BRIEFING

Hearing with Mrs Elke König, Chair of the Single Resolution Board

ECON, 5 December 2016

This briefing presents the state of play regarding the work of the SRB as well as a short insight into the financial performances of the most vulnerable banks under the direct remit of the SRB. It is published in advance of the Hearing with Mrs Elke König, Chair of the SRB, in the ECON Committee on 5 December in accordance with Article 45.4 of Regulation (EU) 806/2014.

Progress in making the SRB fully operational

The SRB took over full responsibility for the resolution of significant banks and cross-border groups on 1 January 2016. On 8 January 2016, the SRB published the list of banks under its remit, including the 129 significant institutions directly supervised by the ECB and 15 other cross-border groups with subsidiaries established in more than one participating Member State. The recruitment is still ongoing. The staffing plan sets out that the SRB aims to employ a total of 255 staff members at the end of 2016, meaning it will approximately double in size compared to 2015 (2015: 122 staff).

2015 Annual Report and Third amendment to the 2016 budget

On 13 July 2016 the Chair of the SRB presented to the ECON Committee the 2015 Annual Report. The reports states that the main objectives set for 2015 were achieved, in particular:
- setting-up the Single Resolution fund (SRF);
- signing cooperation agreements with the ECB and the European Parliament;
- establishing working relations with national resolution authorities (NRAs), including the preparation of a draft resolution planning manual, a draft crisis management manual, a draft cooperation framework with NRAs, and of transitional resolution plans;
- setting up technical committees with NRAs on resolution planning, crisis management, cooperation between the SRB and NRA, and contributions.

The SRB also published its financial accounts for 2015. Operating expenses amounting to EUR 12.2 million were covered by advance instalments collected from banks. 54% of expenses are related to staff, while one third covers other administrative expenses such as IT support and rents.

The SRB publishes its budget, as well as amendments to its budget, on its website. The 2016 budget was amended three times. The third amendment on 15 September 2016 consisted in an increase in staff projections for 2016, from 230 to 255, including a transfer from AST positions (-20) to AD positions (+45).

Procedural agreements with the ECB, the European Parliament and NRAs

On 16 December 2015, the SRB and the European Parliament signed an agreement on practical modalities of the exercise of democratic accountability and oversight. In addition, on 22 December 2015, the SRB and the ECB signed a Memorandum of Understanding in respect of cooperation and information exchange. As of 1 December 2016 the SRB has published no such agreement between theh SRB and the Commission.

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By its decision of 28 June 2016 the SRB approved the cooperation framework between the SRB and NRAs. This cooperation framework establishes practical arrangements for the division of tasks, including clear procedures regarding the exchange of information as well as rules on the functionning of internal resolution teams (IRT).

The SRB also cooperates with other authorities in the EU and in the US. On 10 October 2016 the SRB, the US and UK authorities, as well as the ECB and the Commission held a coordination exercise to enhance cooperation between services on cross-border resolution.

The 2017 work programme of the SRB

On 28 November 2016, the SRB published its work programme for 2017. According to the work programme, the SRB will focus in 2017 on two key areas: resolution planning and the management of the Single Resolution Fund (SRF).

As regards resolution planning and resolution 'readiness', the SRB's objective for 2017 is to complete resolution plans for major banks. This essentially means:
- operationalising resolution strategies;
- looking into bail-in execution;
- identifying obstacles to resolvability;
- further work on setting the MREL (minimum requirements for own funds and eligible liabilities).

For 2017, the objective will be to cover almost all banks under the remit of the SRB either by making further progress in completing resolution plans for major banking groups or through transitional resolution plans (TRP) for almost all remaining banks. The resolution planning manual and the crisis management manual should be updated in 2017.

The SRB will also further develop its role in the Single Resolution Mechanism (SRM) by:
- taking a larger share of the workload in resolution planning tasks;
- ensuring the consistency of resolution plans by carrying out horizontal analyses (including benchmarking) of the draft resolution plans prepared by the internal resolution teams (IRTs);
- monitoring and assessing draft resolution decisions taken by NRAs on less significant institutions (LSI), including both planning and preparation of resolution schemes; this should promote consistency in the way resolution activities for LSIs are conducted within the SRM.

On MREL, the SRB started in 2016 the discussion of the key features of MREL at consolidated level with the major banking groups under its responsibility. In this context it developed a liability data template (LDT) and collected data from banks to gain transparency about their liability structure. Such data collection should be further enhanced in 2017. The SRB will continue to refine its policies on consolidated MREL targets in 2017. It will also develop MREL at entity level within banking groups and it will start to look at the quality and location of MREL within banking groups. The SRB aims at publishing a paper on MREL policies in the course of 2017.

As regards the SRF, three priorities will be pursued in 2017:
- the development of the contribution mechanism;
- the development and implementation of the investment policy;
- the continuation of the work on funding options.

Last, in 2017 the SRB will contribute to the on-going revision of the BRRD and SRMR as well as to the legislative work on TLAC, on EDIS and on the resolution framework for market infrastructures, following the recent publication of proposals by the Commission.

