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The evolving key risks in the banking sector, and related priorities for the SRB

Supporting Banking Union scrutiny

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Abstract

The Banking Union will likely face several risks in the near future, ranging from geopolitical risks to shadow banking risks and the phasing out of Covid-19 support. Such risks might also affect the Single Resolution Board and its priorities. This paper discusses the key short-term risks and analyses how the SRB can be impacted regarding resolution planning, the failing or likely to fail determination, public interest assessment and resolution action.

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LIST OF ABBREVIATIONS

AT	Austria
BIS	Bank for International Settlements
FR	France
DeFi	Decentralised finance
EBA	European Banking Authority
ECB	European Central Bank
ECON	European Parliament's Committee on Economic and Monetary Affairs
ESRB	European Systemic Risk Board
EU	European Union
EUR	Euro
FOLTF	Failing or likely to fail
FSB	Financial Stability Board
IMF	International Monetary Fund
IT	Italy
LDI	Liability driven investment
MREL	Minimum requirement for own funds and eligible liabilities
NBFI	Non-bank financial institution
NFC	Non-Financial Companies
NPL	Non-Performing Loans
NRA	National Resolution Authority
OFI	Other Financial Intermediaries
RBI	Raiffeisen Bank International
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
TLTRO	Targeted longer-term refinancing operations
USD	US dollar

EXECUTIVE SUMMARY

This paper aims to identify the evolving risks that are likely to affect banks in the Banking Union in the upcoming twelve months and impact on the Single Resolution Board (SRB) and its priorities. This review excludes risks that have the potential to materialise in the near future which cannot yet be assessed adequately, such as operational risks and the longer-term risks related to digitalisation and climate change.

First, geopolitical risks are considerable at the moment, with the war in Ukraine and rising tensions between China and Taiwan. Their direct impact is likely to be limited as most banks under the remit of the SRB have no activities in any of those countries, and the banks that are owned by institutions located in the affected countries have already been liquidated, resolved, or are winding down their banking activities. For those banks with activities in Russia, the potential losses can be absorbed with the ongoing profits or excess capital. The main risks identified at this point in time are the indirect consequences of geopolitical tensions, such as rising inflation, increasing interest rates and economic decline.

Second, shadow banking has grown in the past few years and currently account for nearly half of all financial assets. The recent issues with UK pension funds invested in liability driven investment and crypto-asset markets show that there are risks for banks. However, given the limited available public information it is difficult to assess their extent. According to the ECB, crypto markets would still have to grow further to become a concern for financial stability.

Third, while during the critical months of the Covid-19 pandemic most governments put in place supporting mechanisms to avert the dire consequences of lockdowns, the majority of these measures are now being withdrawn. Consequently, the end of liquidity support might increase default rates by firms unable to repay, with potential negative outcomes on banks' credit risk, leading to increasing non-performing loans. The scale of public intervention also gives rise to significant uncertainties associated with bank credit risk.

The risk that banks will start to fail or would become likely to fail due to these key challenges is reduced by the build-up of capital buffers and liquidity pools in response to the 2008-09 global financial crisis. Moreover, monetary authorities and governments are likely to provide support should risks acquire a systemic nature.

Although the identification of challenges for banks under the SRB's remit is useful to be prepared for the most likely types of failures, the recent past has shown that some risks materialise quite unexpectedly. The crisis management framework should therefore be suitable to deal with all kinds of endogenous and exogenous shocks.

Nevertheless, the SRB can use data and information on expected risks to prepare and then adopt a crisis management strategy if risks materialise and one or more banks are deemed to be failing or likely to fail. The SRB can monitor more frequently the conditions laid out in the resolution plans for significant banks. The SRB might further review its activities and priorities should there be an increase in bank failures under their remit. In the public interest assessment, the SRB can further envisage that alternatives to resolution might result in some instances not credible and some resolution tools, such as bail-in and the sale of businesses, could become less feasible and credible.

1. INTRODUCTION

KEY FINDINGS

- Euro area banking sector is confronted with several challenges.
- This paper aims to identify the key challenges in the next twelve months and the potential consequences for the SRB.

Banks under the remit of the Single Resolution Board (SRB) are facing several challenges, ranging from the continuing Covid-19 pandemic to the war in Ukraine, the energy crisis and rising inflation. These challenges could make it more difficult for supervisors and resolution authorities to ensure financial stability and protect depositors', and taxpayers' interests.

