a dialogue between Internal Resolution Teams (IRTs) and banks.
- ▶ IRTs may request additional information and analyses on specific topics throughout the respective resolution planning cycle that are relevant for resolution planning and to improve the resolvability of individual banks.
- ▶ Proportionality considerations will be taken into account with regard to the expectations.

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## **2. SPECIFIC FOCUS ON OPERATIONAL CONTINUITY AND ACCESS TO FMIs**

# OBJECTIVES OF OPERATIONAL CONTINUITY, INCLUDING ACCESS TO FMIs IN RESOLUTION



# OPERATIONAL CONTINUITY IN RESOLUTION: SRB EXPECTATIONS

## Key criteria for operational continuity in resolution (1/2)

### Identification and mapping

- Identification of all relevant services, related operational assets and staff
- Mapping to legal entities, critical functions, core business lines and related contractual arrangements

### Risk assessment

- Assessment of risk to operational continuity in resolution
- Understanding of risk of discontinuation of relevant services and unavailability of relevant operational assets and staff

### Mitigation

- Documentation of relevant services
- Resolution-resilient contracts and related mitigation plans
- Service providers are informed of resolution powers
- Arm's length charging structures
- Financial resilience of service providers
- Arrangements to ensure the continued access to relevant operational assets
- Arrangements in place to retain, substitute or transfer relevant staff

# OPERATIONAL CONTINUITY IN RESOLUTION: SRB EXPECTATIONS

## Key criteria for operational continuity in resolution (2/2)

### MIS/ databases & Governance

- Up-to-date “service catalogue” documenting the mapping of relevant services, operational assets and staff to legal entities, critical functions, core business lines
- Up-to-date repository of relevant service contracts in a searchable format
- Timely and accurate annual reporting
- Effective governance ensuring operational continuity of services, including governance of intragroup service providers