Contributions to the Single Resolution Fund

In January 2016 NRAs transferred EUR 4.3 billion to the SRF in ex-ante contributions for 2015, and transferred another EUR 6.4 billion for 2016 at the end of June. Therefore, it seems that the total amount of contributions raised in 2016 from 3762 institutions falls short of the target set in the 2016 budget (EUR 10.8 billion vs EUR 11.8 billion). For more details on the calculation of ex-ante contributions, see the presentation by Mr Timo Löyttyniemi at the fourth industry dialogue.

The SRB indicated that 96% of 2016 ex-ante contributions were paid by 20% of the institutions under the risk adjusted method, while the remaining 4% of the contributions were paid under other calculation methods which apply to small credit institutions and investment firms, middle size institutions and mortgage institutions financed by covered bonds, representing altogether 80% of the institutions. The 20 biggest banking groups contributed to 62% of the 2016 contributions. In addition, as the SRB anticipates that the amount of covered deposits will increase from 2015 to 2024, it decided to set the 2016 annual target at 1.05% / 8 of the amount of covered deposits as of 2015. 11% of the 2016 contributions were paid in the form of irrevocable payment commitments.

Mr Timo Löyttyniemi also explained that, given the calculation method which factors in the *relative* risk profile of banks, it was difficult to predict the amount of individual contributions, and also to justify the calculation without disclosing sensitive information on individual banks. However the SRB is working with banks in order to enhance the transparency and predictability of the calculations.

Table 1 : National compartments

	Current Size of National Compartment (in Bn EUR rounded to nearest decimal point)*
Austria	0,4
Belgium	0,5
Cyprus	0,1
Estonia	0,01
Finland	0,2
France	2,5
Germany	3,3
Greece	0,1
Ireland	0,2
Italy	0,8
Latvia	0,01
Lithuania	0,02
Luxembourg	0,1
Malta	0,02
Netherlands	0,9
Portugal	0,1
Slovakia	0,1
Slovenia	0,03
Spain	1,4
Total	10,8

Source : SRB

Resolution planning: state of play

The 2016 work programme of the SRB had set the following targets as regards resolution planning (to be met by end 2016):

- setting-up of the IRTs[1];
- setting-up of all resolution colleges for which the SRB is the group level resolution authority;
- developing resolution plans for all major banking groups in the remit of the SRB;
- complete enhanced resolvability assessment for all G-SIBs in the remit of the SRB;
- setting MREL targets at consolidated level for all major banking groups.

On 23 May 2016, the SRB held its third industry dialogue and presented its Work Plan for 2016 on Resolution Planning. At that point the progress towards the 2016 objectives was noticeable. On 22 September the SRB unveiled the public version of their resolution planning manual (*Introduction to resolution planning*), which explains in detail the different steps of the resolution planning process.

At the fourth industry dialogue held on 28 November 2016, the SRB indicated that 59 resolution plans had been drafted, as well as 30 transitional resolution plans and 6 host plans. The decisions on the 2016 resolution plans will be submitted to banks in January 2017. Those decisions will include

[1] IRTs are the main fora where the SRB and the NRAs cooperate in performing resolution activities (resolution planning and resolution schemes preparation) for the 175 banks under direct SRB responsibility

an "informative MREL target", applicable at consolidated level only. This "informative MREL target" is not a formal MREL decision: it is not binding and not enforceable. In addition, the methodology for setting this informative target is simplified, as the SRB has mechanically applied its methodology without considering bank-specific adjustments linked to the resolution strategy or their risk profile. Those targets will not be formally communicated to banks, albeit the SRB has engaged into a constant dialogue with banks on the MREL.

MREL review: the EBA interim report and the new Commission proposal

MREL eligible liabilities vs "bailinable" liabilities

Setting credible requirements for loss absorption shall ensure bail-in can be implemented upon failure of weak institutions. Article 44.5 BRRD provides that 8% of the total liabilities including own funds of the institution under resolution shall be bailed-in (through write-down or conversion) before the resolution financing arrangement may make a contribution to the institution under resolution.

However, some liabilities are explicitly excluded from the scope of bail-in, and the resolution authority could exclude (or partially exclude) additional liabilities from the scope of bail-in. Therefore the BRRD requires that institutions hold at all times a minimum amount of liabilities which can be credibly bailed-in (MREL). To that end some eligibility criteria are defined in Articles 45.4 BRRD: in particular, the liability must be externally issued and fully paid up, have a remaining maturity one at least one year, and should not arise from a derivative nor from a preferred deposit. In addition if that liability is issued in a Third country the resolution authority should be able to write-down or convert that liability effectively under the Law of the Third country (Article 45.5).

However, under resolution the bail-in tool shall apply, if necessary, not only to liabilities eligible for MREL purpose, but to all liabilities which are not excluded from the scope of bail-in. MREL liabilities are only a subset of the liabilities which are subject to the bail-in tool.