On these grounds, this paper looks at the evolving risks that are likely to affect banks in the Banking Union in the near future and impact on the SRB and its priorities. The analysis in this paper is limited to risks with a short-term horizon (i.e. the next twelve months). This means that the longer-term risks, such as digitalisation and climate-related risks, are not discussed.

Banks in the Banking Union have become significantly more resilient in the aftermath of the global financial crisis, as they have built up higher capital and liquidity buffers. Supervisory and resolution authorities have more information about the banks under their remit and are better prepared for potential failures than a decade ago. Nevertheless, banks remain inherently fragile due to leverage, maturity mismatch, and risky asset portfolios.

After this introduction, Part 2 discusses some of the main risks to which the banks under the remit of the SRB are exposed. Part 3 provides a legal analysis of the impact that those risks might have on resolution planning, the failing or likely to fail determination, the public interest test and resolution action. Part 4 concludes.

2. POTENTIAL RISKS AND THEIR IMPACT ON BANKS

This section discusses some of the main risks to which banks in the Banking Union are exposed to in the next twelve months. Such risks are geopolitical risks, shadow banking risks and risks arising from phasing out of the Covid-19 support.

2.1. Geopolitical risks

Geopolitical risks are likely to remain high in the upcoming twelve months, considering the war in Ukraine and the tensions between China and Taiwan, which could also spread to other countries and regions.

The direct impact of the war in Ukraine on banks under the SRB's remit has been so far limited. Both the exposure of these banks to Russia and the exposure of Russian banks to the euro area were fairly limited at the start of the war in February 2022 (Akhvlediani and De Groen, 2022). At that time, there were two banks under the SRB's remit that were owned or controlled by Russian entities. One of them was Sberbank Europe AG, which was deemed to be failing or likely to fail shortly after the start of the war as a consequence of relevant deposit withdrawals. Yet the Austrian bank was liquidated under national law, unlike its two subsidiaries in Slovenia and Croatia that were resolved (SRB, 2022a). On the other hand, RCB Bank was almost half owned by VTB Bank (a Russian bank). VTB Bank sold its shares in RCB Bank to a Cypriot investor, which was followed by a complete winddown of banking operations (RCB Bank, 2022a). In October 2022, RCB announced that they were surrendering their banking license (RCB Bank, 2022b). Consequently, there are no more Russian owned or controlled banks under the SRB's remit.

Additionally, there are still some banks under the SRB's remit with exposure to Russia, Ukraine and Belarus. For most of them, activities in these countries are limited. Raiffeisen Bank International (RBI - AT), Société Générale (FR) and UniCredit (IT) were the only banks under the SRB's remit with subsidiaries having more than EUR 5 billion in assets in those three countries. Raiffeisen Bank International (the smallest among these three banks) has indicated that its subsidiaries are self-funded and well-capitalised, which should limit the risks for the remainder of the group. The Russian activities have been largely suspended after the beginning of the war (RBI, 2022a) and RBI is currently considering strategic options for their Russian operations (RBI, 2022b). Potential losses are lower than the bank's profits in the first nine months of the year, thus the Russian activities are unlikely to trigger the failure of the bank. Société Générale sold its Russian bank and insurance subsidiaries to Rosbank and Interros Capital, respectively. The sale had a small negative impact on its capital ratio, which however remains comfortably above the minimum capital requirements (Société Générale, 2022). UniCredit has been working on reducing its exposures in Russia and is considering the sale of their Russian activities (Za, 2022). Potential losses can be absorbed due to the bank's solid capital position.

There are currently no banks under the SRB's remit which are owned or controlled by Chinese or Taiwanese entities. Moreover, the banks under the remit of the SRB seem to have only limited activities in China. Hence, tensions between China and Taiwan in and of themselves are unlikely to trigger any bank failures that are under the SRB's remit.

The main risks in the near future resulting from geopolitical tensions are thus indirect.

The reduced supply of fossil fuels from Russia and agricultural exports from Ukraine have contributed to increasing inflation in the euro area. High inflation has urged the ECB to increase interest rates. The main policy rate was increased from 0 % in July to 2 % in November (ECB, 2022a). However, the policy

rate is still below the US Federal Reserve's rate of up to 4 %, which makes the USD relatively more attractive compared to the EUR. This renders imports in USD, such as oil and gas, more expensive, further increasing inflation. High inflation and increasing interest rates are expected to reduce economic growth, which is likely to fuel non-performing loans.

