

FINANCIAL SECTOR ADVISORY CENTER (FinSAC)

Renewed supervisory challenges in light of tightened financial conditions and economic slowdown

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Session 6: Ensuring (cross border)
resolvability in bank resolution

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RESOLVABILITY STATE OF PLAY IN THE EU: EXPECTATION FOR BANKS

N. Jassaud

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1. State of play of the resolution landscape in the EU

1.1. Strengthening the resolvability of SRB banks and less significant institutions (LSIs)

Overview of SRB banks as of 1st January 2023

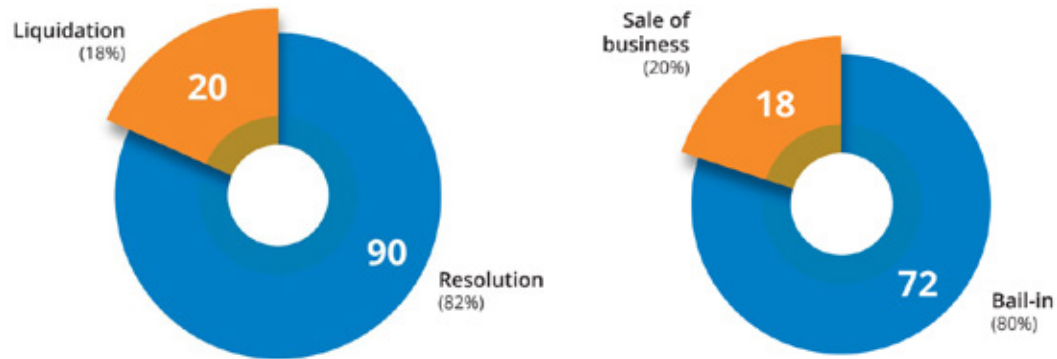
Member state (MS)	Banks under the SRB remit	o/w other cross-border groups under the SRB remit
AT	7	1
BE	7	2
BG	1	-
CY	2	-
DE	22	-
EE	3	-
ES	10	-
FI	3	-
FR	13	2
GR	4	-
HR	0	-
IE	6	-
IT	12	-
LU	4	-
LT	2	-
LV	3	-
MT	3	-
NL	7	-
PT	3	-
SI	3	-
SK	0	-
BU	115	5
<i>o/w BU subsidiaries of third-country banking groups</i>	13	-
<i>o/w BU subsidiaries of non-participating EU MS (so-called 'host cases')*</i>	6	-

- The resolvability of banks in the Banking Union (BU) is at the core of SRB's mandate.
- The SRB started its work on resolvability in 2015, developing and enhancing resolution plans on all banks under its remit with dedicated bank-specific strategies and tools.
- As of 1st January 2023, there were **115 systemically important (SI) and 5 cross border institutions** that fall under the direct responsibility of the SRB.
- SRB also executes an oversight role for the LSIs under the NRAs' remit to ensure consistency between SIs and LSIs within the same country, and among LSIs with similar business models.
- LSIs resolution plans' coverage made significant progress in the last years; in 2021 a resolution plan was drafted for around 93% of the 2085 banks for which a plan was requested.

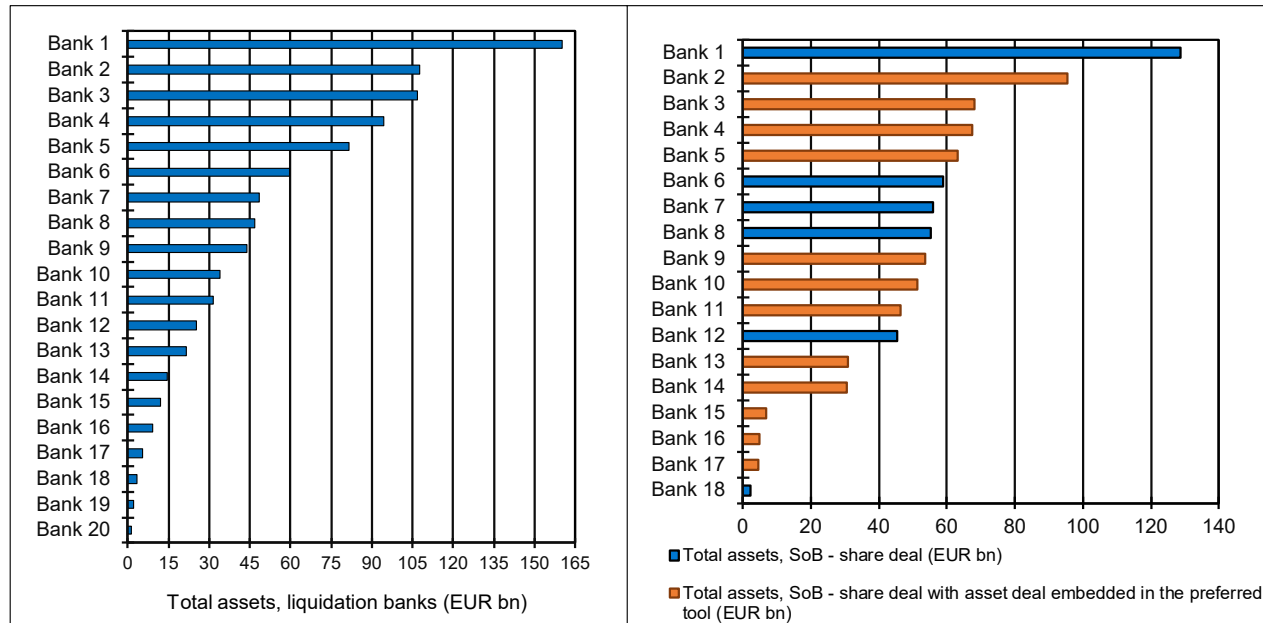
1. State of play of the resolution landscape in the EU

