

Bridge institution tool – when and how?

Resolution transfer tools: legal challenges and impact of digitalization

SRB Legal Conference

6 June 2024

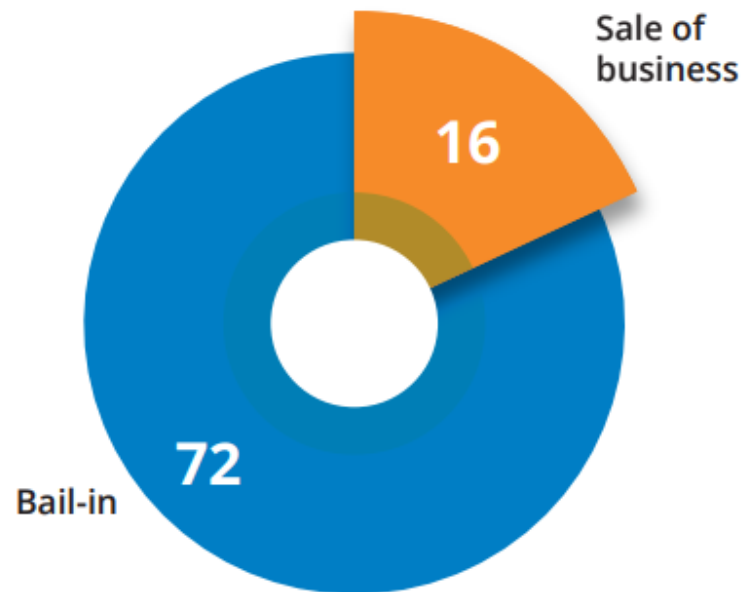
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When to use bridge institutions?