2.2. Shadow banking risks

Shadow banking is a term that is used to refer to a set of financial intermediaries that carry out credit intermediation and have risks similar to banks but that fall outside the strict formal regulatory perimeter. The total assets of euro area investment funds and Other Financial Intermediaries (OFIs) amounted to EUR 40.4 trillion at the end of 2021, compared with EUR 37 trillion at the end of 2020 (ESRB, 2022). Globally, shadow banking accounts for nearly half of all financial assets, partly reflecting a structural trend and partly a retrenchment of banks from market-based activities and ongoing deleveraging.

Non-bank financial institutions (NBFIs), such as collective investment vehicles, brokers-dealers, structured finance vehicles and securitisation structures are key market players, offering a broad range of investment and funding opportunities. Additionally, they are a source of diversity in external financing. However, these structures are inherently fragile, and they lack an official backstop, such as a central bank. They are also highly leveraged and require the rollover of short-term funding. When things do go wrong, NBFIs can trigger or amplify market stress. NBFIs are also a source of systemic risk.

For example, recent issues with UK pension funds invested in liability driven investment (LDI) in October 2022 triggered an emergency intervention from the Bank of England. The so-called LDI investment strategy uses derivatives contracts to hedge funding needs. A requirement of LDI strategies is collateral, which is normally in the form of government debt (gilts). When there is a fall in government bond yields, LDI schemes receive collateral payments; when yields increase schemes must provide additional collateral. Due to the extraordinary moves in UK rates and inflation-linked bond markets in September 2022, there was simply not enough time to get the required assets into the LDI strategies. This resulted in the Bank of England emergency bond-buying to avoid a destabilising 'fire sale' of financial assets.

The fast growth, extreme volatility and lack/uncertainty about the economic value of crypto assets combined with the growing involvement of banks and other institutional investors increase financial stability risks. Publicly available information does not allow for a proper assessment of the interaction between banks under the SRB's remit and crypto-asset markets (unbacked crypto-assets, stablecoins, and decentralised finance). Relying on an assessment on crypto-asset leverage and lending published by the ECB in May 2022 (Hermans et al., 2022), the crypto-asset ecosystem can become a financial stability risk when the crypto-asset markets continue to grow in size and complexity, and thus financial institutions become more involved. Hence, crypto-asset markets should not be a concern for the SRB in the short term.

Regulators need to be aware of the shift in systemic risk from the banking sector to OFIs. In this context, the BIS (2021) has called for tougher international rules to stop bond markets from amplifying risks to financial stability and has called for tighter supervision of blockchain-based decentralised finance (DeFI).

2.3. Phasing out of Covid-19 support

The Covid-19 health crisis represented an unexpected and unprecedented exogenous shock to the system as a whole. Governments and central banks worldwide put in place supporting mechanisms to avert the dire consequences of a social, corporate, financial, and economic crisis.

In the EU, policy measures to contain the crisis were mainly of three types[1]: public guarantees, moratoria, and liquidity injections to Non-Financial Companies (NFC) in the form of direct capital and other capital and liquidity support[2]. So far, State Aid has been used by all 27 Member States, with 1 350+ decisions and 980+ national measures approved for a total amount of funding of EUR 3.2 trillion (European Commission, 2022a). The Commission (Cannas et al., 2022) estimated that by end of 2021, EUR 940 billion was actually spent.

Legislative and non-legislative moratoria - a temporary suspension of debt repayments - extended to the servicing of personal, household, and corporate debts[3]. The EBA (2020b) subsequently introduced a more lenient classification regime to avoid triggering forbearance or being considered as defaulted under distressed restructuring. At the time of writing, moratoria are being phased out or strict conditions are being attached to banks on availing themselves of a most favourable loan classification.

From a monetary policy perspective, some of the measures enacted by the ECB eased[4], recalibrated[5], and extended[6] the conditions on its standard refinancing operations to provide an increased amount of funds in support of the real economy at a favourable interest rate.

Despite the expiring of the Temporary State Aid framework in June 2022, investment and solvency support measures can still be put in place until 31 December 2023. Also, liquidity measures granted in the past few years can have a maturity date of up to eight years and 'the Covid-19 Temporary Framework refers to maximum loan amounts but does not prescribe a certain repayment schedule' (European Commission, 2022b). Member States retain a certain degree of discretion and flexibility in the granting of further aid.

Considering that some sectors (such as transport; tourism and leisure; arts and entertainment) have been badly hit by the pandemic, there may be a need for prolonged support. All this in turn has an impact on the speed at which banks' balance sheets may possibly deteriorate in the future should firms become unable to service their debt in the coming years.

