



**Single  
Resolution Board**

11/04/2017 | **How Europe is dealing with failing banks ?  
The Single Resolution Board**

**Guillaume Adamczyk, Head of Unit**

[guillaume.adamczyk@srb.europa.eu](mailto:guillaume.adamczyk@srb.europa.eu)

# Disclaimer

The views expressed in this presentation are solely the author's and do not necessarily reflect those of the Single Resolution Board.

# Outline

- 1. Intro - Why should we save banks?**
- 2. What went wrong?**
- 3. The three pillars of the Banking Union**
- 4. The Single Resolution Board**
- 5. Conclusion**

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# 1. Intro - Why should we save banks?

## **Banks are specific companies:**

- **Almost normal companies (aiming at making profit).**
- **Conducting very different types of business [retail (savings / loans), investment bank, private banks...].**
- **Vested with the power of creating money**
- **On which depositors have a claim !**
- **Some of them are of systemic importance (i.e. default would endanger financial stability).**
- **Strong connexions with each other.**

# 1. Intro - Why should we save banks?

## An analogy...



- Public good (money) / First necessity good (electricity)
- Essential for the functioning of the economy
- Huge (negative) externalities if things derail
- Complexity (business, regulation, supervision, resolution).

# Outline

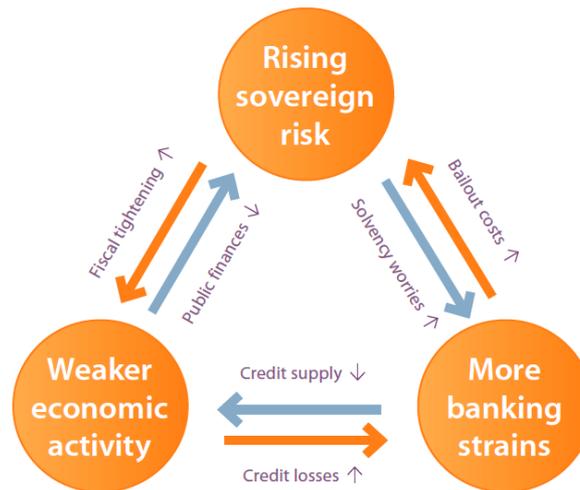
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## 2. What went wrong?

i) Trying to avoid the “domino effect”:

- Crisis started in the US... but quickly spread to the EU

ii) The vicious feedback loop between banks and sovereigns (States)



## 2. What went wrong?

### What was done:

- Massive amounts of money injected in order to immediately restore confidence (ca. EUR 655 billion spent to recap banks and ca. 1200 billion of guarantees used).
- Contagion effect: Subprime crisis ---> Sovereign crisis

Total amounts of state aid approved and used, EU-28 (2008-2015)				
Aid instrument	Amounts of State aid approved		Amounts of State aid used	
	EUR billion	% 2015 EU GDP	EUR billion	% 2015 EU GDP
Recapitalisations	820.9	5.6%	465.6	3.2%
Impaired asset measures	604.3	4.1%	188.6	1.3%
Guarantees on liabilities*	3311.2	22.6%	1188.1	8.1%
Liquidity measures, other than guarantees on liabilities*	229.7	1.6%	105.0	0.7%

\*Amounts of aid approved and used are the maximum outstanding (annual) amounts during the period of 2008-2015.

Source: European Commission

### The problem:

- How to cut the vicious circle between sovereign (States) and Bank?

### Solutions:

- Regulation reinforced (better and more capital, new rules...)
- From bail-out (tax payers money) to bail-in (internal) solutions.
- Creation of new bodies to monitor, prevent or fix the problems: the Banking Union.



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# 3. The Three pillar of the Banking Union

## GLOBAL & EUROPEAN MEASURES TO END BANK-SOVEREIGN DOOM-LOOP

G20

**2011 /2014**  
Financial stability  
Board

### Key attributes of Effective Resolution Regimes

1. Scope
2. Resolution authority
3. Resolution powers
4. Set-off, netting, collateralisation, segregation of client assets
5. Safeguards
6. Funding of firms in resolution
7. Legal framework conditions for cross-border cooperation
8. Crisis Management Groups (CMGs)
9. Institution-specific cross-border cooperation agreements
10. Resolvability assessments
11. Recovery and resolution planning
12. Access to information and information sharing

BANKING UNION & BRRD \*

**2013**  
Single Supervisory  
Mechanism - ECB 

### National Competent Authorities (NCAs)

- Supervision of banks within participating Member States
- Respective supervisory roles and responsibilities are allocated based on significance of the supervised entities.