Adoption of the regulatory technical standards on the criteria for determining MREL

The BRRD provides that the MREL shall be set on a case-by-case basis, based on a number of criteria to be further developed in level 2 legislation. In particular the resolution authority should take into account the need "*to ensure that, if the bail-in tool were to be applied, losses could be absorbed and the CET1 ratio of the institution could be restored (...) to enable it to continue to comply with the conditions for authorisation*". Therefore the bail-in should aim (i) at absorbing losses and (ii) at recapitalising the failing institution.

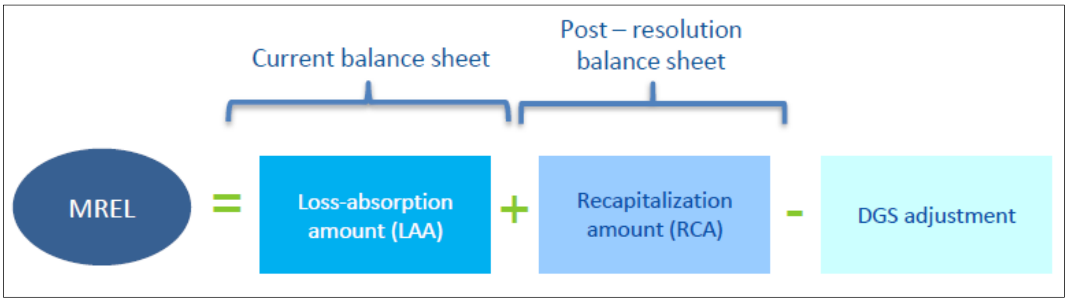
On 3 July 2015, the EBA published its draft regulatory technical standards (RTS) on the criteria for determining MREL. On 18 December 2015, the Commission informed the EBA that it intended to amend the final draft RTS submitted by the EBA. In particular, the Commission assessed that the reference to the minimum 8% bail-in contribution in Article 5.1 of the draft RTS and the specification for a 48 month limit for the transitional period went beyond the scope of EBA's empowerment set out in the BRRD. On 9 February 2016, the EBA published its opinion on the Commission's proposed amendments, rejecting the substantial amendments proposed by the Commission.

On 23 May 2016, the Commission adopted the delegated regulation on the criteria for determining MREL. On the two issues referred to above, the delegated regulation provides that (i) for systemic institutions *the resolution authority shall take into account the requirements set out in Article 44 of Directive 2014/59/EU* (Article 5.1) and (ii) *resolution authorities shall determine an appropriate transitional period which is as short as possible* (Article 8.2), thereby dropping any explicit reference to the 8% minimum bail-in requirement and the 48 month limit for the transitional period. The delegated regulation was published in the Official Journal on 3 September 2016.

Determination of MREL requirements

On 12 January 2016, the SRB held its second industry dialogue where it presented its methodology to determine the MREL, based on the draft RTS. It is based on three components:
- the capital requirements of the current balance sheet, which, as a starting point, should include pillar 1 requirements (regulatory minimum), pillar 2 requirements (firm-specific) and capital buffers;
- the capital requirements of the balance sheet post-resolution, which factors in the preferred resolution strategy: based on a case-by-case analysis the SRB could consider the impact of asset transfers/disposals, or the need to let the banks go into normal insolvency proceedings (no recapitalisation needs);
- an adjustment linked to any potential involvement of a DGS to protect insured depositors.

Figure 1: Determination of MREL requirements



Source: SRB

In addition, the SRB must assess the potential exclusions from bail-in as well as the possible use of the SRF. The SRB indicated that, "*an MREL target of not less than 8% of total assets – but on a case-by-case basis possibly above – would **generally** be required for the banks under the SRB's remit. It is generally unlikely that a lower requirement would be set for any of the major banking groups*".

The SRB indicated that the "indicative" MREL targets set in 2016 amounted to 27% (on average) of the total risk exposure amount. The corresponding shortfall amounts to EUR 112 billion, or 7% of TREA for those banks with a shortfall.

The EBA interim report

The BRRD mandates the EBA to deliver a report to the Commission on the implementation of MREL. On 19 July 2016, EBA published an *interim report on the implementation and design of the MREL framework*, intended to provide input into the Commission's proposal on the harmonised application of MREL. In this interim report, EBA confirms the principles underlying the recently endorsed RTS on MREL, that the MREL should be set on an institution-by-institution basis, and as the sum of a loss absorption amount and a recapitalisation amount which are consistent with the framework on capital requirements.

According to the interim report, the transposition of bail-in and MREL provisions had been completed in 26 out of 28 Member States. Only three resolution authorities (the Bank of England, the SRB, and the Swedish National Debt Office) have yet publicly communicated their MREL policy, while all resolution authorities in the EU are responsible for determining MREL for institutions under their jurisdictions.

