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Single Resolution Board

SRB-GREEN

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Ms Irene Tinagli
Chair of the Committee on Economic and Monetary Affairs
European Parliament
60, rue Wiertz
B-1047 Brussels

SRB response to the European Parliament's Banking Union Annual Report 2022

Honourable Chair, Dear Ms Tinagli,

I have read with keen interest the European Parliament's 2022 annual report on Banking Union, adopted as part of the 11 July 2023 Resolution **(2022/2061(INI))**. I am pleased to transmit to you further explanations and reactions regarding the completion of the Banking Union, the implementation of the Single Resolution Mechanism and your expectations thereto. Our reply will be published on our website in due time.

In the short time of my mandate I was already very encouraged by the support the European Parliament and in particular the Committee on Economic and Monetary Affairs (ECON) provided to the SRB. I have had the opportunity to address the ECON Committee twice during this period, to engage with you and to uphold the SRB's commitment of accountability and transparency vis-à-vis the European Parliament. I look forward to intensifying this good cooperation even further in the future during our upcoming exchanges.

Yours sincerely,

Dominique Laboureix
Chair

Explanations and reactions to the European Parliament resolution on Banking Union – Annual Report 2022 (2022/2061(INI))

On 11 July 2023, the European Parliament, adopted its annual stocktake on the Banking Union (the Report), highlighting its expectations on issues that are also at the heart of the SRB's mandate, such as the EU bank crisis management framework, the resolution regime and the completion of the Banking Union. Particularly in light of the ongoing review of the crisis management framework, the SRB would like to provide various comments and suggestions to some of the observations in the Report. The aim is to further deepen our cooperation and increase our accountability vis-à-vis the European Parliament, and to foster the discussion on some of the key reforms that the Banking Union needs in order to further strengthen the oversight and regulation over the financial sector.

Achieving resolvability.

The SRB, together with the National Resolution Authorities (NRAs) updates the resolution plans for all banking groups under its remit on an annual basis, and checks the progress banks have achieved against the SRB Expectations for Banks (EfB). 2023 marks the end of a transition period, in which not only the SRF will reach its target of at least 1% of covered deposits but also the phase-in period for the EfB will come to an end. The SRB, in line with the priorities set out in its 2023 work programme, is highly committed to making banks fully resolvable.

To that end, the SRB updated its assessment of banks' resolvability at the end of 2022 and is currently assessing the progress made in the first half of 2023. It shows that despite adverse market conditions and rising geopolitical tensions, banks have maintained their momentum in building up their MREL capacity and further operationalised their processes and capabilities. In the current cycle, the expectations were focusing particularly at capabilities relating to liquidity in resolution, separability and reorganization planning as well as Management Information Systems (MIS).

Regarding MREL, **the SRB agrees with the Report's statement that building up loss-absorption capacity is crucial for achieving full resolvability of banks**. To achieve this, the SRB has decided to maintain its policy on the calibration of MREL (including its subordinated component) all but unchanged this year. The only change concerns the scope of entities subject to internal MREL, as previously announced. The SRB has reduced the size threshold for credit institutions within the scope of MREL from EUR 10bn to EUR 5bn, keeping the other thresholds unchanged, from now on. Data published in the latest version of the MREL dashboard shows that banks continued to make progress in building up their levels of MREL, with, on average, increased reliance on senior debt for meeting their targets.
As regards the build-up of MREL, the latest available data show that the overall shortfall against the final (2024) targets for resolution entities reduced significantly in the second quarter of 2023. The shortfall reached EUR 4.4 bn (0.1% TREA), almost halving (down by EUR 3.7 bn) compared to the previous quarter and decreasing by around 76% year-on-year (EUR 13.9 bn). When considering the CBR, the MREL shortfall was equal to EUR 13.6 bn (0.2% TREA), down by 32% (EUR 6.5 bn) compared to the previous quarter, and by 57% year-on-year (EUR 18.4 bn).

Seven banks closed their MREL shortfall (including CBR) in the reporting quarter (2Q23). Eight banks were still in shortfall to their final target (around 10% of the entities in scope). The number increases to 18 banks (22% of sample) when considering the CBR. However, it is worth noting that all banks with a shortfall against their final targets, and 14 (out of 18 banks) when including the CBR, have a longer transitional period to meet their final targets - ending in 2024-2025. To recall, banks have been granted some years to meet their MREL targets. The standard deadline for full MREL compliance is 1 January 2024. This said, in the past years, the SRB has granted extension of this deadline beyond 1 January 2024 for individual banks on a case-by-case basis, where justified and appropriate. The SRB will continue monitoring the closing of the shortfall and the MREL funding conditions. More detailed MREL data can be found on the SRB quarterly dashboard published on our website.

The Report also points out that for resolution plans to be fully compliant with the legal requirements, the SRB needs to provide a comprehensive assessment of each bank's resolvability (paragraph 38). While being clearly committed to further transparency and carrying out such detailed assessments internally, the SRB is at the same time bound by the legal framework, which sets clear limitations for disclosing such individual bank-specific information. **The SRB is however seeking ways to provide further transparency to the general public and the European Parliament.** The "heatmap" on the resolvability of Banking Union banks, first published in July 2022, is a prime example of such commitment to further increase transparency, similar to recent publications of other major jurisdictions. With the heatmap published in September 2023, and the future ones, the focus has/will increasingly shift(ed) towards a regular and holistic testing of banks' resolvability capabilities, to ensure institutions' resolvability beyond 2023. Banks will now need to engage in a more structured testing of their resolvability capabilities against a set of common criteria defined in a multiannual work programme. The testing exercises to be conducted each year with the support and guidance of the SRB should allow to further substantiate the resolvability conclusions or reveal any possible shortcomings, to be addressed within an appropriate timeframe.

