Single Resolution Board

Lessons learnt from first bank crisis cases in the Banking Union (2016 -2018)

Banking Union: experience so far and future prospects

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Mauro Grande, Single Resolution Board (SRB)

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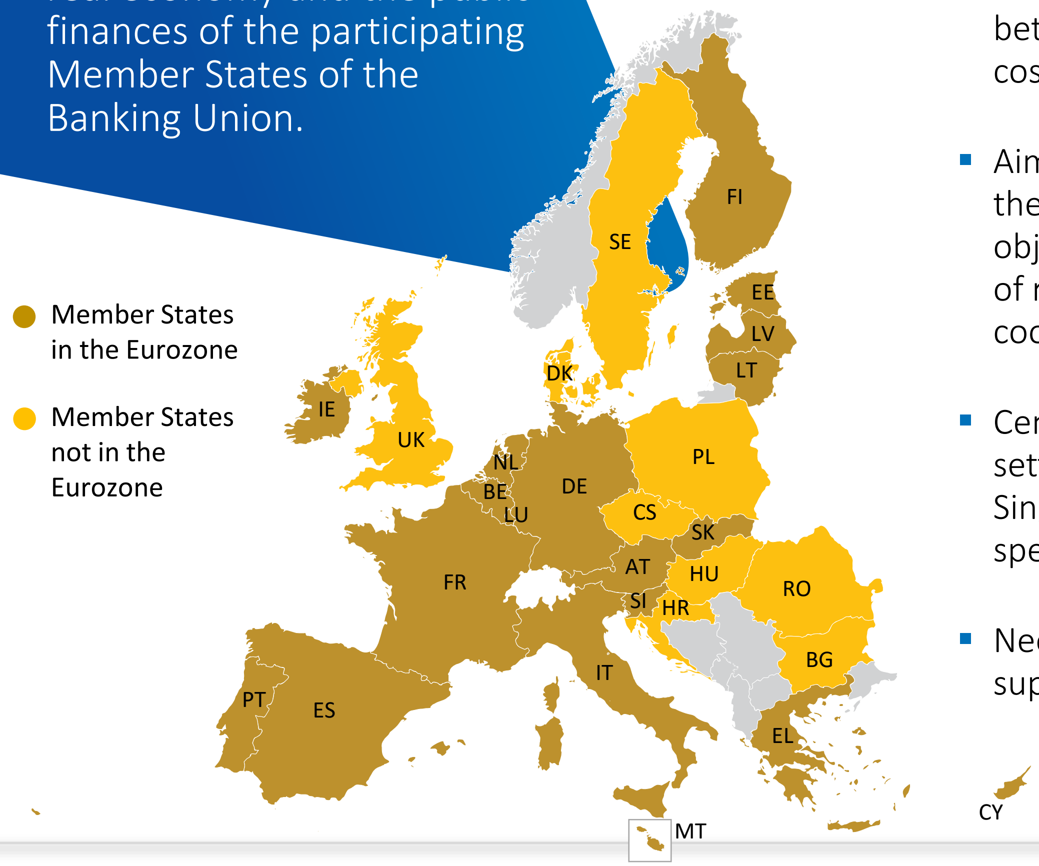
SRM (1): Mission & objectives

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.



Main objectives of the Single Resolution Mechanism (SRM)

- Contribution to severing the negative feedback loop between bank and sovereign risks through effective and cost-efficient handling of bank failures
- Aiming at going beyond what already pursued through the BRRD framework (e.g. identification of resolution objectives and tools, definition of powers/responsibilities of resolution authorities, promotion of cross-border cooperation via resolution colleges, etc.)
- Centralisation of decision-making on resolution with the setting –up of the Single Resolution Board (SRB) and the Single Resolution Mechanism (SRM) and adoption of speedy decision-making processes
- Need for alignment with the organisation of banking supervision (SSM) in the Banking Union

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SRM (2): Resolution objectives and main tasks