The main recommendations of the report are the following:
- that resolution authorities set MREL as a percentage of risk weighted assets, to be complemented with a leverage ratio exposure backstop;
- that CET1 capital cannot be used to meet both the MREL and the regulatory buffers;
- that resolution authorities be responsible for breaches of MREL, with new powers and procedures;
- that calibration be justified by the institution's resolution strategy, in line with the current framework as far as the firm-specific requirement is concerned; that business models may be worth considering provided they translate into differences in resolution strategies;

- that, at least for some institutions, subordination would improve the resolvability of institutions, and enhance the transparency for investors;
- that current third country recognition requirements are excessively difficult to comply with.

The interim report also includes an impact assessment. The EBA finds that banks currently hold MREL liabilities up to 13% of their total assets (34% of RWA), with significant differences among banks (see annex 1). Depending on the scenario (calibration of the pillar 2 requirement and eligibility of deposits), the shortfall could amount to **EUR [50-470] billion**. Therefore the methodology chosen for the calculation of the MREL is critical for the impact on banks' financing needs.

The MREL policy is currently at an early stage, with no MREL decisions taken to date by EU resolution authorities, thus EBA expects that further work will be necessary beyond the October 2016 deadline to provide a comprehensive assessment and overview of MREL implementation across the EU. Hence, the EBA is going to publish its final report in December 2016.

The new Commission proposal on MREL review and TLAC implementation

In line with Article 45.18 BRRD, the Commission published on 23 November 2016 a legislative proposal on amending and clarifying MREL rules. The proposal also aims at implementing the TLAC standard developed by the FSB, which only applies to GSIBs from 2019 onwards (see EGOV briefing PE 574.408). The key proposals are listed below.

A minimum harmonized MREL requirement (18 % of risk weighed assets or 6.75 % of leverage ratio exposure measure as of 1 January 2022), referred to as **pillar 1 MREL requirement**, will apply to EU **G-SIIs only**. G-SIIs could be subject to a firm-specific **pillar 2 add-on requirement**, provided it is justified, necessary and proportionate, in line with the resolvability analysis undertaken by the resolution authority. There are currently 13 G-SII in the EU.

All other banks in the EU (non G-SIIs) have to comply with the firm-specific MREL only (pillar 2 requirement). This firm-specific MREL (including the pillar 2 add-on applicable to G-SIIs) is to be expressed as a percentage of risk weighted assets and of the leverage ratio exposure.

A breach of the MREL requirement may lead to restrictions on discretionary payments (in particular, distributions of dividends and payments of coupon on additional tier 1 instruments), unless it is due to a temporary (grace period of 6 months) inability to roll-over MREL liabilities.

In addition, a MREL guidance will apply to all banks, in order to cover the capital guidance and to ensure market confidence. However, a breach of the guidance would not lead to automatic sanctions such as limits on discretionary payments.

Eligibility criteria between TLAC standards and MREL are better aligned, with some exceptions (in particular subordination is not necessarily required to meet the MREL).

External MREL requirements apply to *resolution entities* (one resolution entity for strategies based on the single point of entry (SPE), several for multiple point of entry strategies (MPE)), while *internal* MREL apply to subsidiaries that are themselves not resolution entities. Banks may comply with internal MREL with collateralized guarantees, provided it is approved by host resolution authorities.

Article 55 of the BRRD on the contractual recognition of bail-in is amended to allow for more flexibility and reduce the burden of compliance for banks.

In addition, the Commission package includes new rules for third country groups (requirement to establish an intermediate EU parent undertaking for those groups with significant activities in the EU), and introduces a harmonized hierarchy of creditors (introduction of a new statutory category of senior unsecured debt ranking just below the most senior debt and senior liabilities, as a lower tier senior debt). This aims at facilitating the application of bail-in and enhancing transparency for investors.

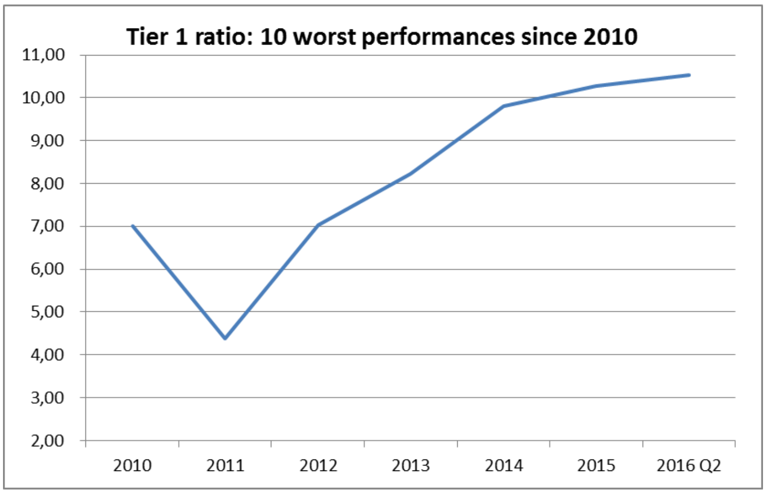
The evolution of vulnerable SSM banks since 2010

This section briefly discusses whether the financial position of the weakest banks directly supervised by the SSM has improved since the crisis. The analysis focusses separately on 5 indicators, and, for each of them, describes how the 10 weakest performances observed at each reporting date have evolved from December 2010 to June 2016.

