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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 2023

Honourable Chair, Dear Ms Tinagli,

I have read the European Parliament's Annual Report on Banking Union for 2023, adopted as part of the 16 January 2024 Resolution **((2023/2078(INI)))** with keen interest. As has become good practice, I am pleased to transmit to you further explanations and reactions from the SRB's side towards the Committee's expectations and observations regarding the completion of the Banking Union and the implementation of the Single Resolution Mechanism. As usual, this reply will be published on our website as well.

Since the beginning of my mandate, I was very encouraged by the support the European Parliament and in particular the Committee on Economic and Monetary Affairs (ECON) provided to the SRB, which culminated in the recent adoption of important Banking Union legislative files by the Committee. Since the start of my mandate, I have had the opportunity to address the ECON Committee four times, to engage with you and to uphold the SRB's commitment towards accountability and transparency towards the European Parliament, which is also a pillar of the SRM Vision 2028. I look forward to intensifying this good cooperation with the ECON Committee even further in the future.

Yours sincerely,

Dominique Laboureix
Chair

Explanations and reactions to the European Parliament resolution on Banking Union – Annual Report 2023 (2023/2078(INI))

On 16 January 2024, in its Plenary Session 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 improvements to 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 in order to further deepen our cooperation and increase our accountability vis-à-vis the European Parliament.

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 marked the end of a transition period, at the end of which the phase-in period for the EfB had come to an end. Even if great progress has been achieved, it is not time for complacency or back-pedalling. Much remains to be done. In fact, resolvability is neither a static condition nor a binary question. Becoming and remaining resolvable is an iterative process requiring continuous adaptation to rapidly changing market conditions and emerging risks.

The SRB, in line with the priorities set out in its 2024 work programme and in the SRM vision 2028, 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 2023 with the latest edition of the Resolvability Heatmap to be published in July. Overall, it can be said 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.

Regarding MREL, **the SRB agrees with the Report's statement that building up loss-absorption capacity is crucial for achieving full resolvability of banks (paragraph 33) and notes that all banks across the Banking Union have made good progress in terms of resolvability and have reached their final MREL targets at the end of 2023 (or – in exceptional cases, when longer transition periods - are on the way to reaching them)**, thus providing evidence of good and continuous work in order to safeguard stability.

In fact, the latest available data (MREL dashboard Q4.2023) shows all entities which had to comply with their final MREL targets as of 1 January 2024 met their requirements. Therefore, the MREL shortfall on Q4.2023 relates only to a handful of banks that have been granted extended transitional periods because of their special situation. The total external MREL shortfall (including the combined buffer requirement (CBR)) against final targets was equal to EUR 6 bn (corresponding to 0.1% of the Total Risk Exposure Amount (TREA) of all resolution entities), whereas for non-resolution entities the overall MREL shortfall against final targets (including the CBR) amounted to EUR 1.2 bn (corresponding to 0.05% TREA of all non-resolution entities).

At year-end 2023, the average MREL final target of resolution entities was equal to 27.7% TREA, when the CBR is included. Banks under the SRB remit overall issued EUR 72.1 bn of MREL-eligible instruments, showing an increase compared to the levels reported in the previous quarter. MREL-eligible bonds continued to attract investors and funding costs continued their descending trend throughout the final months of 2023. Despite the slightly increased volatility at the beginning of 2024, spreads followed a descending trend throughout the rest of the quarter, providing favourable issuance conditions for banks.

Following a public consultation, the SRB recently published its 2024 MREL Policy, which introduces a slightly revised approach on internal and external Market Confidence Charge calibration and on the monitoring of MREL eligibility. It also incorporates the recent legislative changes on the MREL framework related to entities in a "daisy chain" and to liquidation entities. With these changes the MREL Policy is expected to be stable in the coming years.

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 32). While being clearly committed to further transparency and carrying out such detailed assessments internally, the SRB is at the same time bound by the existing 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 as the Report requests (paragraph 34).** Meanwhile, the heatmap on resolvability of Banking Union banks (whose next publication is expected for July) and the SRB's MREL dashboard continue to be prime examples of our commitment to transparency.

The SRB welcomes the importance attributed by the Report to safeguarding creditor hierarchy in bank resolution and insolvency procedures (paragraph 35). The SRB appreciates the EP's praise for the joint SSM-SRB-EBA statement in March 2023 clarifying that in the EU, common equity instruments shall absorb losses and Additional Tier 1 could only be written down if the former have been fully used.

