



# Making resolution feasible in the EU

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# Outline

- 1) The link between the new resolution regime and the Single Market
- 2) EBA roles in recovery and resolution
- 3) Implementation of the BRRD: challenges and work under way

# The current state of the Single Market in banking

- The financial crisis has triggered a retreat from the Single Market in banking.
- On the eve of the crisis, European banking product markets were still segmented along national lines, but cross-border mergers had created increasing numbers of cross-border banks whose internal capital markets were engines for integration (e.g. through equalising the cost of funds)
- The crisis shrank those cross-border banks and disrupted those internal capital markets.
- We can see this, for instance, the fact that assets of branches of EU credit institutions in other member states falling by 18% since 2008..
- ..and it is one cause of the significant and persistent country differences in the cost of borrowing in the EU

# The current state of the Single Market in banking

This process has had several market drivers:

- Strengthening of the sovereign-bank loop, with banks' resilience increasingly assessed on the credit standing of their sovereigns and the sovereign exposures on their balance sheet
- Capital and liquidity management based along national borders

and was also rooted in the public policy response to the crisis:

- Reliance on national backstops, within a loose coordination framework provided by State Aid rules
- De-risking processes focussed on foreign jurisdictions
- Capital and liquidity requirements along national borders

# The current state of the Single Market in banking

Steps have been taken to stem this retrenchment. The EBA has been closely involved in several:

- Pushing for significant recapitalisation of EU banks
- Regular, coordinated stress-testing across the EU
- Identifying and addressing home-host conflicts through our presence in colleges and in formal and informal mediation

Other steps include the Vienna Initiative and, most importantly for the future, the Banking Union project and the reforms to bank resolution regimes through the BRRD.

# The current state of the Single Market in banking

Why is this important?

- Standard arguments that the single market brings better results for consumers apply.
- In banking also allows for risks to be shared more widely among the private sector across the whole EU, reducing the need for support in any one country.
- To give a concrete example, authorities seeking a buyer for a bank in resolution or recovery will have an easier job if they can look across the whole EU.

Authorities have been busy building firebreaks between their banking systems. We want to turn now to providing a common fire service.

# The new resolution regime and the Single Market

The Banking Union is a necessary condition for the repair of the single market. The SSM and SRB will ensure common standards for regulation, supervision, recovery and resolution, and allow strong risk-sharing between private investors in banks across borders.

But it is not sufficient on its own. Few cross-border banks operate wholly within the Banking Union area – only 5 of the 43 largest banks, for instance.

So there is still a risk that repair of the Single Market proceeds with different speeds inside and outside the Banking Union area.

We need to focus on several areas of policy to contain that risk – for instance, promoting common supervisory rules and practices – but arguably the most important is joined-up approaches to resolution

# The new resolution regime and the Single Market

- The BRRD (the legal “operating system” for cross-border resolution in the Union): common rules and toolkit across the Union
- EBA rulemaking (the “software”)
- The SRM (the institutional “hardware” for the Eurozone)
  
- To have cross-border resolution across the whole Single Market, the SRM and the “Outs” will have to:
  - front-load problems and solutions through group-wide RRP’s;
  - adopt firm commitments (joint decisions) on these RRP’s
  
- Harder at a global level – limited possibilities for commitment, so resolution plans have to be fully incentive-compatible at all points in time



# Legal and institutional underpinnings for cross-border resolution: the roles of the EBA

Need to strengthen the *legal underpinning* and the *institutional arrangements* to get to joint decisions on RRPs and make them credible and feasible

- 1. Rulemaking:** EBA to develop ~40 technical standards and guidelines + reports + advices for Commission delegated and implementing acts. Joint decisions are more likely to be achieved and implemented if national resolution authorities are bound by the same rules
- 2. Facilitator within resolution colleges:** EBA to facilitate the process of reaching joint decisions on RRPs. If one of the parties holds up a joint decision without a legitimate reason, the other parties can trigger EBA binding mediation
- 3. Benchmarking and peer reviews of RRPs**
- 4. Achieving cross-border resolution on a global scale:** EBA could become the point of contact and coordinator for relationships between the EU and third countries with regard to resolution proceedings

# Implementation of the BRRD: timeline and impact on EBA governance

- Most EBA rulemaking in the next 12 months. Member States to transpose the BRRD into national legislation by 1 Jan 2015 (bail-in, MREL, and government financial stabilisation tools to be adopted by 1 Jan 2016)
- Most of the EBA consultations will take place between June and end of 2014, so to be able to finalise the TS and GL by mid 2015
- In Autumn 2014, the EBA will set up internally a Resolution Committee: at national and European level the new resolution regime requires new arrangements to ensure separation, on the one hand, and interaction, on the other hand, between supervisors and resolution authorities

# The main EBA regulatory work-streams: pre-resolution planning

- *The drafting of the rules clearly shows the “backward induction effect”: resolution represents a new pillar/paradigm of banking supervision, it brings additional rules and powers which will have an impact on business models, on banking’s Business as Usual.*
- *This requires supervisors and resolution authorities to interact and coordinate, and rules on resolution to be devised as a continuum with the rules on banking as a going concern*
- Recovery plans: **final** standards on content and assessment soon.
- Content of resolution plan and assessment of resolvability. The product will spell out the preconditions in terms of financial, legal and operational organization for choosing a resolution strategy
- Guidelines on possibility to impose “structural measures” to overcome obstacles to resolvability. Bank-by-bank complement to market-wide “structural measures” following Liikanen report if resolution authorities believe that the bank is not resolvable.

# The main EBA regulatory work-streams: at the point of resolution

- Triggers for early intervention and resolution triggers. Need to ensure a continuum between supervisory assessments and “failing or likely to fail”. Certainty cannot be given in the field of resolution, but when can spell out the elements on the basis of which discretion should be exercised
- Guidelines on functioning of bail-in: when shareholders can be wiped out and when they can remain in the bank; and on setting conversion rates for different classes of creditors. Clarity is needed to reduce unnecessary impact on funding costs, and allow market to price correctly.
- TS on valuation criteria: key input into these resolution decisions

# The main EBA regulatory work-streams: the cost of self-insurance

- Definition of criteria for bank-by-bank determination of minimum requirements for eligible liabilities (MREL/GLAC). Need to cast national discretion within a European framework: aim is to have similar requirements for similar banks, regardless of jurisdiction.
- Risk-weighted contributions to Deposit Guarantee Schemes and Resolution Funds. How to measure the PD of the bank and the LGD of the DGS or the Fund if the bank fails (asset encumbrance)

# Questions