

**EGOV**

ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT



BANKING UNION

Public hearing with Dominique Laboureix, Chair of the Single Resolution Board

Banking Union Scrutiny

This briefing has been prepared for the public hearing with the Chair of the Single Resolution Board (SRB), Dominique Laboureix, scheduled for 23 September 2024.

This briefing addresses:

- Regular reporting on MREL- Q1 2024
- Resolvability assessment 2023
- Bail-in mechanics
- Forthcoming expectations on valuation capabilities
- SRB's 2023 annual report
- Second SRB's report on smaller banks in the Banking Union
- Two new thematic briefing papers on [SRB accountability](#) and on the [CMDI Council position](#)

Regular reporting on MREL

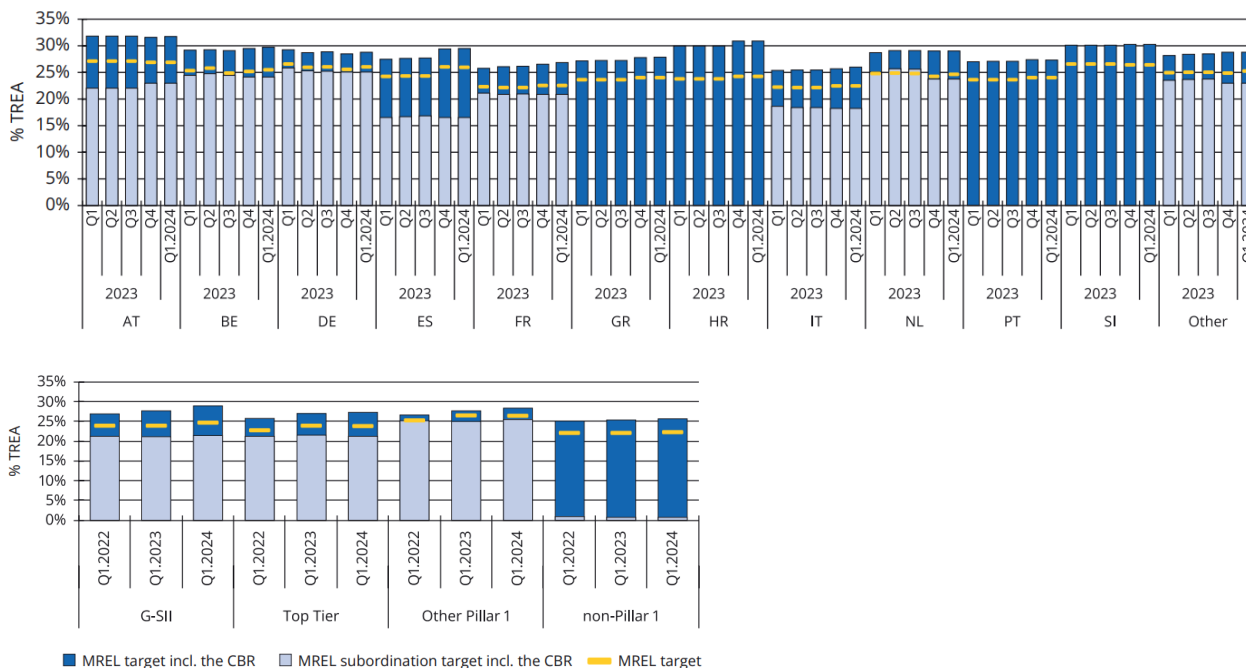
The Minimum Requirement for own funds and Eligible Liabilities (MREL) constitutes the amount of capital and debt instruments that can be written down or converted into equity to enable the resolution of a bank, if necessary. The individual MREL amount is determined by the resolution authorities (for the largest banks and banking groups in the euro area: the SRB), depending on the preferred resolution strategy.

In July, the SRB published its **MREL dashboard** with data as of the end of the first quarter of 2024. Earlier on, the SRB had set final quantitative MREL **targets** for banks in its remit, which they were supposed **to reach by January 2024**. The average target across all SRB banks is 28% of the banks' risk aggregate measure ("total risk exposure amount", which is also the basis for determining regulatory capital requirements). As can be seen in **Figure 1**, the **targets do not vary greatly across banks of different Member States or across types of banks**, oscillating between 25 and a bit over 30%.



