

Resolution: from theory to practice

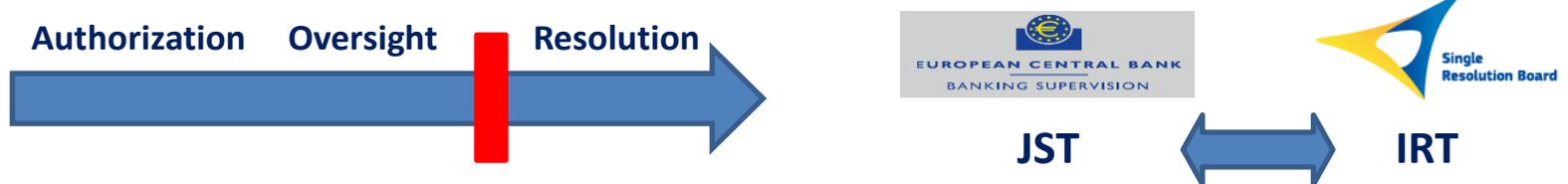


**BRRD and BRRD 2, developments
on resolution**

1. Resolution/supervision: conflict of interest or continuity?

A «resolution/supervision» separation provided for in the regulation (Article 3 of the BRRD):

- Member States may **exceptionally** provide that the resolution authority may be the supervisory authority.
- There are adequate structural arrangements **for ensuring operational independence** and avoiding any **conflict of interest** between supervisory functions and the functions assigned to resolution authorities, **without prejudice to the exchange of information and cooperation obligations.**



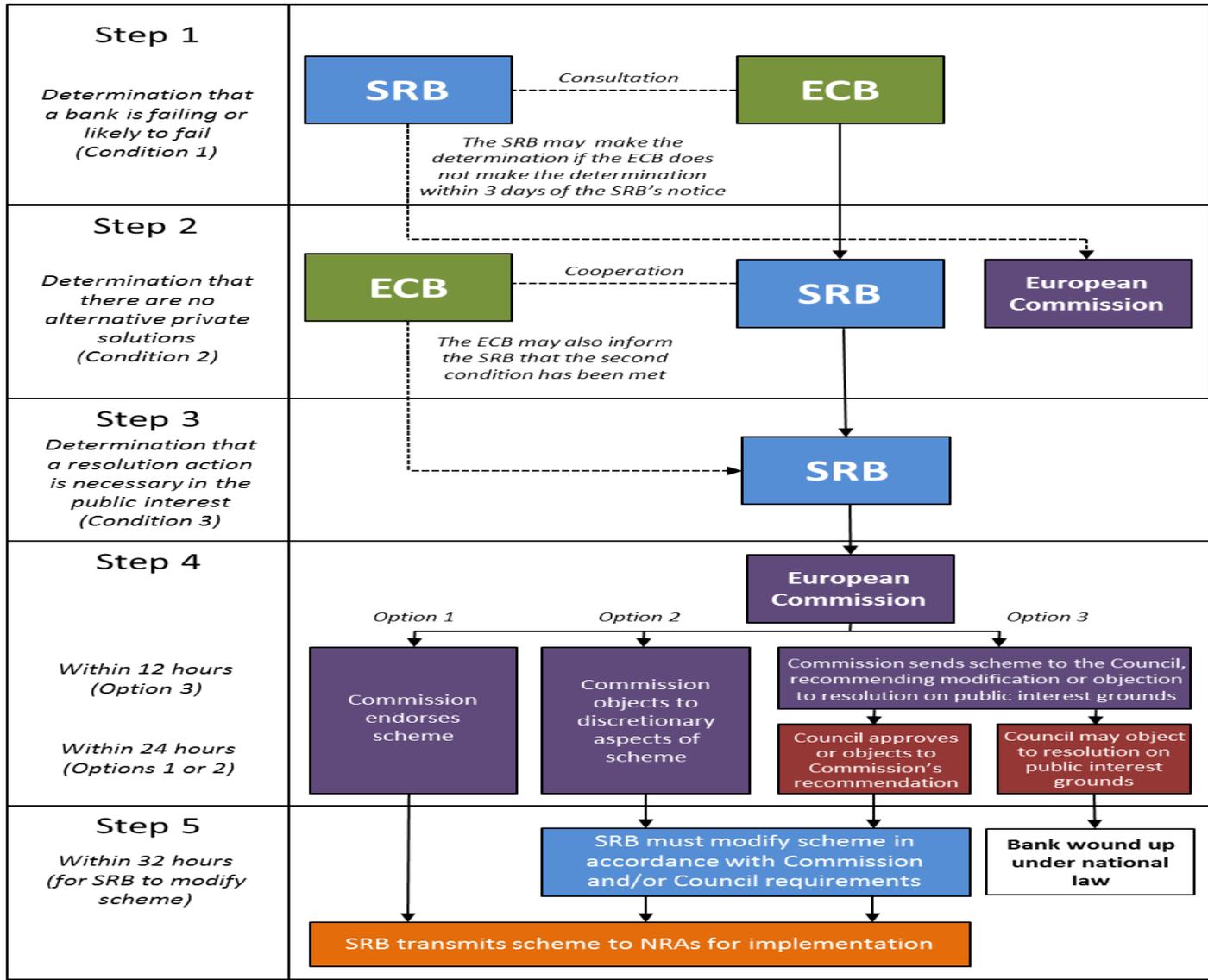
However, the resolution function is consistent with the supervisory function and should use all **synergies** between two intimately linked analyses.