RESOLUTION OBJECTIVES

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

Safeguards of private interests include

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

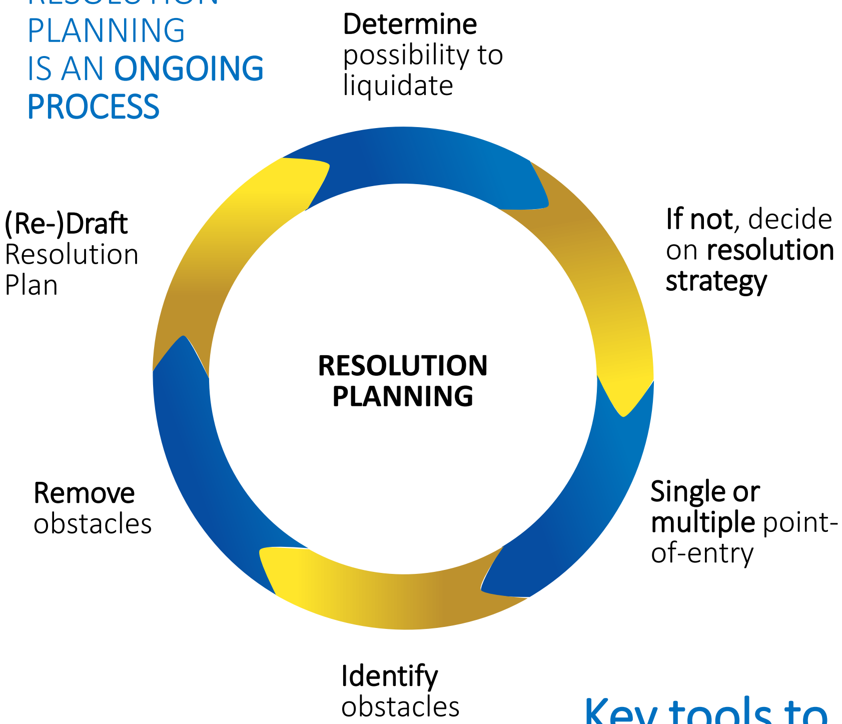
PUBLIC INTEREST

MAIN TASKS

- RESOLUTION PLANS
- ELABORATE & ENACT RESOLUTION SCHEMES
- ASSESSMENT OF RESOLVABILITY & OBSTACLE REMOVAL
- RESOLUTION FUND
- MREL

SRM (3): Progress in banks` resolvability

RESOLUTION PLANNING IS AN **ONGOING PROCESS**



Progress to ensure bank resolvability in the Banking Union is being made but still some way to go

- *Resolution plans*: not complete yet but well advanced for many banks
- *MREL*: banks building up loss-absorbing capacity (first SRB binding decisions on consolidated MREL taken in H1 2018)
- *Resolvability assessment*: process to identify and remove impediments under way
- *Single Resolution Fund*: being gradually built up (currently 24 bn) and features of financial backstop being discussed at the EU level
- *BRRD2*: changing regulatory landscape for bank resolution (MREL)

Key tools to ensure banks` resolution readiness

- MREL
- Removal of impediments to resolvability

CRISIS CASES (1): Overview

- In the Banking Union so far:
  - *four cases* of bank failure (Banco Popular Español, Banca Popolare Vicenza, Veneto Banca, ABLV) leading to different outcomes (resolution vs liquidation)
  - *two cases* of bank facing difficulties (pre-resolution) requiring injection of public funds (Monte dei Paschi di Siena, Cyprus Cooperative Bank)

- All cases taking place in a *transitional phase* of implementation of the new resolution framework posing challenges to the resolution authorities

- Overall, all bank failures were handled in a way accomplishing the *public objectives* set by the resolution framework

- Each experience provides *specific lessons* mainly in terms of possible gaps in the design of the resolution framework and to a lesser extent of implementation of crisis management

CRISIS CASES PRE-RESOLUTION (2): Precautionary recapitalisation

Monte dei Paschi di Siena

Source of crisis

- Capital depletion, long-standing high level of NPLs

SRB Decision

- No SRB involvement

Precautionary recapitalisation

- Injection of own funds into a solvent bank by the State when necessary to remedy a serious disturbance in the economy of a Member State and preserve financial stability
- Only to address a capital shortfall under the adverse scenario of a stress test – estimated by the ECB at EUR 8.8bn
- Conditions for approval under the European Union State aid framework: (i) bank viability; (ii) burden sharing for equity and subordinated holders; and (iii) restructuring plan approved by the European Commission (DG COMP)

Lessons learnt

- Precautionary recapitalisation is one of the few forms of injection of public funds in a bank laid down in the EU framework which *does not trigger FOLTF*
- First experience provided opportunity to *test* and *review implementation* in particular the effectiveness of the set conditions and procedures:
  - focus on solvency and FOLTF, features of stress-test and interplay with Asset Quality Review

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CRISIS CASES PRE-RESOLUTION (3): Pre-BRRD legacy

Cyprus Cooperative Bank

Source of failure

- Capital depletion, long-standing high level of NPLs

SRB Decision

- No SRB decision

What happened?