Methodology: The sample includes, for each indicator, 79 to 112 banks directly supervised by the SSM for which the indicator is available in Bankscope for all or all but 1 reporting dates. Banks are sorted from the weakest to the strongest, and the average of the 10 weakest performances is then calculated for each period and reported in the graph.

NB: the list of the 10 worst performing banks is different for each reporting date: there is no homogeneity across the period. For example, after a recapitalisation, a bank may no longer belong to the group of "worst performers".

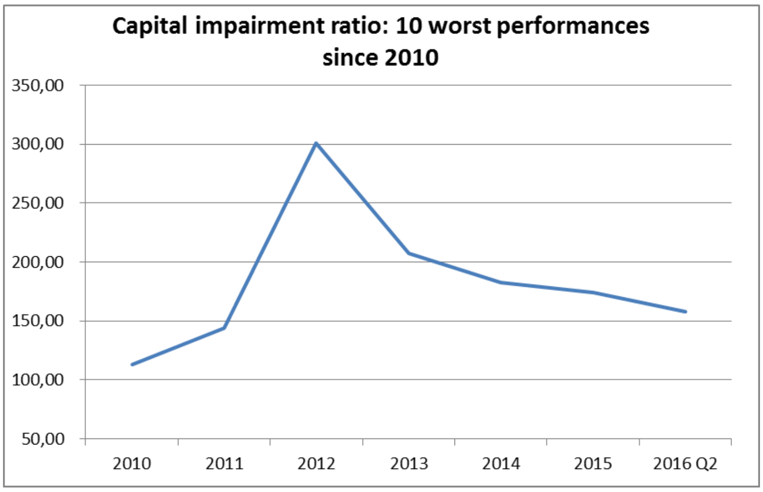
Figure 2: SSM banks: Average of the 10 lowest Tier 1 ratios since 2010



Source : EGOV based on Bankscope®

The weakest capital positions of SSM banks have improved steadily over the period, and has continued to improve in 2016. Figure 2 shows, for each reporting date, the (unweighted) average Tier 1 ratio of the 10 worst performing banks. The two banks which reported the lowest ratios in our sample as of December 2015 (Banca Popolare di Vicenza and Veneto Banca) have indeed raised significant amounts of capital (through the Atlante Fund) in the first half of 2016. All banks now report Tier 1 ratios above 10%.

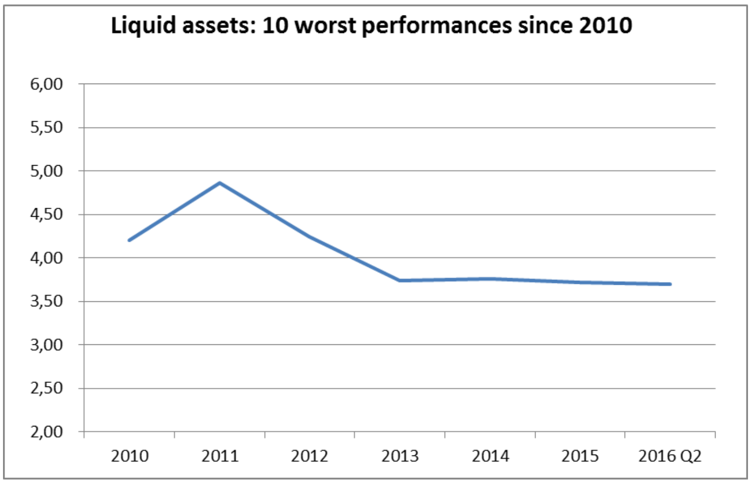
Figure 3: SSM banks: average of the 10 highest capital impairment ratio since 2010



Source : EGOV based on Bankscope®

The asset quality of the worst performing banks has significantly deteriorated since 2009, albeit the situation has much improved since the peak observed in 2012. The capital impairment ratio compares the amount of non-performing loans (net of loan loss provisions) to the amount of equity of the bank. A high ratio means that the capital position is vulnerable to further provisioning of non-performing loans by the bank. Figure 3 shows that since 2012 the continuous improvement of the capital position of SSM banks offset the deterioration in asset quality (see notably EGOV briefing PE.542.681). For example in 2016 the recapitalisation of two Italian banks, alongside the disposal of some non-performing portfolios by HSH Nordbank, explain most of the decrease in the average capital impairment ratio of the 10 worst performing banks (from 174% to 158%). The capital impairment ratio has thus improved for 9 out the 10 worst performing banks at the end of December 2015. However the average remains at a worryingly high level.