STRATEGIC BUSINESS ANALYSIS	1	<ul style="list-style-type: none">▶ Adequately detailed overview of institution▶ Main subsidiaries, critical functions, interconnectedness...
PREFERRED RESOLUTION STRATEGY	2	<ul style="list-style-type: none">▶ How the institution or group should be resolved▶ Implementation plans for financial and business restructuring, funding and liquidity requirements...
RESOLVABILITY ASSESSMENT	3	<ul style="list-style-type: none">▶ Identification of impediments to resolvability▶ Measures to address or remove these impediments
MREL	4	<ul style="list-style-type: none">▶ Adequate level of loss absorption capacities: Minimum Requirement of own Funds and Eligible Liabilities

Source: SRB

2.

From (too?) many players



Source: FSB

3. Resolution/supervision: the need for consistency

A team



Coherence and continuity



4 conditions

- 1 • Rules within the team
- 2 • Regular training
- 3 • Speaking together
- 4 • Respect of skills

On arrival, there are losses of resources, budget, energy and efficiency
for authorities and banks

4.

Resolution: an exception regime

Liquidation: the common rule



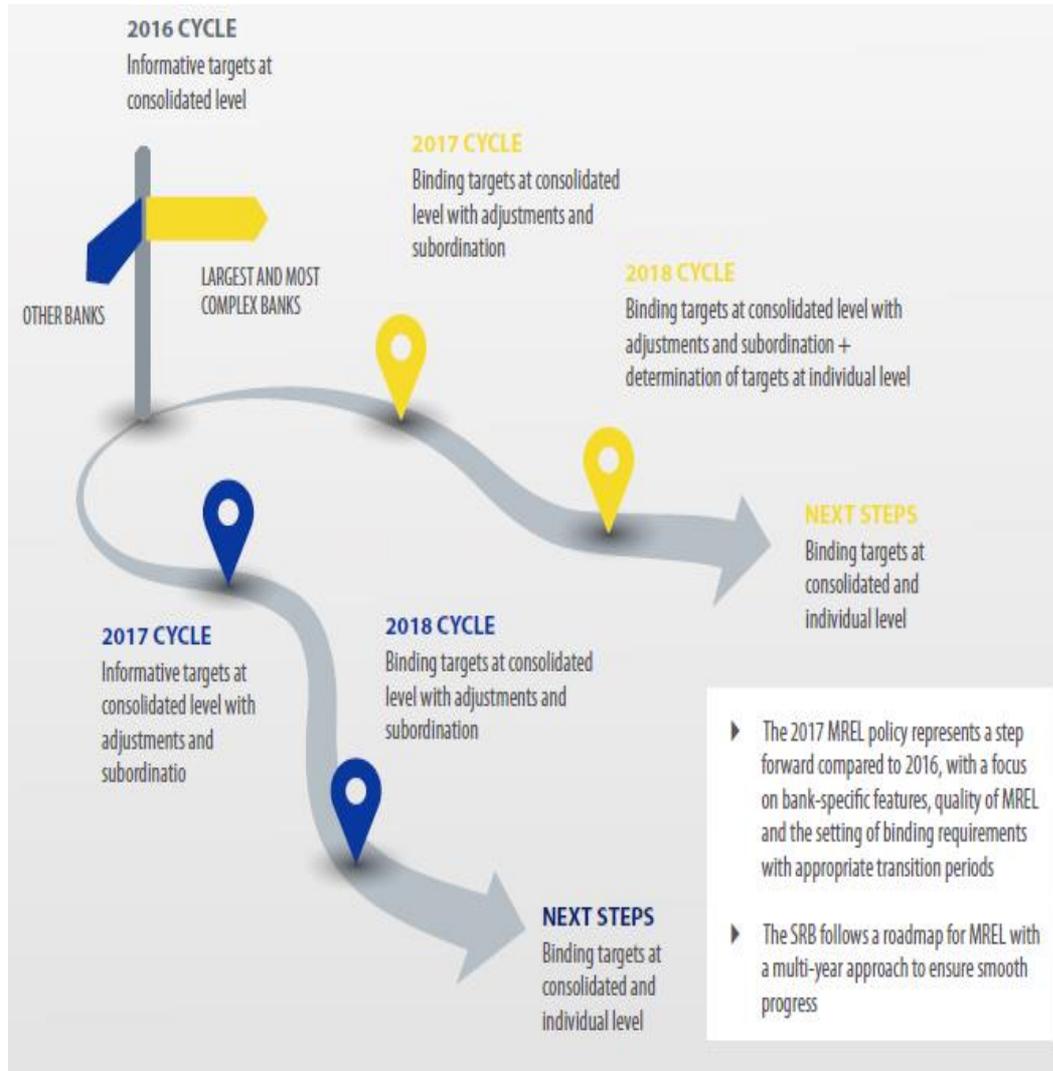
Source: Board's annual report

- Systemically important banking groups
- Public banks
- Less significant banks



- Resolution
- Resolution...
- Liquidation (except exceptions)

MREL: a long day... on a winding road



Source: Board's annual report

Welcome pragmatism

- 1 - progressive cycles
- 2 - transitional phases

BUT

The need for a **stable** policy

- impact on issuance programmes
- investor explanation needs

6.

Dialogue with industry or consultation?

7 *Industry Dialogue* since October 2015

but

A monologs dialogue to announce/explain the decisions taken

The SSM and EBA have structured **consultation processes:**

«conduct open public consultations on draft regulatory technical standards/guidelines and recommendations and analyses the potential costs and benefits involved»

Why resolution would not implement best practices in regulation and supervision: consultation before deciding?

- General rules (MREL) and internal guidelines that introduce requirements/expectations for banks
- Reporting requirements that differ in part from EBA standards



Prior consultation would be beneficial for everyone:

- Limit the risk of error in a new area
- Ability to adjust expectations
- Increase acceptance
- Accept contradiction

for greater credibility

One tool or tools? And isn't a missing one?