Visually, the **main difference is in the share of MREL that is required to be subordinated** in order to achieve greater legal certainty and less risk of compensation payments if ever it becomes necessary to bail in the MREL. Essentially, the graphs suggest that for the banks that do not pose a systemic risk in the view of the national resolution authorities, hardly any subordination is required, while for the other banks, the bulk of MREL has to be subordinated. Interestingly, reading the graphs together, it appears that in some Member States, no subordination is required, which suggests that **banks in some Member States are generally not considered to pose systemic risk by their local resolution authorities.**¹

Figure 1: Q1 2024 MREL shortfalls by country, EUR bn



Source: SRB - consider the bars to indicate the total shortfall and see additional details in the original figure, which is in the [MREL dashboard](#)

The headline information that the SRB now presents is that “targets are met”, despite an aggregate total MREL shortfall of EUR 4.5 bn against final targets (including the capital buffer requirement). According to the SRB, the MREL shortfall is attributed to six banks with transitional periods to meet their final targets beyond 1 January 2024.

Figure 2, reproduced from the dashboard, suggests that the banks concerned are essentially located in Greece. It is not possible to say from the information that the SRB gives how significant the MREL gap is for the banks concerned, relative to the risks on their balance sheet. The SRB does disclose relative shortfalls, but they are in our understanding calculated over the total risks of all Greek banks rather than those with shortfalls.

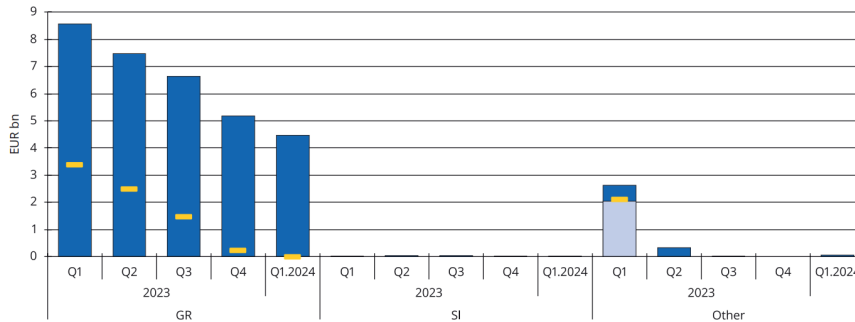
The SRB also does not further explain the rationale for these continued transitional exceptions. Compare the remaining shortfalls also to Figure 3, dating from Q3 2023, which shows that in 2022 and 2023, there were still substantial shortfalls in a wide range of Member States. Apparently, the market environment

¹ According to figure 1, there seem to be no subordination targets for SIs in Greece, Portugal and Slovenia, three countries that saw significant public intervention to bail-out and restructure their banking sectors during the financial crisis.

allowed most banks to virtually eliminate them by now. From this [interview](#), it appears that at least some banks that had been granted longer transition periods have found ways to meet their targets by now.

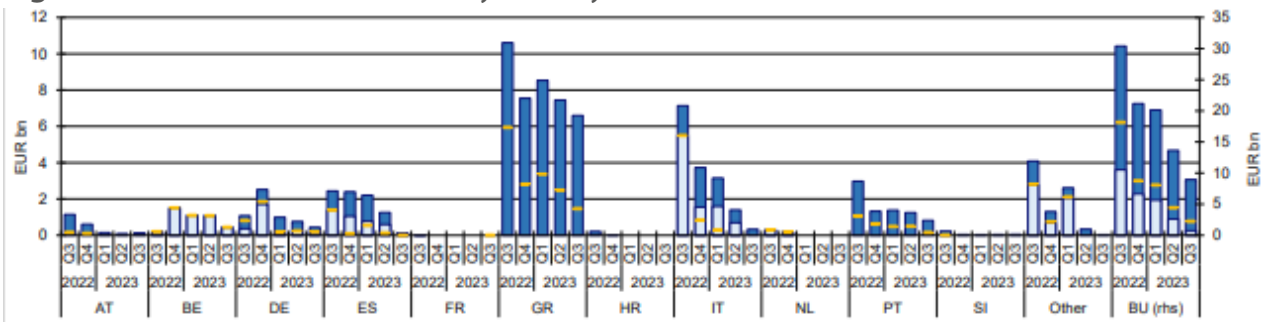
In general, the dashboard reports favourable **market conditions**. The banks concerned issued EUR 135 bn of MREL-eligible instruments in Q1 2024, above the levels reported for the respective quarter from 2020 to 2023. Among other things, the SRB attributes the increased issuance to investor demand driven by expectations of rate cuts and smaller and less frequent issuers entering the market, while existing instruments had to be refinanced.