SRB resolution planning

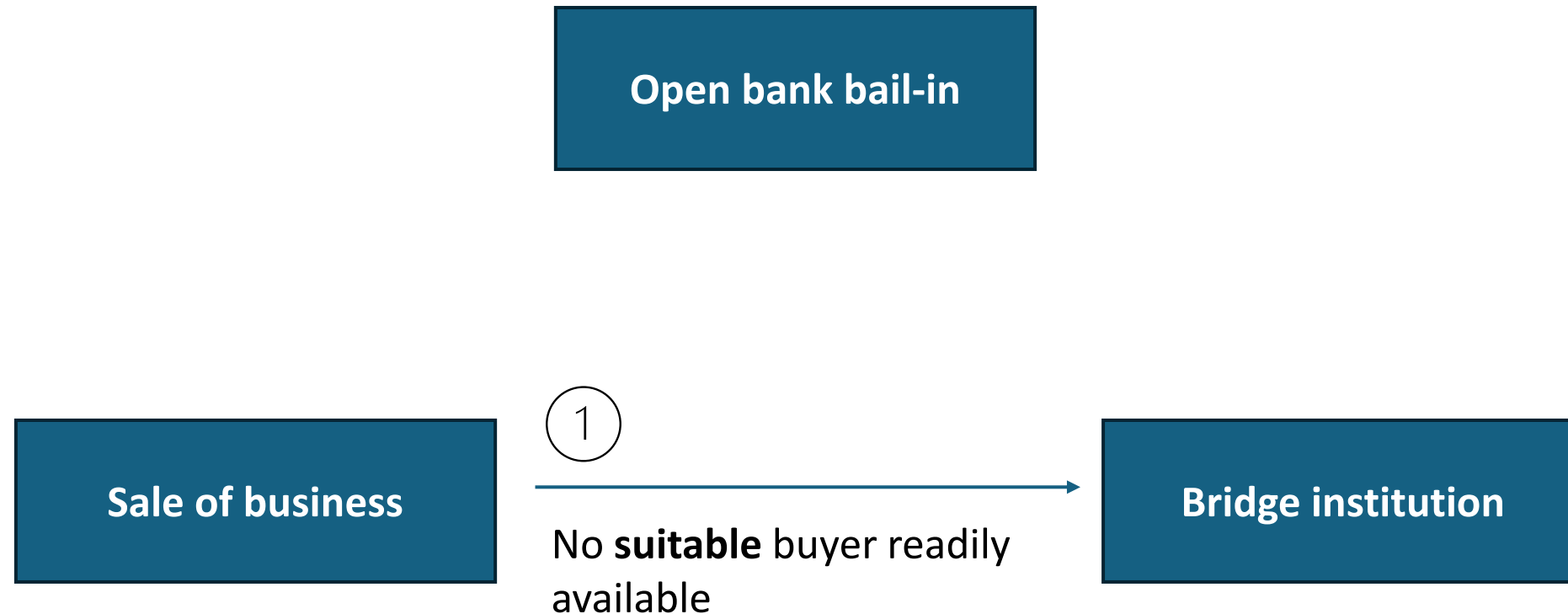
Figure 3. Preferred resolution tool



“Sale of business is the most frequent tool envisaged as a variant to open bank bail-in, whereas a bridge institution is often used as a variant to sale of business, in combination with bail-in.”

SRB, Resolvability of Banking Union Bank: 2022, Sept. 2023

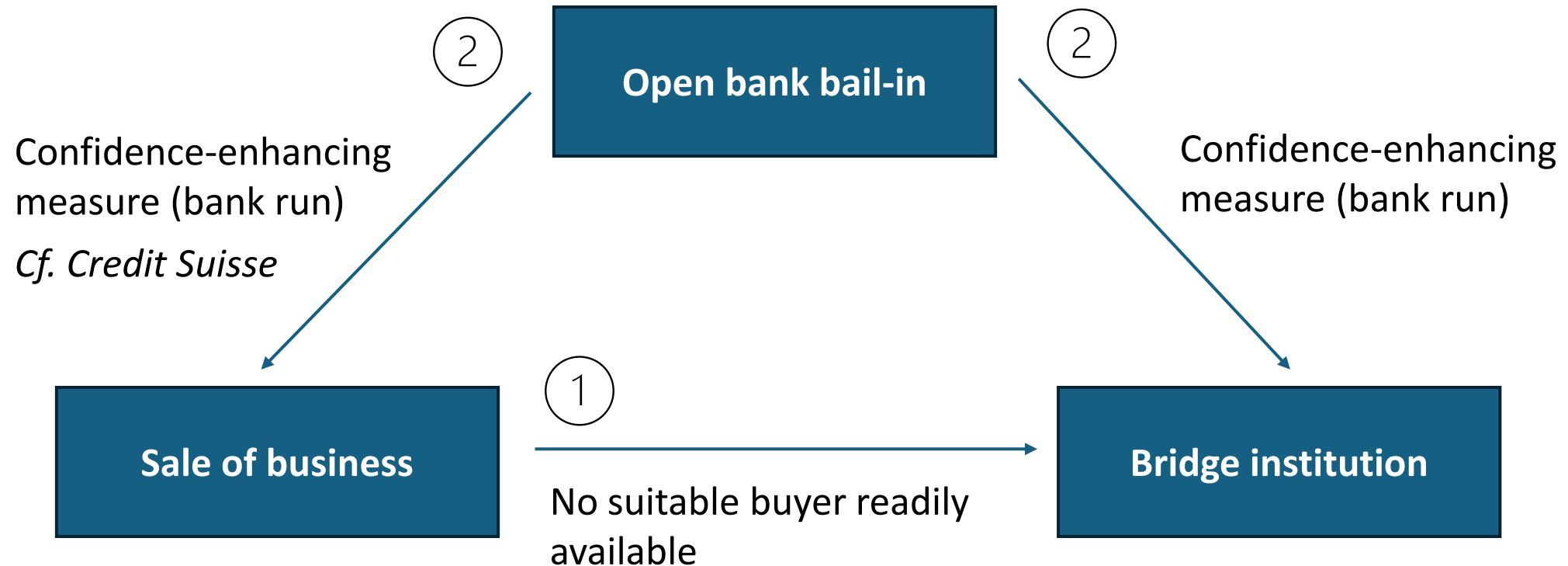
Use cases



Assessing the suitability of buyers

1. Choice of resolution tool(s) → “best achieve the resolution objectives”?
2. Marketing requirement (*subject to exceptions*) → offer “maximising, as far as possible, the sale price”?
3. Merger control → significant impediment to effective competition (conditions)?
4. State aid control (*if applicable*) → long term viability of resulting entity?
Competition distortions (conditions)?