1.2. Preferred strategies and tools for SRB banks in 2021 planning cycle

Preferred strategies and tools for SRB banks in the 2021 cycle



Sale-of-business and liquidation banks in the 2021 cycle, by banks' size

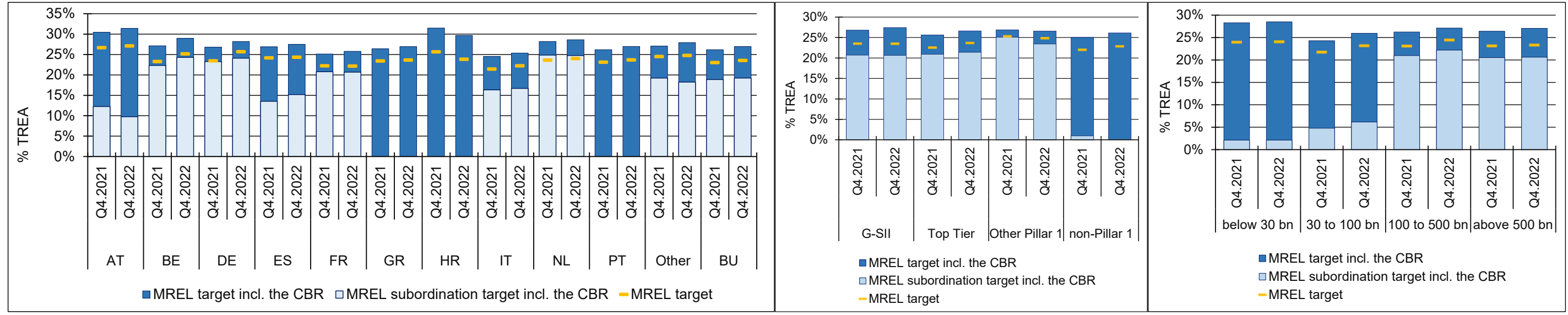


- **Resolution versus Liquidation.** About 80% of SI plans were earmarked for resolution.
- **Preferred resolution tool.** Bail-in was envisaged by the SRB for 80% of the banks in resolution.
- **Sale-of-business tool (SoB) was the second most frequent tool,** primarily envisaged as a share deal and for medium-sized banks.
- **Point-of-entry.** Single Point-of-Entry remained the main resolution strategy for the resolution groups under the SRB remit.

1. State of play of the resolution landscape in the EU

1.3. External MREL levels

MREL final targets (of which subordination) for resolution entities by country, bank category and size, % TREA*



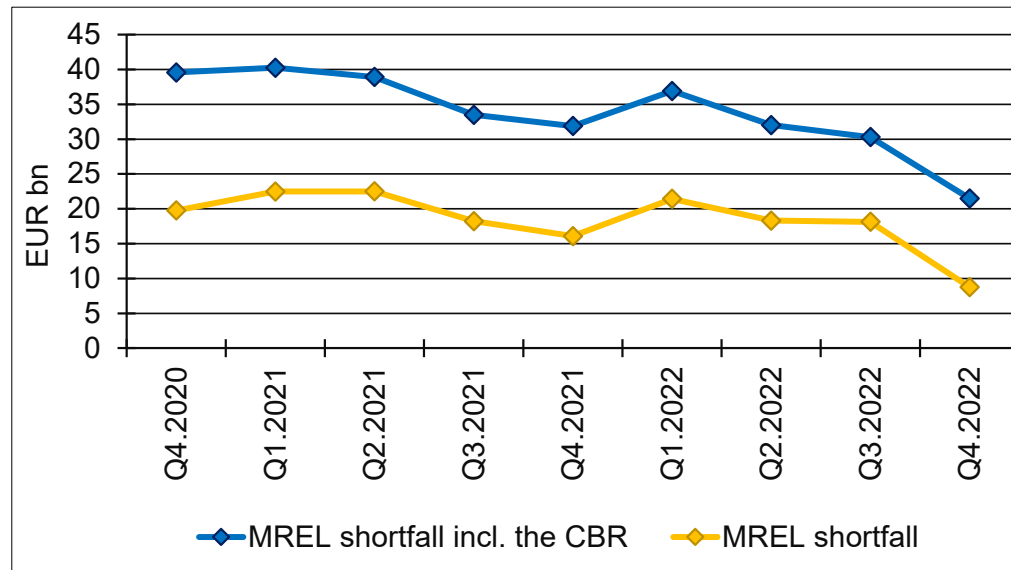
*The sample used for the charts changes across quarters due to data availability and the evolution of the scope. Specifically, 78 banks in Q4.2021 and 80 banks in Q4.2022. The bank category refers to the 2021 (for Q4.2021 metrics) and 2022 RPCs (for Q4.2022 metrics) as per resolution plans. The size of bank is defined by leverage ratio exposure measure reported by the bank at each reference date.