**PILLAR 1**

**2014**  
Single Resolution  
Mechanism - SRB 

### National Resolution Authorities (NRAs)

- Resolution of entities and groups within participating Member States
- Specific division of tasks and responsibilities

**PILLAR 2**

European Deposit Insurance Scheme

**PILLAR 3**



\* The EU Bank Recovery and Resolution Directive is the EU implementation of the FSB Key Attributes.

# 3. Three pillar of the Banking Union

## The SSM – Single Supervision Mechanism

Set up by the ECB in Frankfurt.

In charge of common supervision (on-site examination / off-site monitoring) of the 125 banks of the Eurosystem

Harmonised practice in terms of supervision.

Home bias more limited since national supervisors will partly be disconnected from their supervised entities.



# 3. Three pillar of the Banking Union

## The SRM – Single Resolution Mechanism

Established in Brussels since March 2015.

In charge of restructuring or orderly liquidation of ca. 140 banks of the Eurosystem

Costs borne by the banks first and their creditors (NCWOP and pari passu principle).

A resolution fund (SRF) is being built and will be funded by the banks themselves.



## 3. Three pillar of the Banking Union

### The DGS – Deposit Guarantee Scheme

A common and uniform insurance scheme for deposits up to 100 000 euros.

**EDIS (to come): a second fund will created and will also be financed by banks contributions.**

**Key objective: avoiding bank runs.**



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# 4. The Single Resolution Board

**The mission of the SRB** is to ensure an orderly resolution of failing banks with minimum impact on the real economy and the public finances of the participating Member States of the Banking Union.



**CHAIR**  
Elke König



**VICE-CHAIR**  
Timo Löyttyniemi



**MEMBER OF THE BOARD**  
Mauro Grande



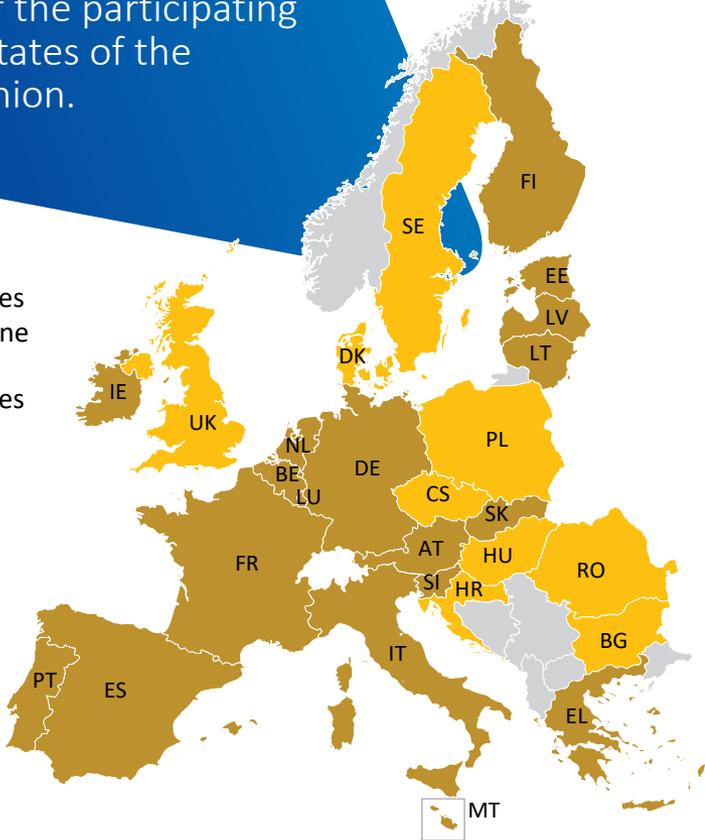
**MEMBER OF THE BOARD**  
Antonio Carrascosa



**MEMBER OF THE BOARD**  
Joanne Kellermann



**MEMBER OF THE BOARD**  
Dominique Laboureix



- Member States in the Eurozone
- Member States not in the Eurozone

**The SRB together with the National Resolution Authorities (NRAs) forms the SRM.**

**The SRB is directly responsible for:**

- Significant banks
- Cross-border banking groups

**NRAs are directly responsible for all other banks. SRB could 'take over' direct responsibility.**

**The SRB closely cooperates with the NRAs.**

*SRB staff: ~175 (target by end-2017: 350)  
Participating NRA's staff: ~250*



# 4. The Single Resolution Board

## OBJECTIVES & MAIN TASKS

### Objectives

- Ensure continuity of critical functions in case a bank must be resolved
- Safeguard financial stability at Member State or higher level
- Protect taxpayers from potential future bail-outs
- Protect depositors, investors, funds and client assets