Figure 2: Q1 2024 MREL shortfalls by country, EUR bn



Source: SRB - consider the bars to indicate the total shortfall and see additional details in the original figure, which is in the MREL [dashboard](#)

Figure 3: Q3 2023 MREL shortfalls by country, EUR bn



Source: SRB - consider the bars to indicate the total shortfall and see additional details in the original figure in the MREL [dashboard](#)

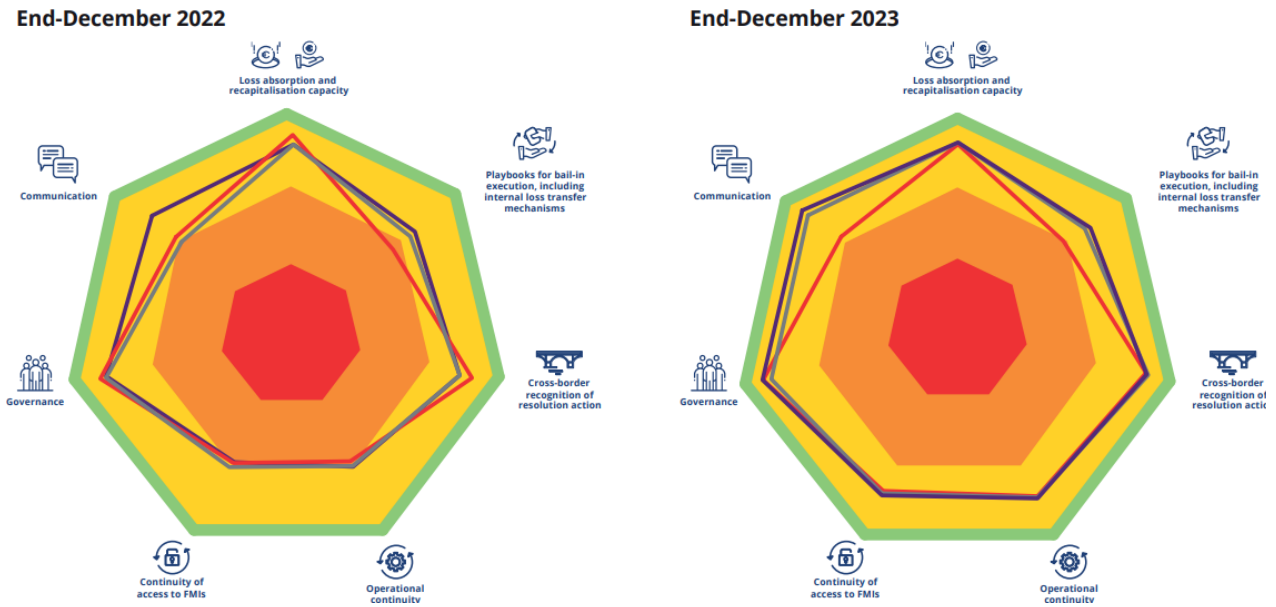
Resolvability assessment Q1 2024

The SRB published its **third annual assessment of banks' resolvability**, which reflects the situation in 2023. A [first annual assessment](#) was accordingly published for the year 2021, announcing that banks are **"on track to achieve full resolvability" in 2023** in line with the SRB's [Expectations for Banks](#) guidance. To understand how much and where progress has been made today, it is important to understand that in its 2021 and 2022 assessments, different "subjects" (i.e. a different focus of the assessment criteria) had been chosen. The present 2023 assessment now offers graphical depictions of the progress on the respective subjects from the two years, see **Figure 4**. In the graphs, progress appears as movement towards the green-coloured outer