1. State of play of the resolution landscape in the EU

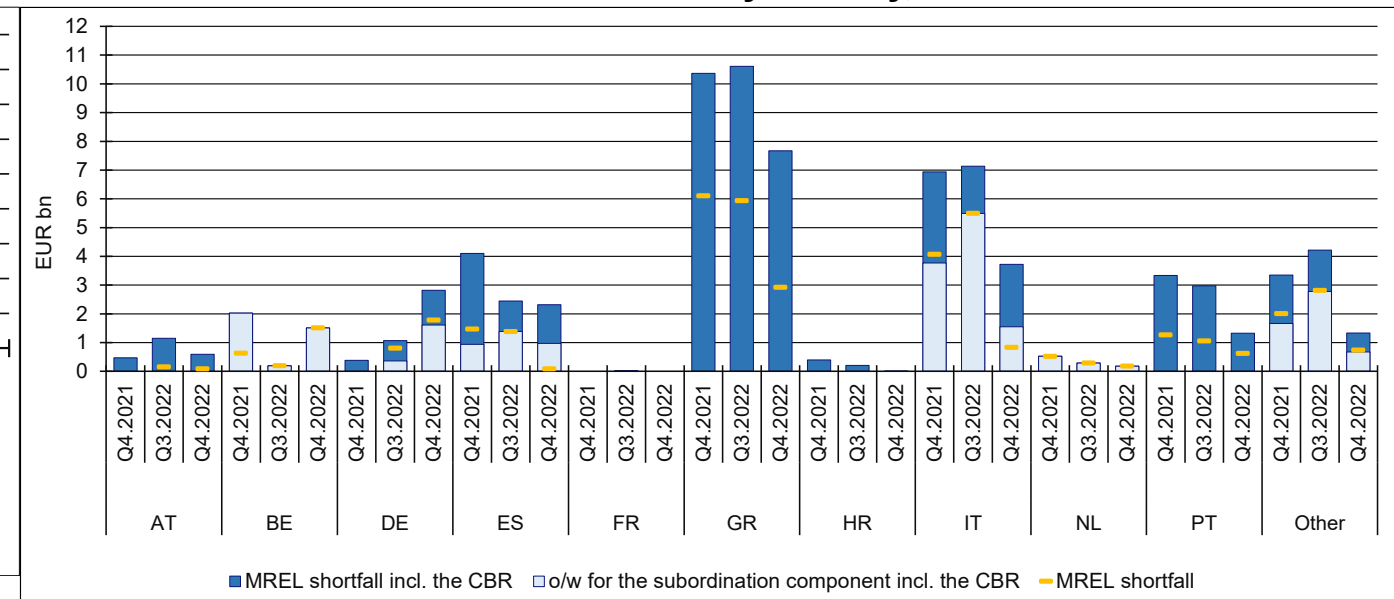
1.4. External MREL shortfalls

- Banks continue to make progress in building up their MREL levels before the final target date (1st January 2024).
- **Preliminary estimates for the MREL shortfall (including the CBR) at end of the year are about 0.3% TREA in significant reduction, mainly driven by the high issuance activity from those banks. If 30 banks (out of 80 in scope) would still report a shortfall, 15 have a longer transitional period to meet their final target. The SRB will continue monitoring the closing of the shortfall and the MREL funding conditions.**

Overall MREL shortfall against final targets of resolution entities: evolution since Q4.2020, EUR bn



MREL shortfalls (of which subordination) against final targets of resolution entities by country, EUR bn