The measures that require repayment by firms risk having a negative impact on banks' credit risk, as timely highlighted by the ESRB (2020). Also, given the relative uncertainty on NFC profitability at the time, market discipline could not be exercised. This in turn 'camouflaged' the actual risk exposure of banks. Since measures are still in place, the information asymmetry has not been entirely corrected and the insolvency lag of firms in receipt of public support is still possible (Gulija et al., 2022).

Academic research has highlighted how the intersection of public measures, the risk of 'zombie companies', and bank involvement points towards a triple doom-loop risk in this case (Gulija et al.,

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[1] For a full list of measures, as of March 2021, see IMF Policy tracker, under European Union/Euro Area.

[2] For a detailed description of those measures see: Gulija, Russo, and Singh (2022).

[3] 'As of June 2020, a nominal loan amount of EUR 871 billion was granted moratoria on loan repayments, comprising about 6 % of banks' total loans and close to 7.5 % of total loans to households and NFCs. In total, 16 % of SME loans were granted moratoria, followed by 12 % of commercial real estate (CRE) loans and 7 % of residential mortgage loans' (EBA, 2020a).

[4] See ECB announces easing of conditions for targeted longer-term refinancing operations (TLTRO III).

[5] See ECB recalibrates targeted lending operations to further support real economy.

[6] See ECB prolongs support via targeted lending operations for banks that lend to the real economy.

2022). A similar concern has been raised by members of the ECB Executive Board (Schnabel, 2021). The research also shows how some countries are particularly susceptible to this risk, especially those with a banking sector heavily exposed to SMEs, which are the biggest recipient of public aid (Gulija et al., 2022).

The latest Supervisory Review and Evaluation Process (SREP) (ECB, 2022b) exercise conducted in 2021 showed a cautious optimism with regards to the risk to the banking sector of the phasing out of Covid-19 measures, mainly because of banks' improved capital levels and liquidity positions. Whilst SREP optimism is grounded in banks' healthier liquidity position, research shown how banks' profitability has decreased one-third at aggregate level among significant banks covered by the exercise. This in turn can have an impact on banks' ability to raise capital.

3. POTENTIAL CONSEQUENCES OF THE RISKS TO THE SRB AND OTHER RELATED PRIORITIES

This section focuses on the impact of some potential risks in the banking sector to the SRB and on how these risks can affect its priorities.

The 2023 SRB work programme (SRB, 2022b) indicates five key priorities areas informing SRB activity: 1) achieving resolvability of SRB banks and Less Significant Institutions; 2) operationalisation of the Single Resolution Fund; 3) robust policy framework in resolution; 4) crisis preparedness and management; and 5) establishing the SRB as an organisation.

Our analysis is relevant mainly to achieving resolvability (1), robust policy framework (3) and crisis preparedness (4), as we highlight how the discussed risks may impact: a) resolution planning; b) the failing or likely to fail determination; and c) the public interest assessment.

In what follows, we discuss these three aspects assuming that over the next 12 months an economic downturn will take place (European Commission, 2022c). Such a negative macro-economic scenario might be further exacerbated by the consequences of the war in Ukraine and the energy crisis, as well as by the post-pandemic legacy as amplified by the exit from public support measures. The lack of effective and harmonised bank liquidation regimes[7] (as an alternative to resolution) in the EU Member States will also affect the SRB, even though only a small number of banks under the SRB's remit (20) is currently earmarked to go into liquidation in case of crisis (SRB, 2022c). For the purposes of this paper, one of the main problems with this is the different jurisdictional treatment of NPLs (Gulija et al., 2022).

3.1. Resolution planning

Resolution authorities are required to prepare resolution plans for banks under their remit. Such plans have to be drafted and updated on an annual basis. This exercise is meant to enhance preparedness ensuring the orderly failure of banks without the use of public funds[8]. The preparation of resolution plans is a key part of the process to remove impediments to resolvability in that these have to be firstly identified in the resolution plan[9]. In other words, resolution planning is a crucial exercise for authorities to get a full picture of the health conditions of banks under their remit, which would then guide resolution action in the event of such banks failing or likely to fail (FOLTF)[10]. Against this background, upcoming risks will need to be taken into consideration when identifying such impediments since they could influence the resolution strategy to implement as well as the procedure to initiate. This means that enhanced and more frequent monitoring of the conditions laid out in the plans may be required.

[7] See VVA, Grimaldi and Bruegel (2019).

[8] See Lastra, Russo, and Bodellini (2019).