### Safeguards include

- *Pari passu* principle
- No Creditor Worse Off principle

RESOLUTION PLANS

SRF

MAIN TASKS



ASSESSMENT OF  
RESOLVABILITY &  
OBSTACLE  
REMOVAL

ELABORATE &  
ENACT  
RESOLUTION  
SCHEMES

MREL

PROTECT AND CONTROL

# 4. The Single Resolution Board

## A powerful tool box in case resolution is needed

### RESOLUTION

May be triggered when the authorities determine that

- a bank is failing or likely to fail;
- there is no other private sector intervention or supervisory action that can restore the institution back to viability within a reasonable timeframe; and
- It is necessary in the public interest.

### RESOLUTION

means the restructuring of a bank by a resolution authority through the use of resolution tools, to ensure, *inter alia*, the continuity of its critical functions and preservation of financial stability.



Different tools can be used to safeguard public interests, including the continuity of the bank's critical functions and financial stability, at minimal costs to taxpayers.

#### SALE OF BUSINESS

Part or all of the shares or other instruments of ownership or assets, rights and liabilities can be sold to a private purchaser.

#### BRIDGE BANK TOOL

Part or all of the shares or other instruments of ownership or assets, rights and liabilities can be transferred to a temporary entity.

HELP TO PROTECT MARKETS AND CITIZENS FROM FUTURE CRISES

Assets, rights and liabilities can be transferred to an asset management vehicle, totally or partially publicly owned

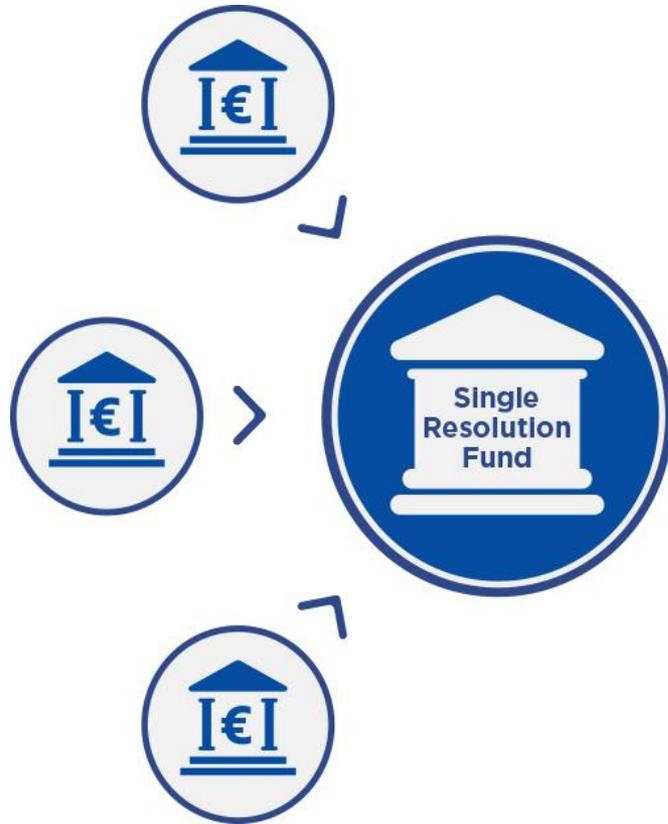
Equity and debt can be written down and converted, placing the burden on shareholders and creditors of the bank rather than on the public.