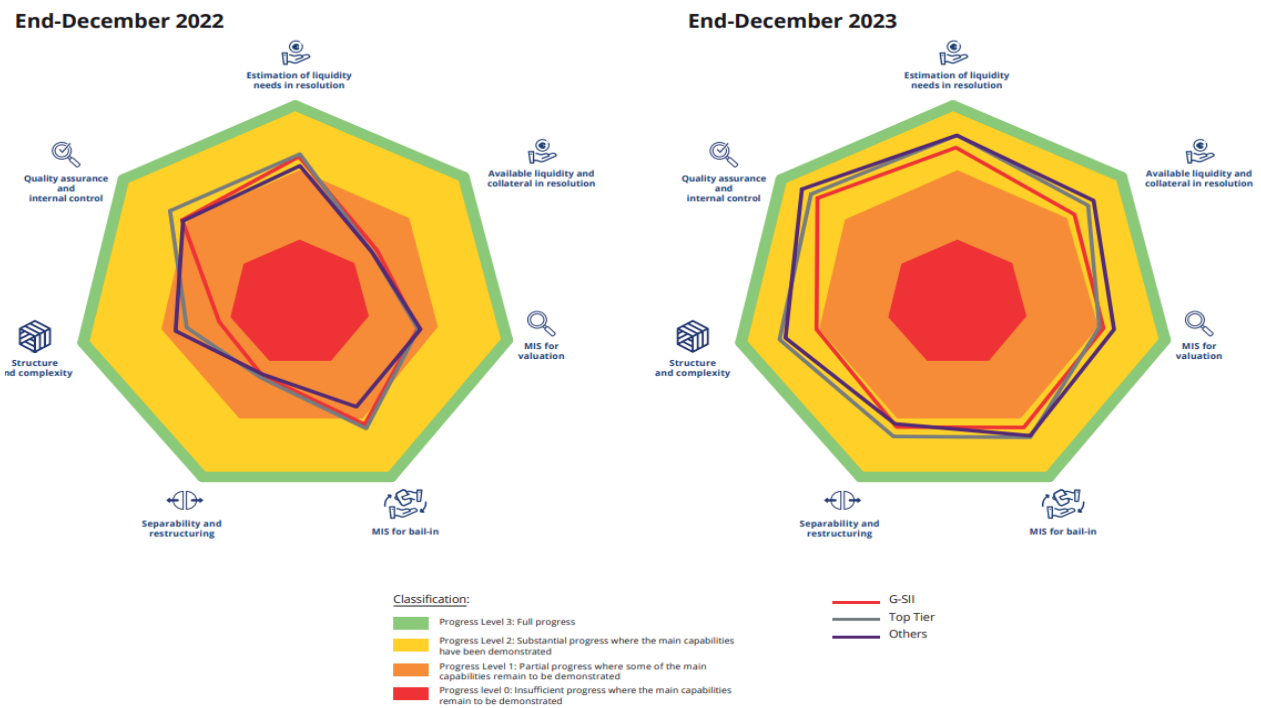
edge of the spider web (different groups of banks are presented by lines of different colour). Reaching the outer green edge represents full resolvability.

Figure 4: Banks progress with resolvability capabilities according to the 2023 report

Update on the resolvability conditions prioritised in 2021



Update on the resolvability conditions prioritised in 2022



Source: SRB

The overall impression from the graphs is that at aggregate level, **all groups of banks fall short of the goal of full resolvability in 2023**. That said, **in almost every respect assessed by the SRB, it considers progress has been achieved**, with some limited exceptions such as preparedness for stakeholder communication in resolution by G-SIB banks, which has been stagnant for two years. In terms of the level of achievements, note that the yellow area means that the “main capabilities” have been demonstrated.

From the graphs, it is striking that the only category of banks for which this is not universally the case are **G-SIBs**. Namely, **regarding the quite fundamental capability of bail-in execution, G-SIBs appear to fall just about short of having those main capabilities**. Also more generally, it is striking that G-SIBs are apparently not the most advanced group of institutions, while the underlying ideas of the resolution framework were developed by global standard setters with precisely those banks and the associated risk of “too big to fail” in mind. This observation also shines an interesting light on the discussion in the previous section. It appears that almost all banks now have sufficient MREL, but that the ability to actually use it appears to require further work.

Unfortunately, the information provided by the SRB does not lend itself to any more detailed assessment, and the fact that the information is only shown at aggregate level makes it impossible to compare it with publicly available information at bank-entity level (e.g. individual financial reports, credit ratings etc.). First, it is **not clear to us what level of assurance the SRB seeks** in its resolvability assessments. On the one hand, there seems to be some reliance on self-assessments by the banks, which are explicitly mentioned in the 2023 report. On the other hand, a **SRB blogpost on methodology** that appeared together with the 2021 report mentions assessments by SRB staff, without entering into detail about the review work executed. In a further [blogpost](#), there is a description of how the SRB has tested capabilities of banks for bail-in over the years, specifically.