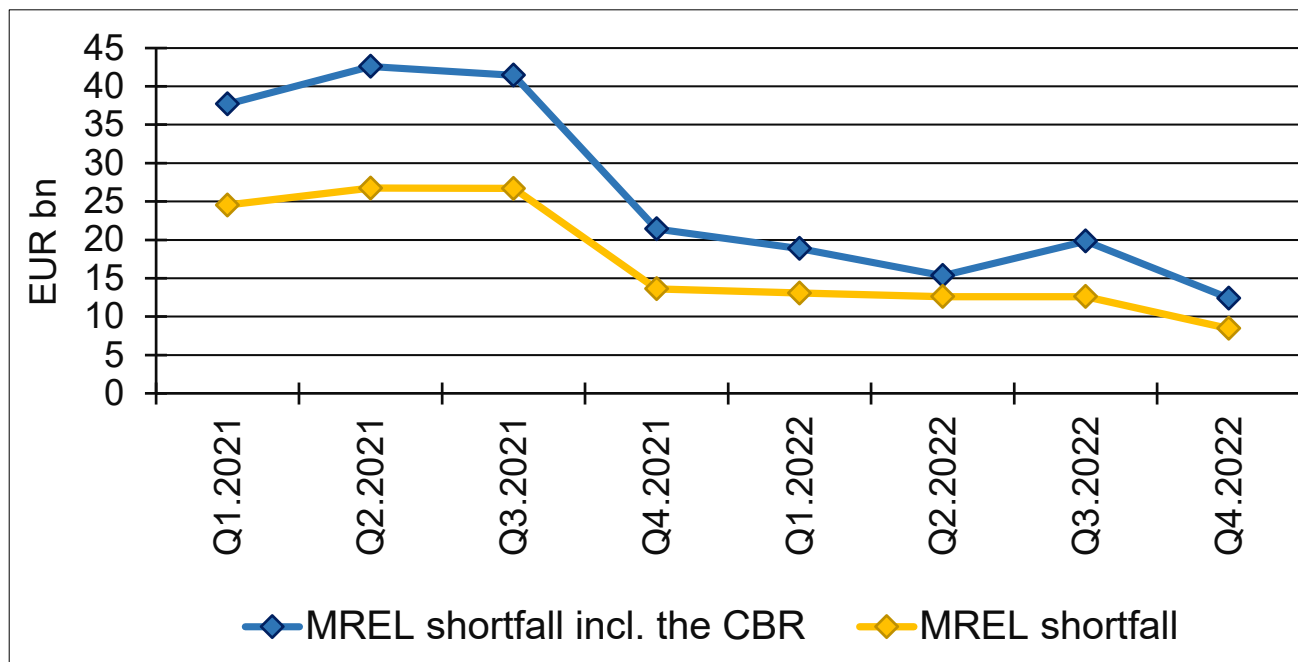


1. State of play of the resolution landscape in the EU

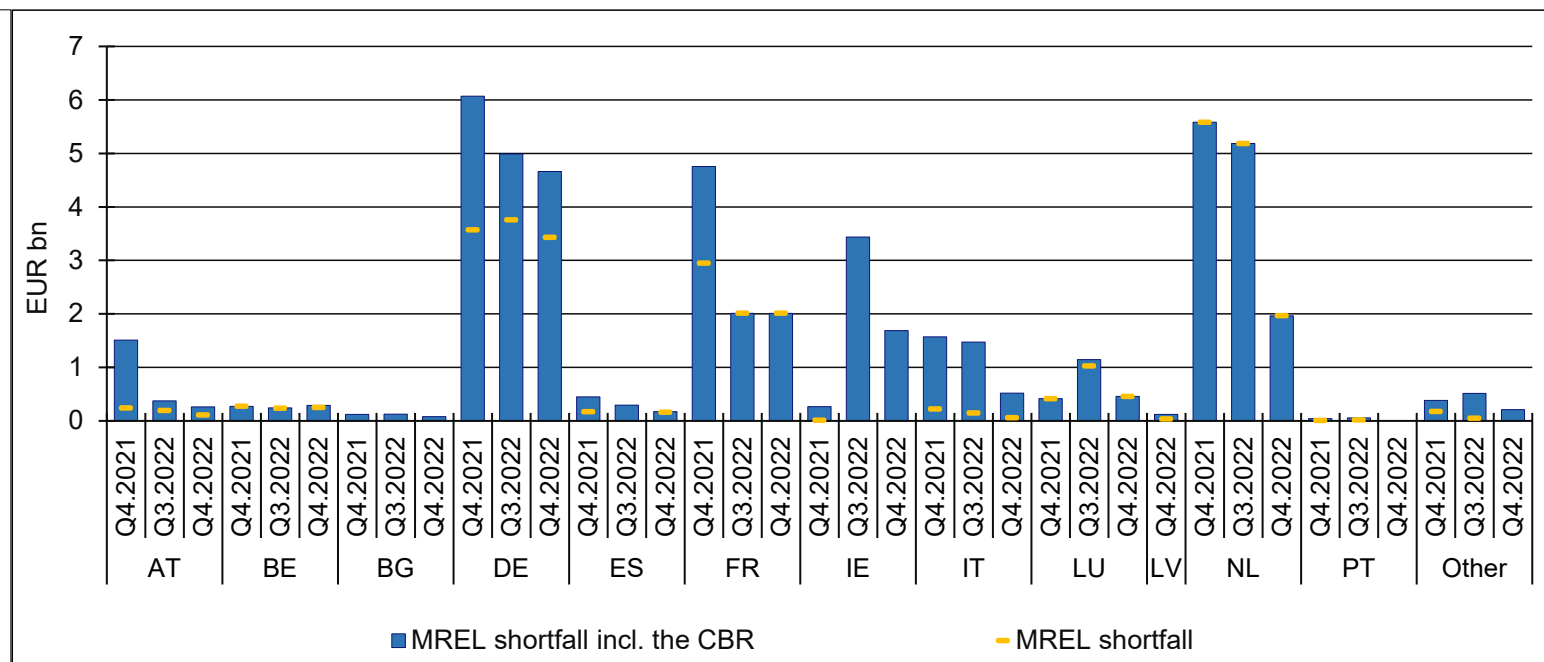
1.5. Internal MREL shortfalls

- The aggregated internal MREL shortfall (including the CBR) is also decreasing at the end of the year, estimated at 0.5% TREA.