[9] See Bodellini and De Groen (2021).

[10] According to Art 32(4) of the Directive 2014/59/EU, 'an institution shall be deemed to be failing or likely to fail in one or more of the following circumstances: (a) the institution infringes or there are objective elements to support a determination that the institution will, in the near future, infringe the requirements for continuing authorisation in a way that would justify the withdrawal of the authorisation by the competent authority including but not limited to because the institution has incurred or is likely to incur losses that will deplete all or a significant amount of its own funds; (b) the assets of the institution are or there are objective elements to support a determination that the assets of the institution will, in the near future, be less than its liabilities; (c) the institution is or there are objective elements to support a determination that the institution will, in the near future, be unable to pay its debts or other liabilities as they fall due; (d) extraordinary public financial support is required except in a few cases.'

The SRB envisages banks to address impediments mainly by meeting the target MREL requirements and fine-tuning their operational capabilities (SRB, 2022c).

Some of the described risks have an obvious impact on banks' credit risk and on their liquidity positions. However, they may also present an operational risk as they may – for instance - impact business continuity and the ordinary course of business[11]. This means that the SRB should widen their criteria to assess impediments.

3.2. Failing or likely to fail determination (FOLF)

The risks previously identified may impact on banks' liquidity and capital position, particularly in those banks whose profitability is deemed unsatisfactory in the latest SREP exercise (ECB, 2022b).

Geopolitical tensions might endanger the position of those banks operating directly in the involved territories, but especially indirectly affected by the events in those regions.

A consequential contraction in economic growth, coupled with higher interest rates, would also negatively impact the real estate market, thereby bringing property prices down.

In turn, interest rate increases could potentially increase banks' income, which will likely be followed by a growing number of borrowers defaulting, causing banks to suffer losses. By the same token, it is likely to predict a contraction in the overall amount of borrowing, resulting in lower profit levels. Depending on their size, such losses could make banks breach capital requirements.

The unfolding (or progressive reduction) of public support measures adopted during the Covid-19 pandemic could also contribute to an increase of NPLs, which may cause banks to suffer losses (Avgouleas et al., 2021).

Whilst direct exposures may be contained for the majority of banks, a potential issue may arise with the enforcement of sanctions, which could still create turbulence in financial markets[12].

Such a negative macro-economic and geopolitical outlook will possibly affect banks due to their close links to the real economy. Their reliance on public support to NFCs in their lending decisions coupled with the corporate insolvency lag discussed above and highlighted by the FSB (2022) too, can also be a source of risk. As a consequence, a number of institutions might be determined as FOLTF over the next future, which in turn would trigger the application of the crisis management framework. The FOLTF determination would lead to the initiation of a crisis management procedure to be handled (in different ways depending on the circumstances) by the resolution authority. On these grounds, a potential increase in FOLTF decisions could affect the SRB's activities and priorities going forward.

[11] For instance, EBA (2021) has already highlighted how Covid-19 risks could go above and beyond credit risk for banks.

[12] See Enria (2022).

3.3. Public interest assessment

When a bank is assessed as FOLTF and there is no reasonable prospect that any alternative private sector measure or supervisory action would prevent its failure, the SRB (and NRAs) have two alternative options, i.e. resolution or liquidation[13].

The public interest assessment[14], which relates to the ability of the two procedures to achieve the resolution objectives, will be used to determine the procedure to initiate (Bodellini, 2022). While the legal framework in place considers liquidation under normal insolvency proceedings the default option, resolution, should be initiated when such national proceedings are not considered able to achieve the resolution objectives to the same extent[15]. Also, the latest SRB resolvability assessment earmarks 82 % of SRB banks for resolution, rather than liquidation, *de facto* flipping the regulatory preference in favour of resolution (SRB, 2022c).

As the previous section highlighted, a combination of short-term risks to which the banking sector may be exposed to can hit a number of banks.

For instance, interest rates have already increased and will be further increased by central banks to fight inflation; this would affect borrowers' ability to obtain new loans and service the existing ones. The ECB forecasts a recession hitting the euro area in 2023 (De Guindos, 2022). Recession would lead to a higher unemployment rate, which in turn would decrease borrowers' credit scoring. The expected economic crisis is likely to impact the real estate market as well with the drop in value of properties used as collateral.

[13] Art 32(1) of the Directive 2014/59/EU.