Second, there is **no transparency about the severity of remaining shortcomings**. The notion of “main capabilities” is not defined in the SRB’s related guidance paper ([Expectations for Banks](#)), and accordingly one cannot deduct how serious any remaining shortcomings beyond those “main capabilities” are.

Third, the reports differentiate between groups of banks such as G-SIBs etc, but **the distribution of resolvability within groups of banks remains undisclosed**. We cannot tell for sure from public information whether the line in the graph represents the capabilities of the weakest bank in the group on each criterion, respectively or whether it is meant to be somehow representative of the group of banks. To have a clear idea of the situation, it would be necessary to understand how individual banks fare regarding the different criteria.

Bail-in mechanics

In June 2024, the SRB published a [document directed to banks that describes how the SRB would go about bailing in debt and equity](#). Essentially, it describes what communications banks can expect from the SRB. It should also give some transparency to the owners of equity and debt instruments that may be exposed to bail-in in case of resolution. Given the specific work procedures of the Single Resolution Mechanism, the document only describes what communication to expect from the SRB in case of bail-in. Namely, the communication on bail-in by the SRB forms part of the resolution scheme that the SRB transmits for endorsement to the Commission, but then still needs to be implemented by a national resolution authority (“NRA”). The NRA issues an act in local language that is binding on the bank and other local stakeholders, such as securities depositaries. The implementation by national authorities is thus out of scope

of the present document and should be subject to further explanations that national authorities will publish. **Figure 5** gives an overview of the process.

Figure 5: Schematic overview of the bail-out process



Forthcoming expectations on valuation capabilities

There are three instances in the resolution process at which it has to be determined how much a failed bank is worth. A first valuation is obtained when determining whether the bank is actually failing or likely to fail (valuation 1), a second as a basis for the choice of the most suitable resolution approach (valuation 2), and eventually a third to gauge whether any creditors have to be compensated, in case that the implementation of the resolution scheme leaves them worse off than in hypothetical insolvency (valuation 3). Valuation work requires input from banks' internal financial reporting and planning. Therefore, swift implementation of a resolution scheme requires that banks are prepared to cooperate with valuers, i.e. those service providers who do the valuation.

In 2019, the SRB published a [Framework for Valuation](#) that essentially describes how valuation is done for resolution purposes. By contrast, the new work that the SRB envisages is **concerned with the preparedness of banks to quickly supply information for the valuation.**

Interestingly, according to **Figure 4**, banks possess already the "main capabilities" in this area (see lower right hand graph "MIS for valuation"); nevertheless, the SRB appears to see need for improvement. Specifically, the SRB wants banks to maintain permanent repositories of data for eventual valuation work, enhancements of current data sets for valuation and "valuation playbooks", which we understand to mean a set of internal instructions for the bank how to proceed when it has cooperate with a value. To carry this project forward, the SRB intends to **consult industry and other stakeholders in 2025.**

SRB annual report 2023

The SRB has published its 2023 [annual report](#) in June. In its [press release](#), the SRB itself emphasises **three achievements**: (1) that the **Single Resolution Fund** has reached its target level (we briefly [reported](#) in March), (2) that “all banks under the SRB’s remit met their **MREL requirements** at the due date” (see however the more nuanced discussion [above](#)) and (3) that banks have made material **progress towards resolvability** (as discussed [above](#)).

Second report on smaller banks in the Banking Union

The SRB has released its **second [report](#)² on resolution planning and crisis management for small banks, so-called less significant institutions (LSIs)**³ for the period 2023-2024. The publication reports progress in meeting minimum requirements for MREL (compare section 1) stating that all LSIs with a target date of 1 January 2024 complied with the MREL target (however, there are relevant exceptions, see below).

The report highlights **advancements in resolvability and crisis preparedness, particularly through NRAs working with the SRB**. In 2023, two crisis cases involving LSIs occurred in Luxembourg. The report also addresses sector trends, including the growth of digital-only banks. During the presentation of a report, the SRB Chair Dominique Laboureix emphasised the collaborative efforts of NRAs and the SRB in maintaining high standards and ensuring effective resolution strategies for LSIs.