Overall MREL shortfall against final targets of non-resolution entities: evolution since 2021, EUR bn



MREL shortfalls against final targets of non-resolution entities by country, EUR bn



2. Bank progress towards resolvability

2.1 SRB Heat-map

- The **Expectations for Banks (EfB)** set out the **roadmap** and milestones that banks are expected to reach in order to demonstrate full resolvability by the end of 2023. MREL is a key component of those expectations.

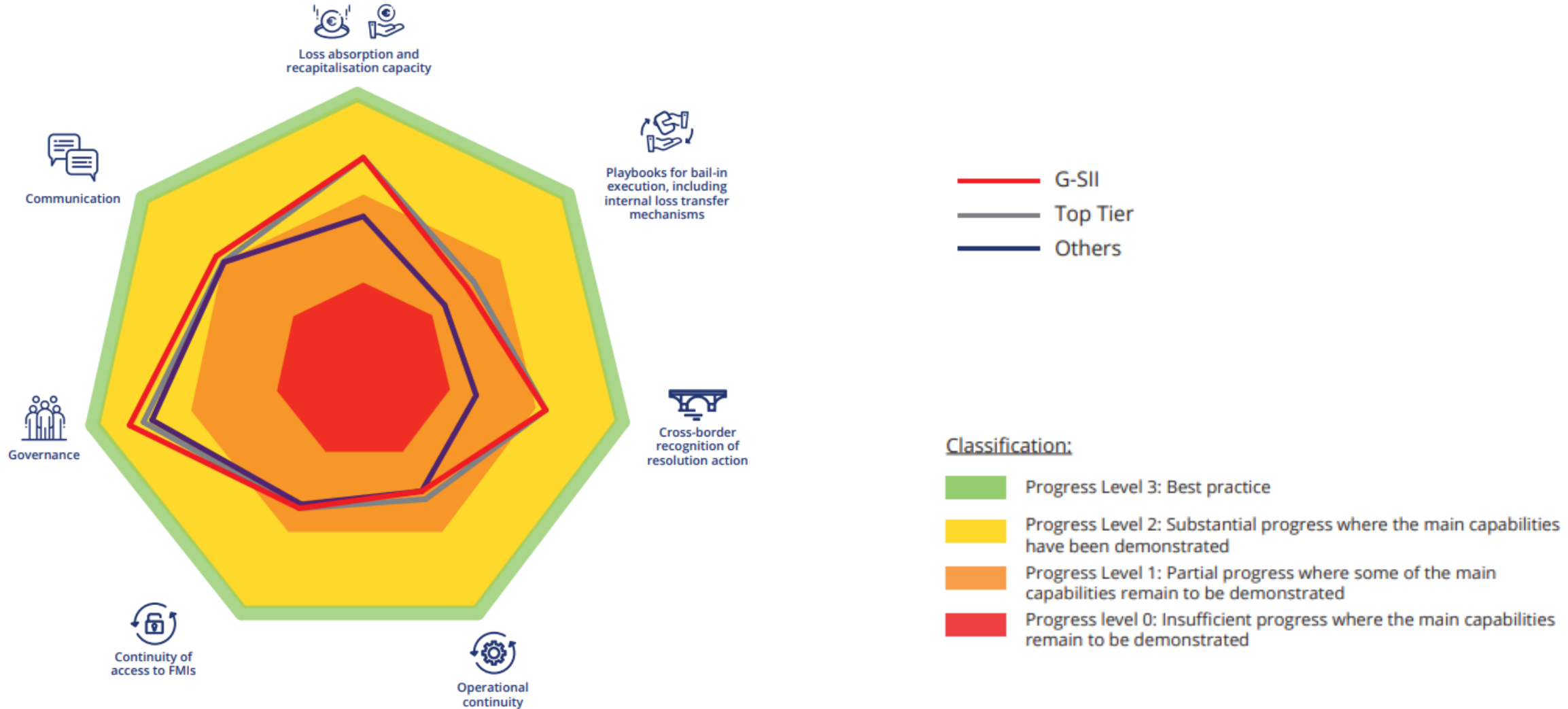
- The SRB has put in place a consistent **process for assessing and monitoring** how well banks are progressing in implementing the Expectations for Banks, using the resolvability **Heat-map**.