- Restructuring process initiated in 2014 on the basis of the applicable national legal framework, before entry into force of BRRD
- Cypriot authorities opened sale-process in March 2018 and provided State aid to mitigate the effects of possible liquidation
- European Commission (DG COMP) approved State aid under condition of partial sale of business to Hellenic bank and winding-down of the remaining entity

Lessons learnt

- Unwinding of banks foreseen by a restructuring process started before the entry into force of BRRD and SRMR *remains governed* by national law and managed by national authorities
- Accordingly, if Member States consider public support necessary to mitigate the effects of liquidation, this *does not trigger FOLTF* and the EU State aid rules (2013 Banking Communication) are the only applicable framework
- The application of the new resolution framework to banks/banking sectors still *afflicted by past (pre-BRRD) legacy asset problems* is challenging

CRISIS CASES (4): Resolution

Banco Popular Español

Source of failure

- Liquidity

SRB Decision

- Positive Public Interest Assessment (PIA): resolution
- Sale of business tool: sale to Banco Santander for EUR 1, after write-down of equity and AT1 instruments, and conversion of T2 instruments into shares

Lessons learnt

- Importance of *liquidity* pre (quick escalation, possible role of *moratorium*) and post-resolution (capability and limits of Single Resolution Fund in the absence of a private buyer)
- Economic *valuation* (Valuation 2): need for full cooperation from the failing bank
- Need for *smooth cooperation* and *information exchange* with relevant stakeholders (in particular the ECB/SSM)
- *Disclosure* of resolution decisions by resolution authorities should reflect a right balance between different legitimate interests
- Resolution decisions entail a high degree of *litigation* risk

CRISIS CASES (5): Liquidation

Veneto banks (Italy)
ABLV (Latvia)

Source of failure

- Insolvency, long-standing high-level of NPLs (*Veneto Banca, Banco Popolare di Vicenza*); Liquidity (*ABLV*)

SRB Decision

- Negative Public Interest Assessment (PIA): liquidation under national insolvency proceedings

What happened?

Veneto banks

- ECB declares that the two banks were FOLTF due to persisting breaches of capital requirements and lack of credible options to restore the banks' capital position
- Liquidation under national insolvency proceedings with public support (e.g. liquidation aid). Transfer of part of assets and liabilities to Intesa Sanpaolo and NPLs to a State-owned asset management company

ABLV

- ECB declared that ABLV LV and ABLV LU were FOLTF due to insufficient available funds to match the stressed outflows
- Bank and subsidiary to be wound up under law of LV and LU respectively

Lessons learnt

Veneto banks

- *Negative PIA*: critical functions and risks for financial stability can evolve in time due to banks` deleveraging
- *State aid* is possible in liquidation but not in resolution.

ABLV

- Liquidity crises can escalate extremely quickly due to *reputational* risk
- Need for *insolvency law harmonisation*: national insolvency regimes in LV/LU do not allow to trigger liquidation just based on FOLTF

CONCLUSIONS

- Overall the management of the first bank failures in the Banking Union has shown the *effectiveness* of the new resolution framework despite the still transitional phase of implementation:
  - resolution objectives were met
  - public interest assessment was applied consistently

- Application of the new resolution framework to banks/banking sectors afflicted by *legacy problems* is challenging
  - huge amounts of outstanding NPLs
  - slow process to build up MREL

- Experience highlighted *a few issues* relating mainly to the design of the overall crisis management framework:
  - *funding in resolution*: need for clarifying who provides liquidity in the post-resolution phase (role of the ECB/NCBs and the Single Resolution Fund)
  - *insolvency law*: need for harmonisation of national regimes for banks at the EU level
  - *state aid framework for the banking sector*: need for review (in particular liquidation aid) in light of the new resolution framework
  - *precautionary recapitalisation*: review of implementation (conditions and procedures)

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THANK YOU

For more information, please contact:
mauro.grande@srb.europa.eu