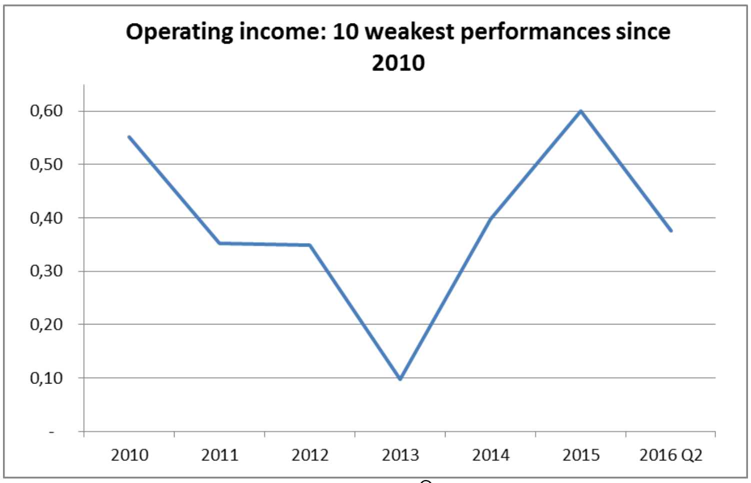
Figure 4: SSM banks: average of the 10 lowest liquidity ratio since 2010



Source : EGOV based on Bankscope®

The liquidity position of the SSM worst performing banks has deteriorated since 2010. The liquidity ratio reported in Figure 4 compares the amount of liquid assets to the amount of deposits and short term funding. Figure 4 shows that the lowest ratios among SSM banks have been decreasing since 2010, which means their liquidity positions, as measured in Figure 4, have not improved since the start of the crisis.

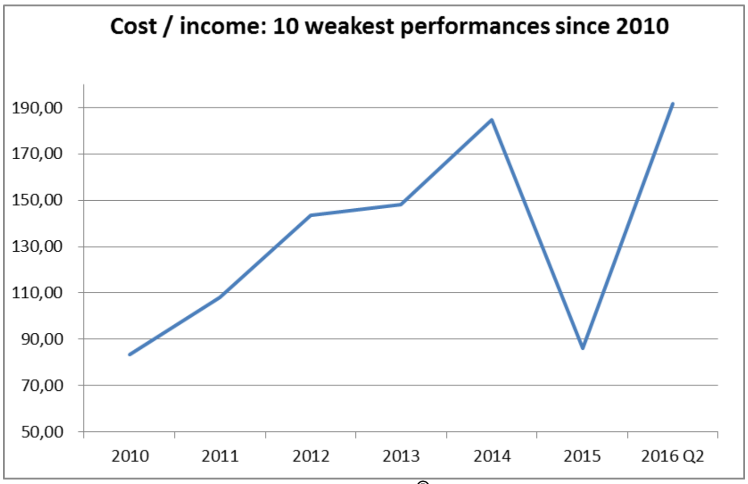
Figure 5: SSM banks: average of the 10 lowest operating income ratios since 2010



Source : EGOV based on Bankscope®

The average of the 10 lowest operating income ratio is deteriorating again in the first half of 2016. The operating income ratio measures the operating revenues (interests, fees, trading) against average total assets. It does not factor in operating expenses, impairments, taxes nor other exceptional revenues. 9 out of the 10 banks featuring the lowest ratio in June 2016 were already among the 10 worst performers in 2015 and 2014. This suggests that their low profitability is structural and probably linked with their business models.

Figure 6: Weakest cost/income ratios of SSM banks from December 2009 to June 2015



Source : EGOV based on Bankscope®

The weakest performances in terms of cost/income ratio deteriorate again. While 80% of the 2016 deterioration is due to valuation impairments booked by only one bank, the overall trend is negative and stems from the deterioration in operating income. Four banks report ratios of more than 1 at the end of June 2016 (3 in June 2015). The cost/income ratio measures the difference between operating revenues (interest margin, fees, trading income) and operating expense (staff, buildings).

Conclusion: When looking at the worst performing banks across 5 financial indicators, it appears that only the capital adequacy has improved and continue to improve. The operating profitability is structurally weak for a number of banks which fail to restore sustainable levels of operating income.

Lack of profitability - is Europe overbanked?

In its speech held at the first annual conference of the ESRB on 22 September 2016, ECB President Draghi, referring to a report ("Is Europe overbanked?") published in 2014 by the ESRB's Advisory Scientific Committee, pointed to the problem that the currently subdued levels of bank profitability are not just caused by low interest rates but are also the result of fierce competition in an oversized banking sector: "*But overbanking is also a factor in the current low level of bank profitability. Over-capacity in some national banking sectors, and the ensuing intensity of competition, exacerbates this squeeze on margins. Such over-capacity also means the sector does not operate at the efficient frontier, which is one reason why cost-to-income ratios remain high in some countries. [...] In the broader context of generalised over-capacity and technological innovation, some banks will need to review their business models to bolster profitability*".