Use cases



Combination of tools (optionality)

Combinations relying on bridge institution as **primary tool**

Bridge institution tool + bail-in

Bridge institution tool + bail-in + asset separation tool

Bridge institution tool + asset separation tool

Variant in combinations involving sale of business as primary or secondary tool

For example:

Bail-in + sale of business tool/bridge institution tool + asset separation tool

How to use bridge institutions?

How? Relevant design variables

- Transferred instruments, assets and liabilities
- Capitalization
- Governance

Transferred instruments, assets and liabilities

(pro memoria)

As a minimum...

- Critical functions and critical shared services
- Other business activities that have close legal, financial and operational interlinkages with the transferred critical functions and the related critical shared services

Capitalization

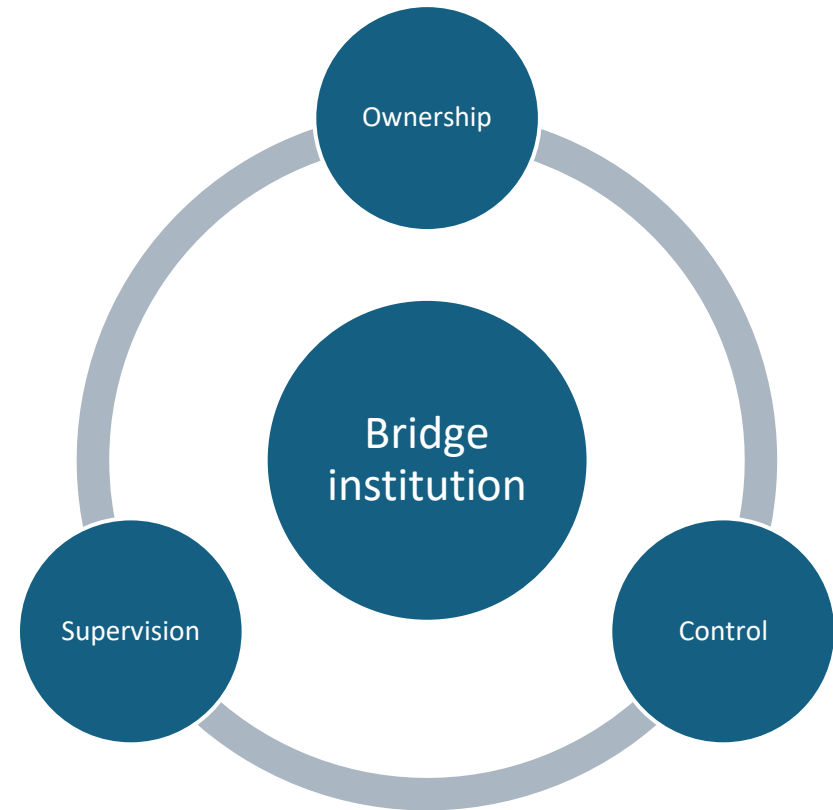
- *How much?*
 - Regulatory requirements (Art. 41(1)(f) BRRD) + margin?
 - Recapitalisation needs likely higher for bridge institution than for sale of business (stigma, uncertainty about ultimate solution)
 - MREL requirement to reflect *preferred* resolution strategy
 - SRB MREL Policy: Adjustment to the RCA for transfer strategies (cf. Art. 45ca CMDI proposal)
- *By whom?* Bail-in, resolution fund, DGS

Governance: shell bridge institutions

- Set up and operation of bridge institutions throughout Banking Union would increase the feasibility of bridge institution tool
- Some participating Member States have been working on establishing shell bridge institutions
- Need to clarify thorny governance issues in advance

Governance: ownership and control

“[The bridge institution] is wholly or partially owned by one or more public authorities which may include the resolution authority or the resolution financing arrangement and is controlled by the resolution authority” (Art. 40(2)(a) BRRD)



Thank you for your
attention!

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