The SRB acknowledges the European Parliament's encouragement to further explore the use of transfer strategies in resolution (paragraph 45). Recent crisis cases have shown that resolution strategies need to be sufficiently flexible to be able to respond to emerging risks to the financial system with crisis scenarios unfolding at unprecedented speed. This requires banks to demonstrate continuous maintenance, testing and improvement of their capabilities over time, and further work on the operationalisation of their resolution strategies. This could include combining several resolution tools within the preferred strategy or requesting banks to develop an operational variant strategy, aimed at dealing with a wider range of liquidity and solvency crisis situations. As a result, the work on transfer tools, on the valuation and liquidity data provision as well as on access to funding in resolution will remain high on the SRB's agenda going forward. This point also fitswell also with CMDI review that aims at facilitating market exits.

In addition, the SRB continues to monitor the financial sector closely in cooperation with the Single Supervisory Mechanism, following the failures of the US banks and Credit Suisse in spring 2023. Overall, the direct and indirect effects of these bank failures on SRB banks were limited until today, since direct spill over effects did not occur and financial stability was maintained.

This is very encouraging, as it shows that the existing EU rulebook and the underlying FSB Key Attributes are working well and are fit for purpose. The Financial Stability Board (FSB) came to the same conclusion in its review of the 2023 bank failures as set out in the FSB's Key Attributes. The SRB was one of the contributors of the FSB report. The SRB in this regard welcomes the assessment of the Report, that significant progress has been achieved since the 2008 financial crisis and that the European banking system is more resilient than ever before (paragraph 4). However, this is not time to be complacent and we must remain vigilant as new threats emerge – from asset quality deterioration to heightened geopolitical risks.

Single Resolution Fund (SRF) and common backstop.

The **Report welcomes the early introduction of a backstop to the SRF and regrets that it was not implemented in 2022 – a view fully shared by the SRB**. A fiscally neutral credit line to the SRF provided by the ESM is essential to ensure that the necessary funds are available to finance a resolution and to protect taxpayer money in case of need. On a technical level, the SRB has completed the work to introduce the common backstop to the SRF in good cooperation with the TFCA and the ESM. The operationalisation of the Backstop Facility Agreement (BFA) and the Parallel Backstop Facility Agreements with Croatia and Bulgaria have been concluded and the work on the repayment capacity is in its final stages. **The SRB is therefore ready to implement the political agreements, once the ratification process is completed.**

In this context, **the SRF continues to play a key role in protecting taxpayers,** as the Report highlights correctly (paragraph 41). The SRF shall reach the target level of at least 1% of the amount of covered deposits of all credit institutions within the Banking Union shortly. In the course of 2023, the SRF has continued to collect ex-ante contributions, and the SRF will stand at €77.6bn at the end of the build-up period. From 2024 onwards, ex-ante contributions will only be raised if needed to continue meeting the SRF's moving target of 1% covered deposits in the Banking Union.

Review of the Crisis Management and Deposit Insurance (CMDI).

The SRB fully shares the EP's view of the importance of the CMDI review (paragraph 43). It is a timely and important reform to strengthen the crisis management framework to safeguard financial stability and protect taxpayers The provisions of the CMDI review would allow for a strong yet agile toolset in regard to enacting sales or bridge banks (including transfer of deposit books), which the recent banking turmoil showed is now more important than ever.

The SRB is delighted to see that **many of the CMDI priorities mentioned in the Report are very much in line with our own priorities for CMDI** and other files. We appreciate in particular the call of the Report for resolution tools to be accompanied by appropriate financial resources (paragraph 42). Extending the scope of resolution without simultaneously extending funding possibilities could otherwise backfire, and possibly lead to the use of public funds outside resolution. It is thus imperative that financing from industry-funded safety nets is effectively available to support resolution. Equally, it is important to maintain the predictability and effectiveness of the decision-making process in a crisis situation.

Therefore, the CMDI proposal is a very much welcomed step towards increasing resolvability, safeguarding financial stability and protecting taxpayer money representing a positive step to further enhancing the framework. The SRB has repeatedly shared its views and priorities on the CMDI review with members of this house through hearings or bilateral exchanges and stands ready for providing technical support wherever this is needed. The SRB hopes for a speedy adoption by the co-legislators.

Completing the Banking Union

The SRB fully shares the European Parliament's view that **EDIS is still a missing piece to complete the Banking Union**. In the SRB's view, EDIS is indispensable to enhance financial stability, to overcome the sovereign-bank doom-loop and to avoid financial fragmentation. In combination with the SRF, EDIS would also significantly increase the firepower and agility to deal with failing banks in a consistent and efficient manner.

The SRB wants to highlight that there is no replacement for EDIS on the path to completing the Banking Union. The Report rightfully points out that the CMDI review is a step in the right direction, but that it cannot be considered a replacement for EDIS (paragraph 51).

Furthermore, the SRB shares the concern on the liquidity challenges in resolution that still remain, and appreciates the Report calls for the EU institutions to address funding in resolution in a comprehensive manner (paragraph 39). As it has been seen in the recent cases in Switzerland and the US, such liquidity needs could be significant, and could exceed the size of the SRF and common backstop for a global bank.

SRB gender balance and strategic review 2028

The SRB appreciates the Report's call to address the lack of gender balance across the SRB's board and management positions. As it has been highlighted also in the previous ECON public hearings, achieving gender balance is one of the priorities of the SRB's strategic review "Vision 2028". The SRB is adopting an approach to introduce a culture of diversity and inclusion across the organisation, in particular in the recruitment stages.