The ESRB study cited by President Draghi puts its main focus on the size of the European banking system - measured for example as a relation of bank loans, assets, or net household wealth to GDP - as well as on the concentration and leverage of the sector. The study also argues that an excessively large banking sector may also distort the allocation of human capital, by attracting too much talent into the financial sector, but it does not analyse in depth how many people are actually employed in the sector, nor whether that number has significantly changed over the past recent years.

An alternative approach to tackle the question whether the banking sector in a specific country may be oversized is hence to calculate the percentage of the population working in the banking sector. Related data for the euro area can be taken from the ECB, which regularly publishes a "Report on financial structures", the most recent version of which was published in October 2015.

Analysing the data one has to keep in mind that there are some European countries for which the banking sector plays a specifically important role for the economy, for example Luxembourg. The data nevertheless shows that - in terms of employment - there are some considerable differences between the relative sizes of the banking sector in the Member States, that in the period 2008 until 2014 the ratio "Population per bank employee" has improved in all but one Member State (Malta), but that in some large Member States like Germany and France that improvement was smaller than the general trend (see Table 2).

In general terms, that data could indicate that in some Member States the banking sector may undergo further restructuring or consolidation in the years to come.

Table 2: Structural indicator "population per bank employee" for the period 2008 - 2014

Population per bank employee	2008	2009	2010	2011	2012	2013	2014	Above / below average (2014)	Above / below trend (2008-2014)
Belgium	162	169	176	179	184	191	197	18,7%	above
Germany	120	122	122	123	124	125	127	-23,5%	below
Estonia	218	235	243	241	238	272	271	63,3%	above
Ireland	111	119	125	129	144	154	160	-3,6%	above
Greece	169	170	176	186	195	215	241	45,2%	above
Spain	166	173	178	190	200	216	230	38,6%	above
France	152	155	157	153	156	158	161	-3,0%	below
Italy	175	184	186	190	195	198	203	22,3%	below
Cyprus	63	65	66	66	67	77	78	-53,0%	above
Latvia	157	173	182	184	192	201	213	28,3%	above
Lithuania	289	290	310	348	345	352	327	97,0%	below
Luxembourg	18	19	19	19	20	21	22	-86,7%	above
Malta	106	108	106	103	105	101	96	-42,2%	below
Netherlands	142	150	154	158	162	174	179	7,8%	above
Austria	106	108	107	107	109	112	115	-30,7%	below
Portugal	169	172	172	176	183	187	193	16,3%	below
Slovenia	165	168	171	174	179	184	193	16,3%	below
Slovakia	262	289	298	293	290	292	290	74,7%	below
Finland	207	215	230	232	241	243	248	49,4%	above
euro area	141	148	150	153	156	161	166	0,0%	

Source: Own calculation, based the ECB report "Report on financial structures October 2015", table 8, p. 66

Summary of external papers: banks' operational structures, a brake on resolvability?

Three experts from the European Parliament's resolution panel submitted contributions on the following topic: ***"The different legal and operational structures of banking groups in the euro area and their impact on banks' resolvability"***.

Mr Willem Pieter de Groen (CEPS)

The author focuses on the ownership structures of banks in the euro area and on their internationalisation strategies. Regarding the resolution strategy, the author underlines that the SPE strategy best fits those banks which are more integrated, while the MPE strategy is better suited for those banks which are more decentralized. Subsidiaries which rely on the group for specific functions would need to continue relying on such services for a given period of time if they were sold or transferred upon resolution. In addition, while a SPE strategy allows to use capital and liquidity resources more efficiently within a banking group, it also requires a high level of coordination among resolution authorities, which is unlikely to occur in practice. The author then analyses different structures of cooperative groups. He suggests that articles of association may be amended to facilitate their resolution, in particular to facilitate the transfer of capital and assets among the entities of the group upon resolution. The author recommends to increase transparency in the resolution planning process, for the benefit of all stakeholders.

Pr Dirk Schoenmaker (Bruegel)