4 resolution tools

- Assignment of activities
- Bridge institution
- Separation of assets (this tool will only be applied to complement the use of another tool)
- Bail-in

But the Board's intention is to limit its use:

- Where possible, such a combination should be limited in order to reduce the complexity of the strategy itself.
- Combinations using three or more resolution tools are considered to be too complex at operational level

But the complexity of groups, with multiple locations, several business lines involve **multi-dimensional resolution plans to be realistic...**

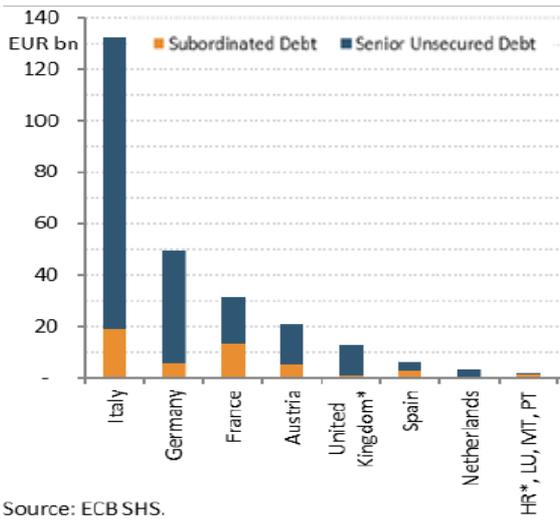
BRRD tools relate to capital, **forgetting that liquidity is major**

8.

The bail-in: the preferred tool

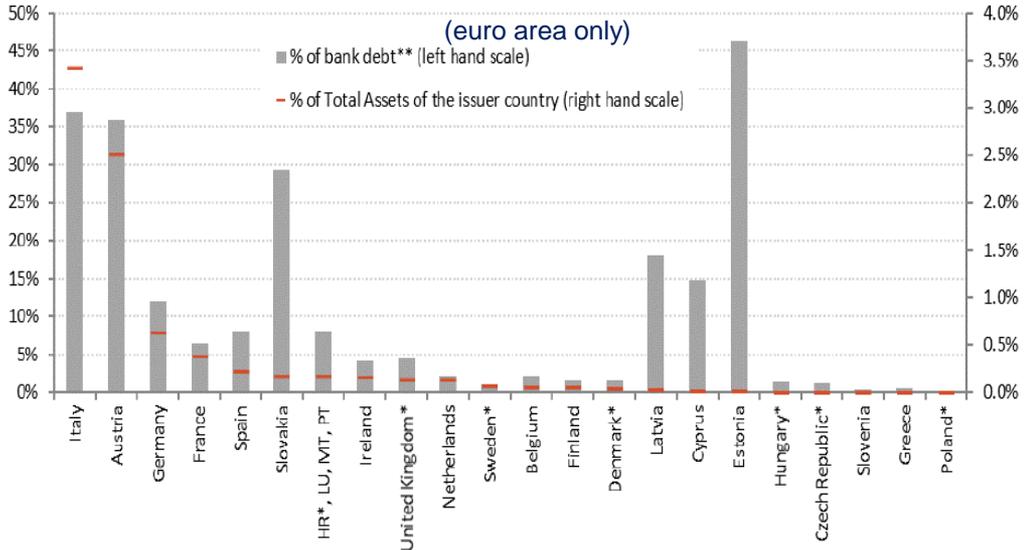
The Resolution Directive (BRRD) is based on **the leasehold logic** but reality sometimes hits the principles....

Investments in **retail investors** (euro area only)

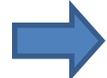


Source: ECB SHS.