EfB Resolvability Dimensions	Timeline for the phase-in of the EfB
1. Governance	Ongoing
2. Loss absorbing and recapitalisation capacity	
a. MREL	Intermediate targets by 1 Jan. 2022 Final target by 1 Jan. 2024
b. Operationalisation of bail-in	2020-2021
3. Liquidity and funding in resolution	2021-2023
4. Operational continuity and access to FMIs	
a. Operational continuity	Ongoing
b. Access to FMIs	2020-2023 (CF prioritised)
5. Information systems and data requirements	2020-2022 (bail-in execution) 2020/2021-2023 (valuation)
6. Communication	Ongoing
7. Separability and restructuring	2021-2023 Bank-specific

	High impact	Medium impact	Low impact	N/A
Level 0 « No progress »				
Level 1 « Limited progress »				
Level 2 « Advanced progress »				
Level 3 « Full progress »				
Grey progress				

2. Bank progress towards resolvability

2.2 2021 Progress



2. Bank progress towards resolvability

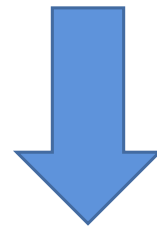
2.3 2022 Progress and Next Steps

- The next Heatmap publication will illustrate the progress made by banks in **2022**;
 - Banks show the ability to estimate their **liquidity** needs in resolution under different scenarios, but further work remains on ensuring sufficient liquidity and collateral could be swiftly mobilized in a crisis situation;
 - Banks have self-assessed their **MIS capabilities** to produce the datasets for valuation and for bail-in execution and are in the process of addressing main shortcomings.
 - Banks with Sale of Business as preferred or variant strategies have also progressed in terms of **separability** analysis report (“SAR”) and transfer playbooks. Banks with Open Bank Bail in as preferred or variant strategy have started identifying restructuring and **reorganization options** post-bail in.
- **Next Steps:**
 - Publication of 2022 Heat-map results in Summer 2023.
 - Testing to ensure that bank capabilities are there
 - On-site inspections

3. Initial reflections on the recent banking turmoil

3.1 In his speech at Eurofi*, the FSB Chair pointed to several questions and lessons learnt

- Bank runs were accelerated by **digitalisation and social media** - are there adequate policies in place ?
- Is the **liquidity framework** suitable and well calibrated to address bank runs? Does it require better stress tests?
- Should we look into the **interest rate risk** differently?
- Should **unrealised losses** be better reflected in the capitalisation of the banks?
- Should we reconsider the **role and functioning of AT1 instruments** in determining the capital position of banks?



- ✓ **Need for strong and consistent regulatory framework globally:** strong buffers for all banks and faithful implementation of the final Basel III standards, with minimal and restricted transitional arrangements or exceptions;
- ✓ **Essential to prepare more than one resolution strategy** to account for different circumstances and address the need to stabilise a bank's liquidity position.

3. Initial reflections on the recent banking turmoil

3.2 In his speech at Eurofi*, the Bank of France Governor/BIS Chair raised several points of attention

For Regulation

- Need for an **effective and broader implementation of the Basel III requirements** rather than a delayed Basel IV adoption;
- Need to **monitor CDS market** and its interaction with other instruments (e.g. AT1);
- Need to **address bank runs** either by deposits insurance and/or adjustment of liquidity ratios.

For Supervision

- The **SSM and our single rulebook have worked well** in terms of integrated banking space, with defined responsibilities and coordination;
- **Regular and comprehensive stress tests** including on interest rate risks (also applicable to LSIs) have increased resilience.

For Resolution

- Need for a **credible backstop** to existing sources of funding, to be provided by the **ECB as "Eurosystem Resolution Liquidity"**;
- Shift to **resolution "for the many"**, including small and medium sized banks – EC proposal on CMDI is in the right direction to further operationalise transfer tools and ensure consistent and smooth market exit of non-viable banks.

3. Initial reflections on the recent banking turmoil

3.3 In his speech at the IIF*, the BCBS Chair underlined that “banking starts with banks”

“Banking basics” - effective bank governance and risk management practices

- The **boards and management of banks** should be the first port of call in managing and overseeing risks and in ensuring the resilience of the bank; these functions cannot be outsourced to supervisors.
- Supervisory expectations are complemented by a set of **additional guidelines on corporate governance principles** for banks worldwide (banks’ risk management function and the role of senior management and the Board).

Stronger Supervision

- **Cross-border supervisory cooperation** at the level of the Basel Committee in response to recent events has been effective;
- Supervisors should, however, ask **tough questions and take decisive action** to ensure the safety and soundness of banks and to safeguard financial stability.

Avoiding regulatory amnesia

- The **implemented Basel III reforms have greatly enhanced the resilience of the global banking system** and have helped contain the fallout of the recent banking stress events;
- It is crucial for policymakers to guard against the perils of the regulatory cycle and **not to forget the lessons of both recent events and previous banking crises**;
- Need for **full and consistent implementation of Basel III standards** - proportionality should not seek “to dilute the robustness” of the standards.