## OPERATIONAL CONTINUITY IN RESOLUTION: SCOPE

Relevant services need to be identified in a targeted way

### Relevant services

#### Critical services

Necessary to continue **critical function**

#### Essential services

Necessary to continue **core business line**

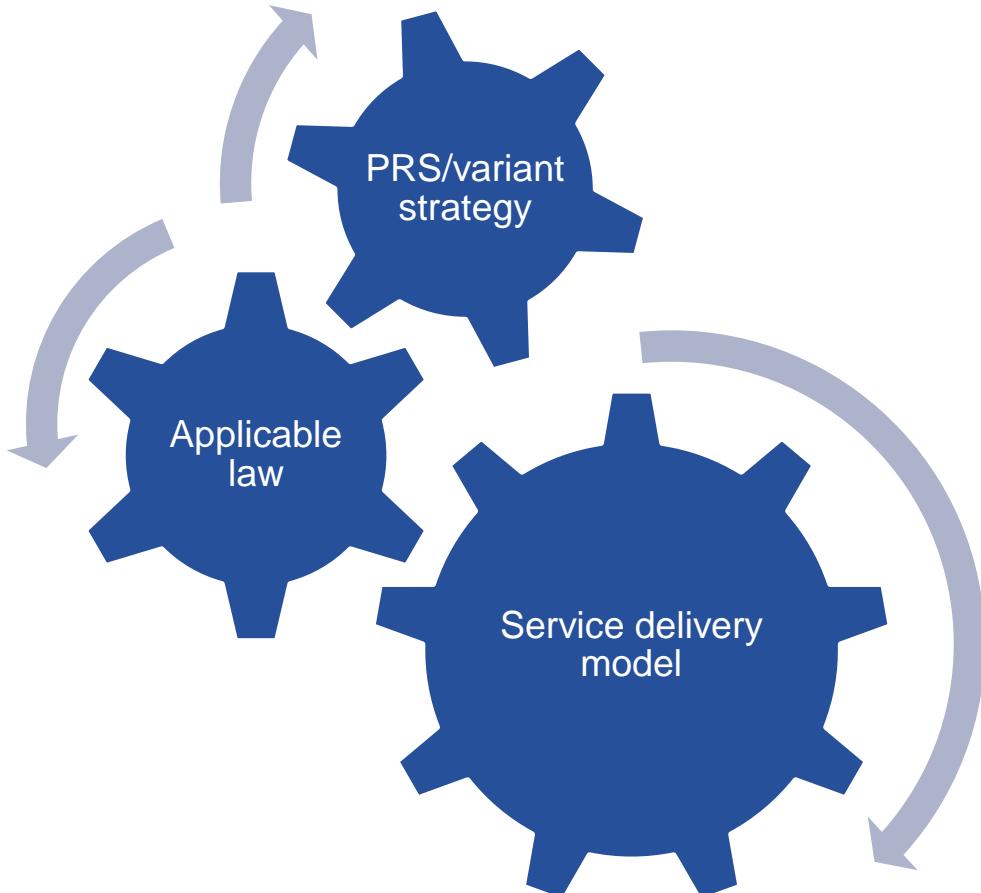
#### Other relevant services

Necessary to **implement resolution strategy**

Not substitutable

# OPERATIONAL CONTINUITY IN RESOLUTION: CONDITIONS

No “one-size-fits-all” for operational continuity arrangements



The **extent and priority** of appropriate mitigating actions may differ depending on the

- **service delivery model** (services provided mainly intra-entity, intra-group or by third parties)
- **Governing law** of relevant contracts/arrangements
- **Preferred resolution strategy(PRS)/variant strategy**

## ACCESS TO FMIs: QUICK RECAP OF INTERNATIONAL STANDARDS

### FSB Guidance: *Continuity of Access to FMIs for a firm in resolution*

Providers of critical FMI services should take appropriate steps to consider and plan for the interaction between the resolution regimes of their FMI service users and their own risk management framework; thereby clarifying the actions they may take in a resolution scenario, to support firms and authorities in enhancing resolution readiness.

Firms should take measures to facilitate their continued access to critical FMI services in resolution. This should be based on analyses on how the firm would maintain access to critical FMI services, including by ensuring that obligations to FMI service providers are met throughout resolution and through the provision of information to the relevant authorities, both as part of resolution planning and in contingency planning by a firm ahead of, and during resolution.

The relevant authorities of firms and providers of critical FMI services play a significant role in facilitating continuity of access to critical FMI services for a firm in resolution and should therefore have adequate cooperation arrangements in place.

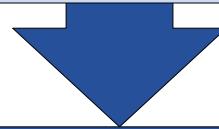
# ACCESS TO FMIs: QUICK RECAP OF EU REGULATORY FRAMEWORK

## Resolution planning

Description of options for preserving access to FMIs, and assessment of portability of client positions

Information on membership of FMIs, including mapping to entities, critical operations and core business lines

Communication plans with FMIs

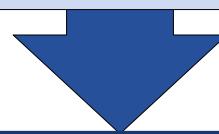


## Resolvability assessment

Contingency plans and measures to ensure continuity in access to FMIs

Precautions to meet the specific FMI requirements

Reasonable efforts to re-negotiate contracts with FMIs, subject to safeguards to protect FMIs



## Ensuring continuity

Resolution does not allow termination, suspension etc.

Purchaser/bridge institution remains member of FMI, provided it meets criteria.

Rating criterion not binding. If criteria not met, participation maintained upon RA request

RAs powers to provide for the recipient to be treated as if it were the institution under resolution

# ACCESS TO FMIs: SRB EXPECTATIONS

## Key criteria for continued access to FMI services (1/2)

### Identification and mapping

- Identification of all critical and essential FMI service providers
- Mapping to legal entities, critical functions and core business lines

### Monitoring and reporting

- Timely provision of the necessary information on the usage of critical and essential FMI services
- Monitoring and reporting of key metrics (proprietary vs. client activity)

### Assessing the impact of discontinuation

Impact assessment of discontinued or degraded access to critical and essential FMI services on:

- critical functions and core business lines
- client institutions for which banks provide indirect access to FMIs

### Understanding the requirements for continued access

- Clear understanding of the conditions for continued access
- Identification of substantive obligations under FMI rulebooks, and contracts with intermediaries/ other service providers
- Identification of potential financial and operational requirements that FMIs may impose ahead of, and during resolution and documentation of how they can be met

## ACCESS TO FMIs: SRB EXPECTATIONS

### Key criteria for continued access to FMI services (2/2)

#### Contingency planning

- Development of FMI contingency plans to support continued access to critical and essential FMI services

#### Governance and communication

Effective governance arrangements in place to support continuity of access to FMI services, ensuring:

- adequate preparedness during the resolution planning phase
- key organisational areas are mobilised swiftly before and during resolution
- access to adequate information and resources to execute the resolution strategy

Up-to-date list of contacts and a communication plan for providing timely information to FMI service providers

# THANK YOU!

For more information, please contact:  
[SRB-INFO@srb.Europa.eu](mailto:SRB-INFO@srb.Europa.eu)