No significant obstacles to resolvability were officially mentioned in the 2023 RPC, though certain LSIs with a resolution strategy could face potential difficulties. NRAs are gradually and proportionally applying the SRB’s Expectations for Banks and its heat-map based resolvability assessment approach.

In the 2023 resolution planning cycle (RPC), 17 NRAs designated 70 LSIs for resolution. In other words: out of the 1.915 small banks mentioned in that report, only a fraction (4%) is earmarked for resolution procedures, while all others are earmarked for ordinary insolvency procedures in case of their failure. Those earmarked for resolution, however, are notably much larger than the average small bank, justifying in nearly all cases that there is a public interest in their resolution on grounds of financial stability considerations: **As of 31 December 2023, these 70 LSIs had total assets of approximately EUR 900 billion**, with most ranging from EUR 150.3 million to EUR 29.8 billion, and an average of EUR 9.958 billion. The LSIs considered for resolution are mainly diversified lenders and retail banks, followed by central savings or cooperative banks, seven special-business-model LSIs (such as custodian banks or CSDs) and others.

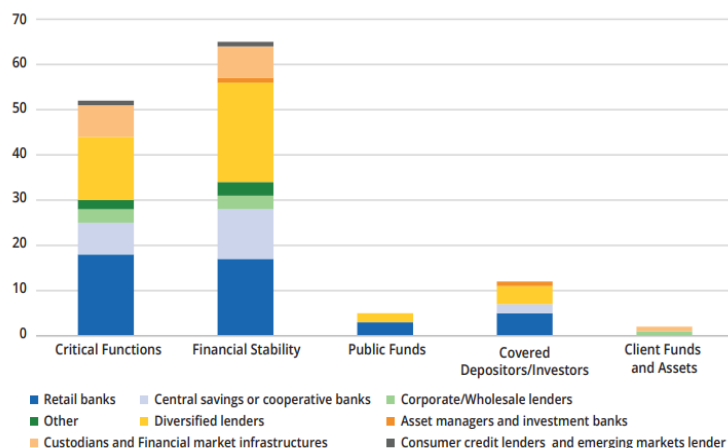
Moreover, most plans reference the same resolution objectives as before, mainly focusing on ensuring the continuity of critical functions and preventing major impacts on financial stability (see **Figure 6**). The other three objectives were used less often and only alongside these primary goals.

As regards compliance with MREL targets, one needs to know that the legal framework allows NRAs under certain circumstances to set transitional periods that end after 1 January 2024; the NRAs have notably prolonged the period to meet MREL targets for approximately 1/3 of the LSIs earmarked for resolution (22 out of 70).

² The [first report](#) was published in October 2023.

³ LSIs excluding cross-border ones, are directly managed by national resolution authorities (NRAs), with the SRB overseeing the consistent application of the Single Resolution Mechanism (SRM) Regulation. The SRB ensures high standards in resolution planning and crisis management both across the 21 participating Member States and between LSIs and SRB banks within these States.

Figure 6: Resolution objectives



Source: [SRB report](#).

Council position on the CMDI reform

The Council’s general approach to the CMDI reform triggered a strong reaction from the Commission. Against this background, a **briefing** by the EGOV unit provides an **initial analysis regarding the key aspects of public interest assessment, resolution objectives and resolution funding**. Clearly, the Council aims for a narrower scope of resolution in harmonised procedures by the Banking Union authorities than the Commission and narrows the available funding accordingly, potentially privileging action under national frameworks instead. Whether a balance is achieved, however, will require more in-depth analysis. An initial analysis regarding key aspects of the proposed bank crisis management framework. You can find the full briefing under this [link](#). In this context, see also the [recent article](#) by the SRB chair.

Parliamentary Scrutiny of the SRB

The SRB possesses statutory, formal independence by law, and its decisions are guided by a set of objectives whose application requires interpretation and trade-offs. The resulting **discretion is balanced by accountability to the EU Institutions**, and in particular, to the European Parliament. To support parliamentary scrutiny of the SRB during the 10th parliamentary term, a **briefing** by the EGOV unit presents the provisions on accountability in the SRB’s founding legislation and **analyses the objectives that the SRB has to pursue - and against which its actions can be judged**. You can find the full EGOV briefing under this [link](#).

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