Share of investor investments



Source: Statement of the EBA and ESMA on the treatment of retail holdings of debt financial instruments subject to the Bank Recovery and Resolution Directive (30 May 2018)



Holdings of eligible instruments by «retail» investors with the future BRRD 2

Possibility given to Member States to require either of the following: **(1)** for «retail» investors with an investment capacity below EUR 500 000, initial investment of at least EUR 10 000 without exceeding 10% of the investment capacity; **(2)** a nominal value of at least EUR 50 000;

For Member States with a less liquid market for subordinated instruments, a minimum investment amount of EUR 10 000

9. Resolution of a systemic group is complex



Retail bank and specialised financial services
Corporate and institutional services
Presence in 73 countries



Bank of proximity and insurance
Retail Bank
Presence in 50 countries with strong anchoring in France with two cooperative networks



Bank of proximity
Savings, insurance
Specialised financial services
Large customer
Presence in 49 countries with strong territorial anchor



Retail banking and financial services
Retail bank and investor solutions
Presence in 67 countries

The notion of «resolution group» is essential because it is not the «normal» group:

- exclude certain subsidiaries from third countries
- recognition of the liquidation of entities within a group

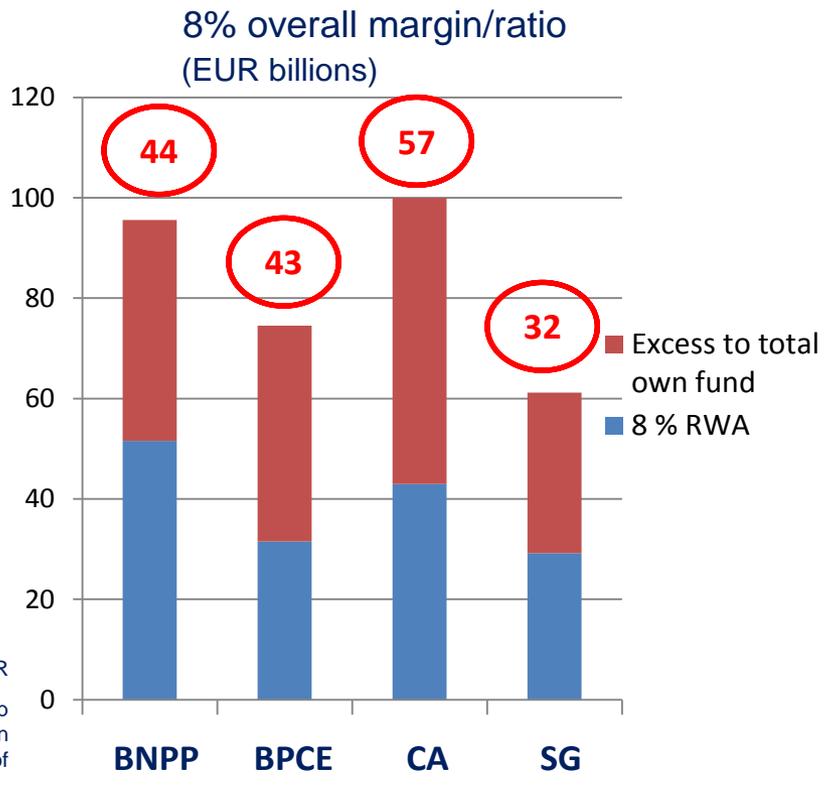
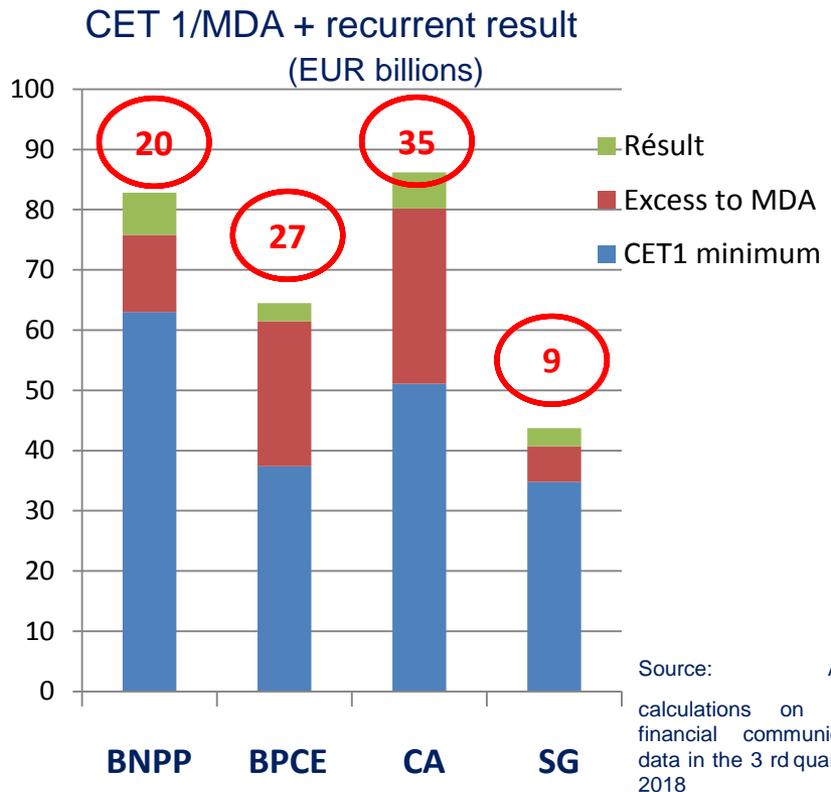
Is «distance» to resolution the same as for other types of banks?