#### ASSET SEPARATION TOOL

#### BAIL-IN

# 4. The Single Resolution Board

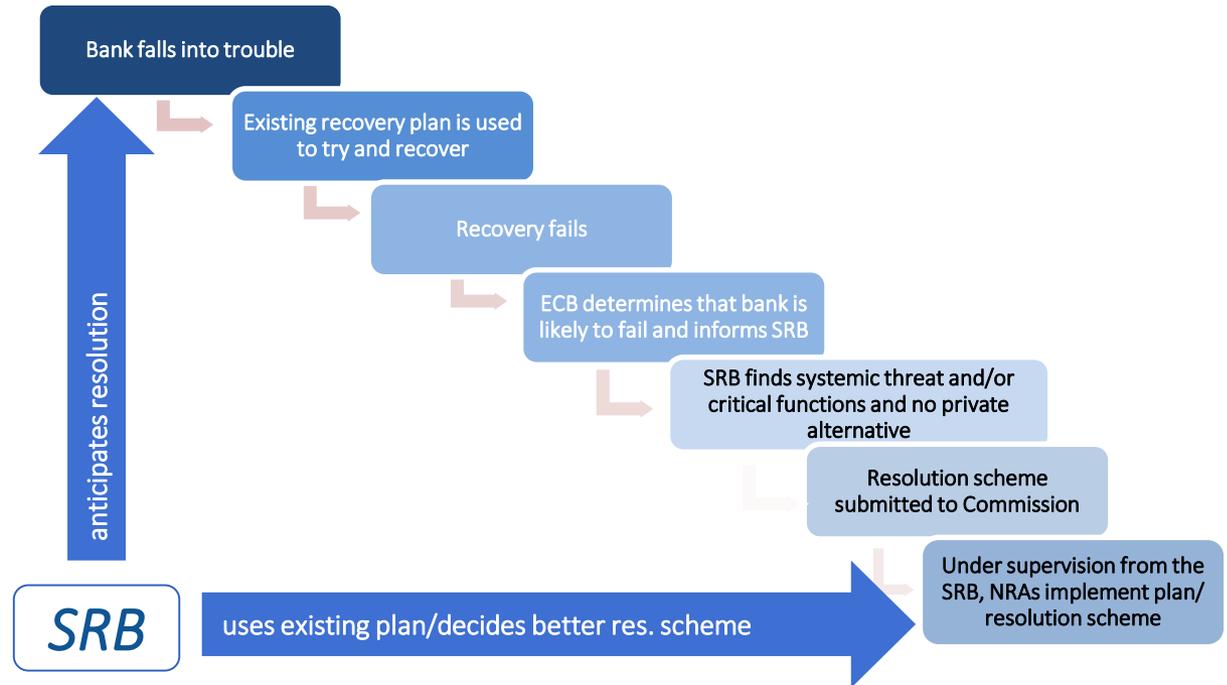
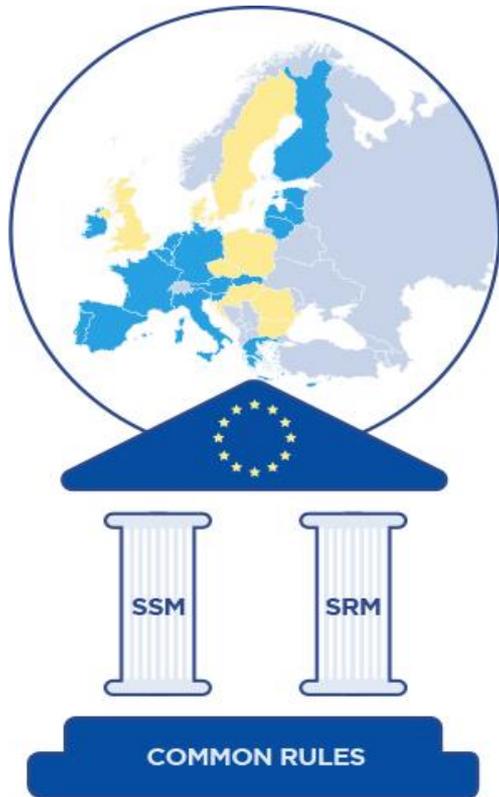
## The Single Resolution Fund (SRF)



- Since the crisis in 2008 many Banking Union countries have adopted **national resolution funds**, funded by the banks to be used in the case of future crises.
- In the future these funds will all evolve into a new **single fund at European level**.
- Over the course of **eight years** a total of **around €55bn** will be built up to act as a buffer for the taxpayer in case a bank fails. The amount is based on a **proportion of covered deposits** held by all the banks.
- It can **only be used for liquidity support or capital measures**, for the latter, at least **8%** of the losses of the bank must have been absorbed by shareholders & creditors of the bank.
- **Individual contributions** are calculated at European level but are **collected at national level** and transferred to the Fund.
- Contributions comprise a **flat part** and a **risk adjusted part**.
- If need be, the fund can borrow money to make up any shortfalls and recover the amount from the banks afterwards