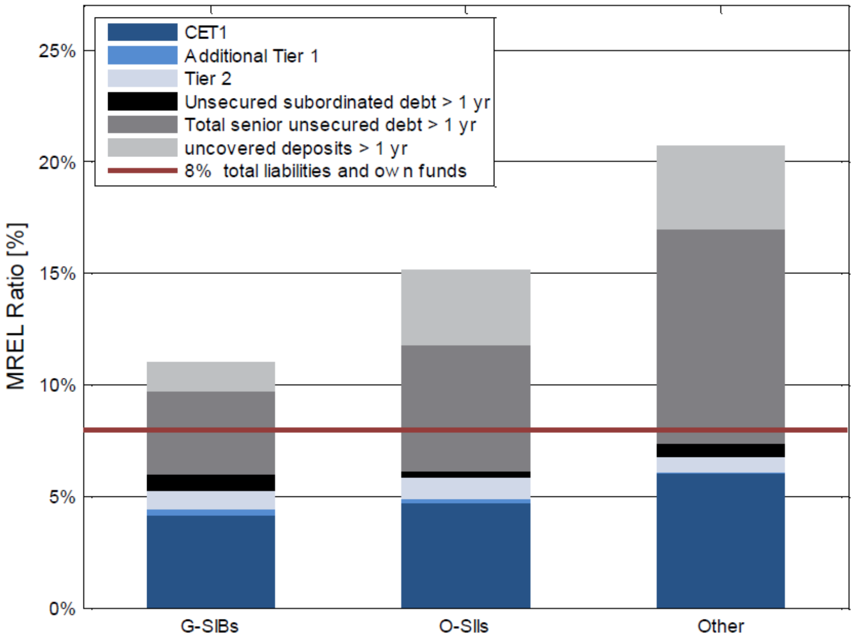
The author draws a typology of banking structures based on the number of entities, the reliance on international activities, and the governance arrangements. The authors also differentiates integrated groups from decentralized groups. Cooperative groups often feature complex structures and decision making processes, while large international banks operate in multiple jurisdictions across various activities. The author underlines both the theoretical efficiency associated with MPE strategies, and the practical difficulties faced upon implementation. Several conditions are necessary for a successful implementation of both MPE and SPE strategies, including a sufficient level of loss absorbing capacity (LAC) at the level of the subsidiary (internal LAC in the case of SPE strategies). The author then emphasises the difference between core business lines and critical functions, and urges the resolution authorities to strictly define the latter. The authors issue several recommendations regarding the separation of banking and insurance activities, the choice of resolution strategy, and the simplification of structures and procedures. He also suggests that if the cooperation with NRAs were not satisfactory, the SRB should hire more staff. Bridge-financing (SRF) and liquidity provision (ECB) should be clarified within the Banking Union.

Pr Rosa M. Lastra, Pr Rodrigo Olivares-Caminal and Mrs Costanza Russo (Queen Mary University of London) and Pr Rym Ayadi (HEC Montreal and IRCCF)

The authors classify banking groups according to their ownership structure, their organizational structure, and their business model. The authors argue that a banking group organized through branches is easier to resolve in theory, albeit the existence of significant branches may raise coordination issues which are not yet resolved. Regarding operational structures, the authors point out that interconnections among group entities are unavoidable since it allows economies of scale and efficiency gains. Therefore the internal organization of the bank will differ from its legal/institutional organization, with functions or business lines running across different entities. The author also stress the risk of confusion between critical functions and core business lines, and raise a number of questions related to the resolvability of banking groups:
- the absence of a holding company under a SPE strategy may impede the implementation of the bail-in tool, which would call for the subordination of the loss absorbing capacity in such circumstances;
- the funding structure, which may also undermine the implementation of the bail-in tool;
- the insulation of intra-group service providers for the provision of critical shared services.
The authors also point to issues related to human resources (retention of key staff and compliance with applicable laws) and legal relationships with third parties.

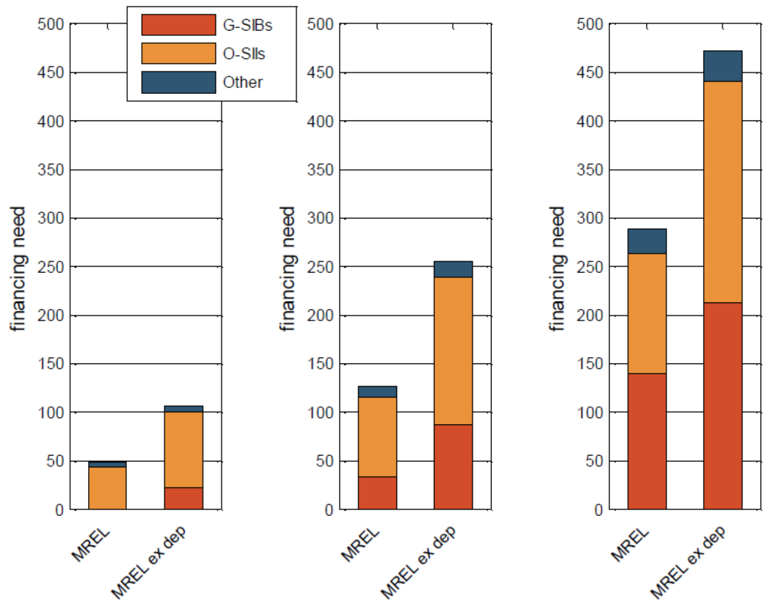
Annex 1: EBA impact assessment

Figure 7: Composition of MREL eligible liabilities (% of own funds and total liabilities)



Source: EBA

Figure 8: Financing needs under the three scenarios of the EBA interim report (in EUR bn)



Scenario 1: **minimum MREl = 16 %** (2* pillar 1 capital requirements)
Scenario 2: **minimum MREL= 22.5% + GSIB buffer add-on** (2* [pillar 1 + pillar 2] + 1* capital conservation buffer + GSIB add-on)
scenario 3: **minimum MREL = max [8% * total liabilities including own funds; 2*(pillar 1 + pillar 2 + CCB buffer + GSIB add-on)]**
Source: EBA

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