Should not a notion of priority be introduced in the preparatory work

10.

The resolution weekend for a GSIBs?

A principle: resolution is sudden, the day before the weekend and recovery actions are acceptable only if they can be implemented in less than one week... **a credible scenario for GSIBs?**



Implementation of recovery measures and intervention by the supervisor

Resolution action

11. The scenario for a systemic group resolution

- A loss that triggers recovery actions **but at the time of resolution is profoundly modified**, and this should lead to risk reductions that are weighted:
 - Given the size of French banks and diversification, they will necessarily have activated several **of their recovery options** before entering resolution.
 - French banks demonstrated their ability during the crisis and the separation law to use asset **separation tools**
 - For highly international groups, the exclusion of certain **entities established in third countries** where there is no resolution regime may make sense both when it will be difficult, in resolution, to consider the application of resolution powers in those jurisdictions.
 - The need for recapitalisation would not extend to all rwas of the group because the group's **small subsidiaries** could be liquidated

- A massive loss that triggers a confidence crisis and **a liquidity leakage...** but resolution is **not (yet) equipped...**

BRRD 2 developments do not address the challenges to finalise the 2 nd pillar of the Banking Union (1/2)

1 - Several developments complement the existing framework:

Subordination

GSIB: max (8% TLOF, 18% RWA, 6.75% leverage)

«Top tier banks» (more than EUR 100 billion in total balance sheet): max (8% TLOF, 13.5% RWA, 5% leverage) with a ceiling to 27% RWA

Possibility to require additional subordination under Pillar 2

Maximum distributable amount (MDA)

Grace period of 9 months during which the resolution authority may choose not to trigger MDA restrictions

Moratorium

2 days by requiring to verify that there is no reasonable prospect that a private measure prevents the failure of the institution

2 - No progress on the «home/host» equilibrium, which helps to maintain the fragmentation that has developed since the crisis

BRRD 2 developments do not address the challenges to finalise the 2 nd pillar of the Banking Union (2/2)

3 - Completing the Single Resolution Mechanism:

- The establishment of a backstop to the Single Resolution Fund is the key and the agreement of 29 June 2018 is a crucial first step, but three key issues remain:
 - ✓ how to finance the safety net at a sufficiently high level to be credible;
 - ✓ how to avoid placing too much risk on sound banks;
 - ✓ how to create a rapid decision-making process to deal with emergencies

- The euro area also needs a liquidity - providing system to financially sound banks after resolution,

4 - It is necessary to have a consistent framework of the plans in the event of liquidation

Thank you for your attention

and find ACPR's analyses on our website: www.acpr.banque-france.fr

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