# 4. The Single Resolution Board

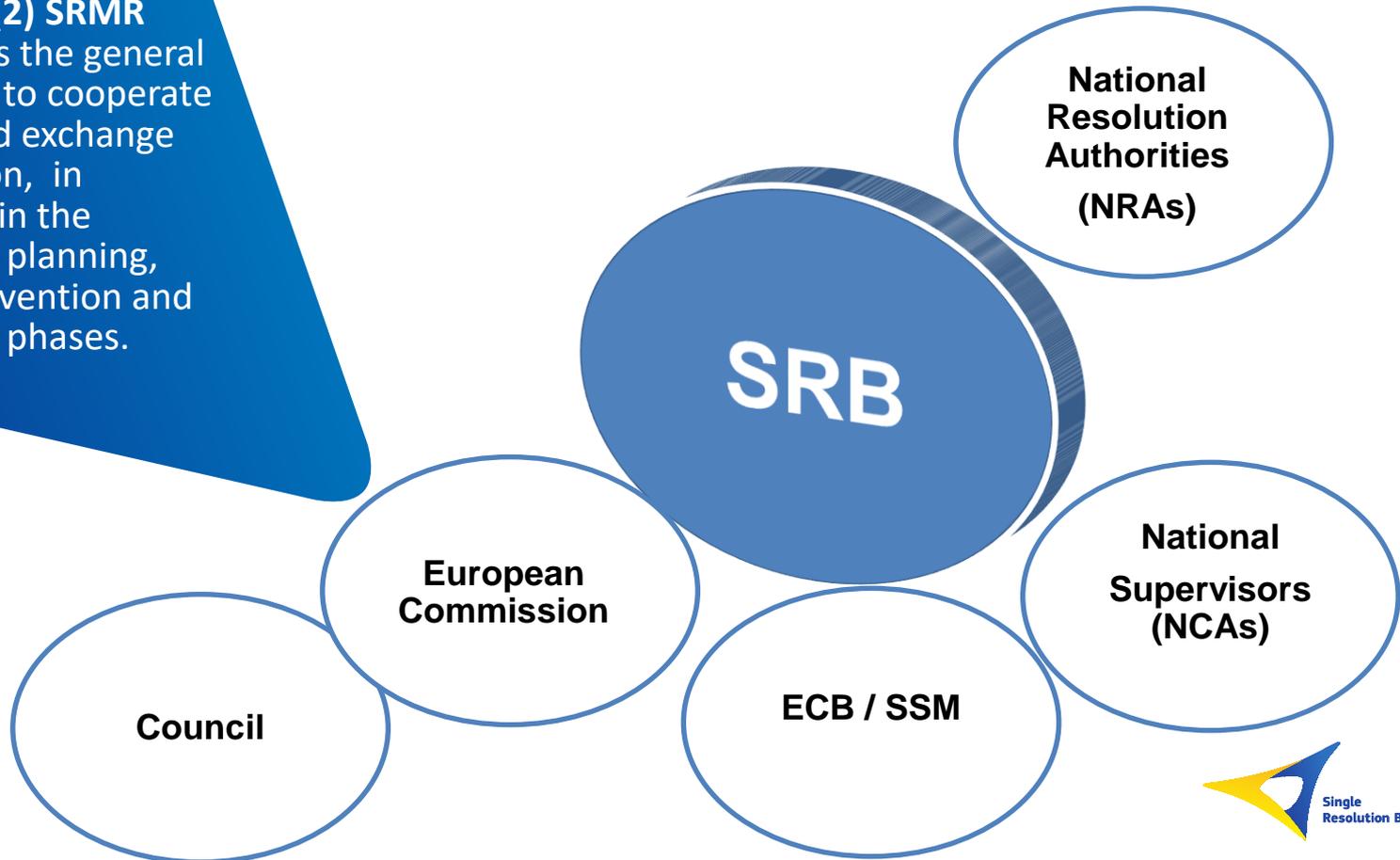
## A clear escalation mechanism



# 4. The Single Resolution Board

## Cooperation at EU level is key

**Article 30(2) SRMR** establishes the general obligation to cooperate closely and exchange information, in particular in the resolution planning, early intervention and resolution phases.



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# 5. Conclusion

## A lot has already been done:

- a. Massive support to the financial sector.
  - b. Banking Union: tremendous change in a short amount of time.
  - c. Bail-in: a game changer...
- ... but needs to be operationalised: MREL / TLAC

## What's next?

- d. Call for a stronger pan European regulation and supervision of banking system
- e. All eyes towards BBRD2, CRR2, CRD5, EDIS

## And beyond Europe?

- f. More coordination is obviously needed.
- g. The next crisis?

# 5. Conclusion





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Resolution Board**

11/04/2017 **THANK YOU**