[14] The public interest assessment is done twice: 1) when drafting the resolution plan to indicate whether the bank would be resolved or liquidate in the event of becoming FOLTF, and 2) once the bank has actually been determined as FOLTF to decide on how to handle it since the situation might have changed as compared to the outcomes of the assessment during resolution planning. In 2019, the SRB published a document titled 'Public Interest Assessment: SRB Approach' where the SRB discusses its criteria and in 2021, the authority published a second document titled 'Addendum to the Public Interest Assessment: SRB Approach' where attention was placed on system-wide events and financial instability issues. A third document titled 'SRB Addendum to the Public Interest Assessment – Deposit Guarantee Schemes Considerations' has been published in 2022 to take into account considerations concerning deposit insurance.

[15] Art 32(5) of the Directive 2014/59/EU.

All these elements could require a holistic view behind the public interest assessment and tip the balance towards the use of resolution, as already planned for by the SRB[16].

However, the challenge will then be with regards to the choice of resolution tools (bail-in; the sale of the business; asset separation; and bridge institution).

At this stage, bail-in is the tool of choice for 80 of the resolution plans, followed by the sale of business (SRB, 2022c). However, in the described negative macroeconomic environment and in light of the common exposure to short-term risks, those tools may not be a feasible or credible option.

This is because a private market solution, as in the case of the sale of business tool, may not be viable; and because bail-in may find MREL shortfalls, existing banks' structural deficiencies, and an exacerbation of negative social consequences as possible obstacles. Whilst we cannot comment on what instruments are included in the bail-in playbook, and whilst contractual recognition of bail-in is now more developed than in the past, the impact it can have on investors' already strained savings should not be underestimated.

As such, the SRB will probably have to plan for the use of alternative resolution tools.

[16] On these issues see Laviola (2021), which emphasises that 'Moving forward, the SRB is also considering whether we need to further enhance the public interest assessment framework. Along with technical enhancements on the financial stability objective, we are working on the improvement of the fulfilment of the objective concerning the protection of covered deposits and on the scope of critical functions'.

4. CONCLUSIONS

Banks' failure in past years have shown that challenges can appear suddenly. This makes foreseeing all risks that can trigger the failure of individual banks in a twelve-month period challenging, if not impossible. The crisis management framework should therefore be suitable for every type of failure and not just the types that can be foreseen.

Nevertheless, there are clear challenges for banks in the upcoming twelve months that can be anticipated. These challenges include the direct impact of ongoing geopolitical tensions, contagion in the shadow banking sectors, and the phasing out of Covid-19 support measures. However, these challenges are unlikely to trigger bank failures under the SRB's remit on a standalone basis. This, unlike the economic decline triggered by the Russian invasion in Ukraine and the consequential very high inflation levels and higher interest rate levels, might trigger additional bank failures on a standalone basis.

Besides the short-term risks discussed in this paper, there are also ongoing challenges related to operational risks, such as cybersecurity and longer-term challenges such as inertia in the digital transformation and climate risks that might sooner or later trigger bank failures.

The build-up of capital buffers and liquidity pools in recent years, as well as the active participation of monetary authorities and economic support measures by governments, are likely to reduce the chance that banks under the SRB's remit will become FOLTF in the short term.

Taking a prudent approach, the SRB might need to more frequently monitor the conditions laid out in the resolution plans, to ensure the swift preparation of the most appropriate resolution scheme should a bank be submitted to resolution. Although unlikely at this stage, in case of an increase in bank failures, the SRB might have to review its own activities and priorities. The SRB might also need to consider in both the public interest assessment and the selection of the resolution tools whether large banks active in a market are confronted with the same risk, some tools may in practice no longer be a feasible or credible option.

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ANNEX 1: QUESTIONS FOR HEARING

Dr Elke König, Chair of the Single Resolution Board (SRB), will come to the European Parliament for a public hearing of the ECON committee. In the context of this paper on the evolving key risks in the banking sector and related priorities for the SRB, the authors suggest asking the following questions during the Q&A part of the hearing:

- Which actions does the SRB intend to undertake in response to the evolving risks in the banking sector?
- Is the SRB with these and its other actions ready for a potential banking crisis?
- How is the SRB planning to deal with the social consequences of possible bank insolvencies at a time of cost-of-living crisis and high interest rates?

The Banking Union will likely face several risks in the near future, ranging from geopolitical risks to shadow banking risks and the phasing out of Covid-19 support. Such risks might also affect the Single Resolution Board and its priorities. This paper discusses the key short-term risks and analyses how the SRB can be impacted regarding resolution planning, the failing or likely to fail determination, public interest assessment and resolution action.
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