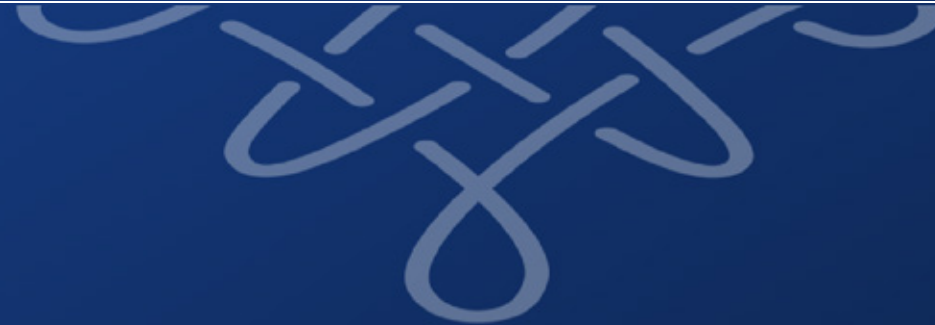


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**THANK
YOU!**



MNB'S APPROACH TO ENSURE RESOLVABILITY OF INSTITUTIONS



MNB AS RESOLUTION AUTHORITY



MNB is the resolution authority in Hungary since 2014

- MNB acts as micro – and macroprudential authority as well
- Resolution authority since 2014
- Exercises all resolution powers (planning and resolution execution)
 - 1 resolution case so far (2014-2016, assets separation, sale of business)
 - Several assessments of resolution triggers in other cases

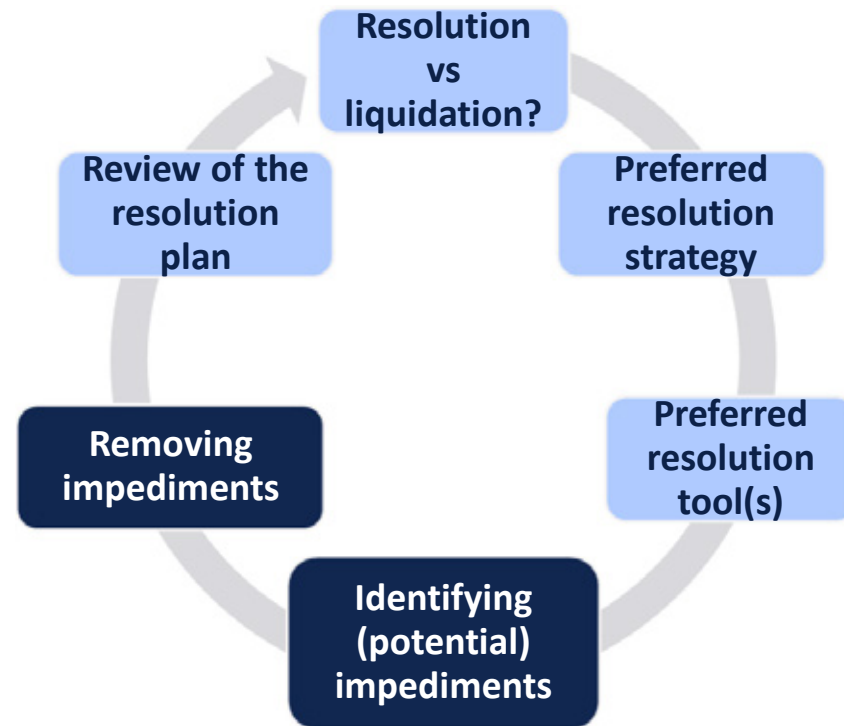
Resolution planning

- 41 institutions under BRRD
 - 20 entities in 10 cross border banking groups (7 SRB colleges) – GLRA in 1 college, signing member in 9 colleges
 - 3 branches – non-signing member in SRB colleges
 - 8 Hungarian banks / banking groups, 3rd country subs
 - 10 investment firms
- SO applied for 25 entities
- In cross border groups:
 - 3 resolution entities, 7 non-resolution entities
 - Consistent approaches in home and host roles

MNB as GLRA (home authority) for OTP Group

- Banking group with growing geographical footprint in the CEE region
 - Host countries within EU both in BU (Bulgaria, Croatia, Malta and Slovenia), and in non-participating member state (Romania) as well as in 3rd countries (Albania, Moldova, Montenegro, Russia, Serbia, Ukraine)
 - Several acquisitions in recent years
- Resolution college was among the firsts set up in EU in 2015
 - Member resolution authorities: SRB, HNB, NBR, Banka Slovenije and MFSA
 - Observers: Montenegro, Serbia, (Ukraine)
- Resolution plan covers all group entities
 - Resolution regimes existing in 3rd countries are considered in the plan

ENSURING RESOLVABILITY IS INTEGRAL PART OF RESOLUTION PLANNING



Resolvability assessment: is the chosen strategy feasible, what are the possible obstacles to the use of the preferred resolution tool(s)?