<u>Single Resolution Fund (SRF) and common backstop</u>

The **SRF continues to play a key role in protecting taxpayers by ensuring a robust and credible crisis management framework,** as the Report highlights (paragraph 39). In this respect, the SRF has successfully reached its target level of 1% of the amount of covered deposits of all credit institutions within the Banking Union at the end of the transitional period in 2023.

At 31 December 2023, the available financial means in the SRF, represented by cash balances, assets and irrevocable payment commitments, amounted to approximately €78bn. This achievement highlights the EU's commitment to financial stability and underscores its ability to swiftly address potential banking crises, bolstering confidence in the region's financial system. 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.

Moreover, the **Report welcomes the early introduction of a backstop to the SRF and regrets that it was not implemented as it had been planned– 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, as capital or liquidity needs of a big resolved bank could exceed the amounts held in the SRF alone. On a technical level, the SRB has completed the work to introduce the common backstop to the SRF in good cooperation with 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.**

Review of the Crisis Management and Deposit Insurance (CMDI)

The SRB fully shares the EP's view of the importance of the CMDI review and strongly supports the EP call for its rapid and effective adoption (paragraph 37). In this context the SRB explicitly welcomes the recent adoption of the EP position in ECON and hopes for a speedy and ambitious consensus building in trilogues during the new mandate. The CMDI 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. In this context, it is important to emphasize that the final compromise should enable a workable mechanism, which does not establish overly complex new structures.

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 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 further enhancing the framework by increasing resolvability, safeguarding financial stability and protecting taxpayer money. The SRB has repeatedly shared its views and priorities on the CMDI review with members of this Committee through hearings or bilateral exchanges and stands ready to provide technical support wherever this is needed. Once again, 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 (BU) (paragraph 44).** In fact, 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 of the resolution framework in dealing with failing banks in a consistent and efficient manner.

The SRB wants to highlight that there is no alternative for EDIS on the path to completing the BU. As long as we do not have a fully-fledged EDIS, the BU will remain incomplete and potentially more exposed to financial stability issues. In this respect, the SRB acknowledges that the Report rightfully points out that the **CMDI review goes in the right direction, but that it cannot be considered a replacement for EDIS, only a step towards it (paragraph 43)**.

In this respect, **the SRB appreciates that the ECON committee sent a strong sign of support to advance the topic of European deposit insurance, by adopting a position on the first stage of EDIS in April.** This significant achievement has the potential to provide substantial momentum to the legislative discourse aimed at achieving the completion of the Banking Union during the forthcoming legislative term. The SRB hopes the co-legislators could embark upon this endeavour by inaugurating an EDIS with a primary focus on liquidity, followed by the integration of mechanisms for loss-sharing in a next step. Such a reform has the potential to incentivise greater cross-border operations among banks, thereby enhancing the competitiveness and resilience of the BU banking sector.

Regarding the EP recommendation to consider institutional protection schemes (IPS) within any EDIS (paragraph 45), the SRB asserts that **any eventual proposal entirely excluding IPS institutions would compromise the equitable treatment of banks and thus endanger the level playing field**. Notably, IPSs deposits constitute a substantial proportion of deposits in certain countries. Less disruptive alternatives to accommodate IPS specificities within EDIS could be explored.

Furthermore, the SRB shares the concern on the liquidity challenges in resolution immediately after a bank has regained market access and appreciates that the Report calls for the EU institutions to address funding in resolution in a comprehensive manner (paragraph 40). **As 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.** We therefore share the call for the EU institutions to agree on a solution that provides confidence and enhances predictability.

Non-bank financial intermediary sector

An increasing focus has been given recently on the risks stemming from less regulated sectors of financial markets such as non-bank financial institutions (NBFIs), which is nowadays accounting for nearly 50 percent of global financial assets. The smooth functioning of the nonbank sector is vital for financial stability.

In this context, **the SRB fully shares the EP view on the need to enhance the resilience of non-bank financial intermediaries and establish a level playing field with the banking sector (paragraph 28)**, including by designing specific regulatory and supervisory tools to prevent a liquidity crisis. We strongly support the FSB and IMF work on addressing systemic risk in NBFIs focusing on those activities and types of entities that may particularly contribute to aggregate liquidity imbalances and the transmission and amplification of shocks.

Furthermore, a large percentage of the NBFI sector still falls outside the perimeter of resolution or crisis planning and some of the biggest NBFIs are very large and interconnected.

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 (paragraph 14). **As it has been highlighted also in the previous ECON public hearings, improving gender balance is one of the priorities of the SRB's strategic review "SRM 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.