Being resolvable:

- *Having adequate financial resources to absorb losses, recapitalize and operate during restructuring*
- Being able to continue business in resolution and restructuring
- *Being able to implement decisions and communicate effectively*

Potential impediments shall be classified in six main categories (based on BRRD, Commission Delegated Regulation 2016/1075 and EBA Resolvability Guideline)

Structure and operations

- operational continuity;
- access to FMIs;
- governance in resolution planning

Financial resources

- *loss absorbing capacity (MREL);*
- funding and liquidity in resolution

Information

- management information systems;
- information systems for valuation

Cross-border issues

- cross-border recognition;
- coordination

Legal issues

Resolution implementation

- *bail-in execution;*
- restructuring;
- governance;
- communication

APPROACH TO RESOLVABILITY ASSESSMENT



Resolvability assessments in each resolution planning cycle

- Formal investigation process based on public administration law
 - Same process steps as in supervisory reviews
 - Examination program, notification, data request, review and analysis, report, feedback, admin. closing
 - May include onsite and offsite reviews
 - Differs in depth based on the complexity of the institution and resolution strategy, MNB's role
- Findings communicated to the institutions in examination reports
 - Follow up in next cycle
 - Close monitoring in key areas

Expectations, requirements

- Starting point: BRRD, Comm. Delegated Regulation, FSB key principles, EBA Resolvability Guideline
- Comprehensive assessment required in each cycle, risk-based approach, depth of analysis varies across aspects
 - institution specific issues
 - relevance for resolution strategy/tool
- 3-step method for all aspects:
 - Identification and mapping
 - Assessment of risks and impacts
 - Mitigating risks, actions to improve resolvability
- 4 | Review of the institution's self-assessment regarding EBA GL

In our role of home authority:

- MNB proposes the resolution plan and resolvability assessment to the college, but involves host authorities in the planning and assessment phase
 - Setting of common priorities in planning and resolvability assessments
 - Coordinated assessments along the agreed priorities
 - MNB communicates and follows up group level expectations to resolution entity
- Planning and assessment is based on EBA templates, information is shared with host authorities
 - Host authorities validate data submissions for subs
 - Host authorities provide input to resolution plan and resolvability assessment
- Workshops
 - with host authorities to share methodologies, discuss relevant issues
 - with the institution and host authorities to have an overview of group level initiatives, status of action plans
- Involvement of 3rd countries authorities
 - Equivalence assessment is done for all relevant legislations
 - Written Arrangements are being updated to be able to include Moldovan and Albanian authorities

KEY PRIORITIES IN RESOLVABILITY: MREL



MREL

- MREL requirements are set for all relevant entities
- MREL build-up is ongoing, all resolution entities in Hungary meet the applicable requirements
- Governance arrangements, integration of MREL planning and monitoring in capital and business planning/monitoring processes
 - Regular review and update of MREL issuance plans
- Close monitoring of MREL compliance for resolution entities
 - EBA reporting templates
 - Additional reporting obligations on planned/actual issuance
 - Market conditions
 - Assessment of concentration and renewal risks

Bail-in execution and ILRM

- All resolution entities are expected to have bail-in playbooks, covering all internal aspects and processes
- Playbooks are continuously developed further based on feedback in resolvability assessments
- Internal loss transfer mechanisms are elaborated as part of the bail-in playbook
 - Provision and form of internal MREL should be in line with ILTM
 - Local write-down and conversion playbooks are developed to complement the framework

MREL monitoring

- MNB monitors compliance with consolidated requirements, as well as individual requirements
- Individual requirements are monitored by host authorities as well
- MNB assesses eligibility for external MREL instruments
- Host authorities are assessing internal MREL eligibility

Internal governance

- MNB expects the capabilities to be rolled out to non-resolution entities as well
- MNB assesses the arrangements at resolution entity level, host authorities are assessing arrangements and processes at subsidiary level

Resolution implementation

- Bail-in playbook based on MNB's expectations
 - Playbook will be complemented by external aspects of bail-in and conversion, MNB will finalize and publish its approach to bail-in exchange mechanisms by the end of this year
- Proposed ILTM has been reviewed by all authorities
 - Preferences between direct vs indirect provision of internal MREL
 - Expectations and assessment of local write down and conversion playbooks primarily by host authorities to be in line with all applicable legal requirements

KEY PRIORITIES IN RESOLVABILITY: VALUATION CAPABILITIES



Expectations

- Capabilities to provide data and information
 - Comprehensive data templates for valuation and bail-in (assets, liabilities, off-balance sheet items, due diligence information)
- Internal valuation capabilities to support independent valuations
 - Model inventory, adequate documentation
- Internal governance
 - Adequate processes, internal controls
 - Responsibilities

Assessment

- Self-assessment by institutions
- Prioritization of the gaps by MNB (involving host authorities)
- Action plan to fill in the gaps
- Monitoring of the implementation
- Testing

Need for cooperation between authorities

- Valuation capabilities should support consolidated and individual valuations
- Align data requirements with individual needs of host authorities
- Prioritization of gaps and action plan should reflect the needs of all relevant authorities

Testing

- Priority for next resolution planning cycles
- Coordinated effort from authorities to develop test scenarios and assess results



Thank you for your attention!