

# Resolution: from theory to practice

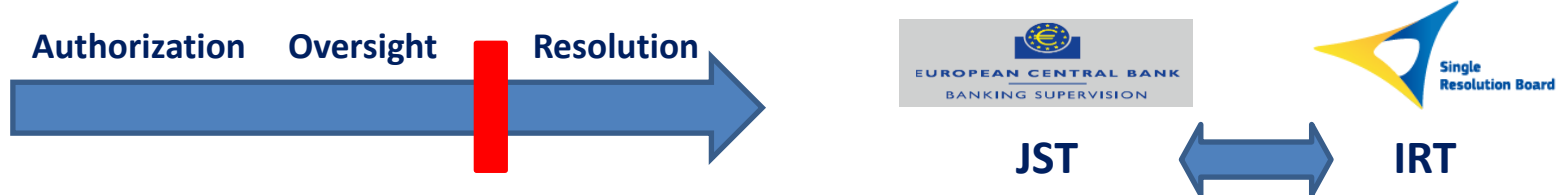


**BRRD and BRRD 2, developments  
on resolution**

# 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.**



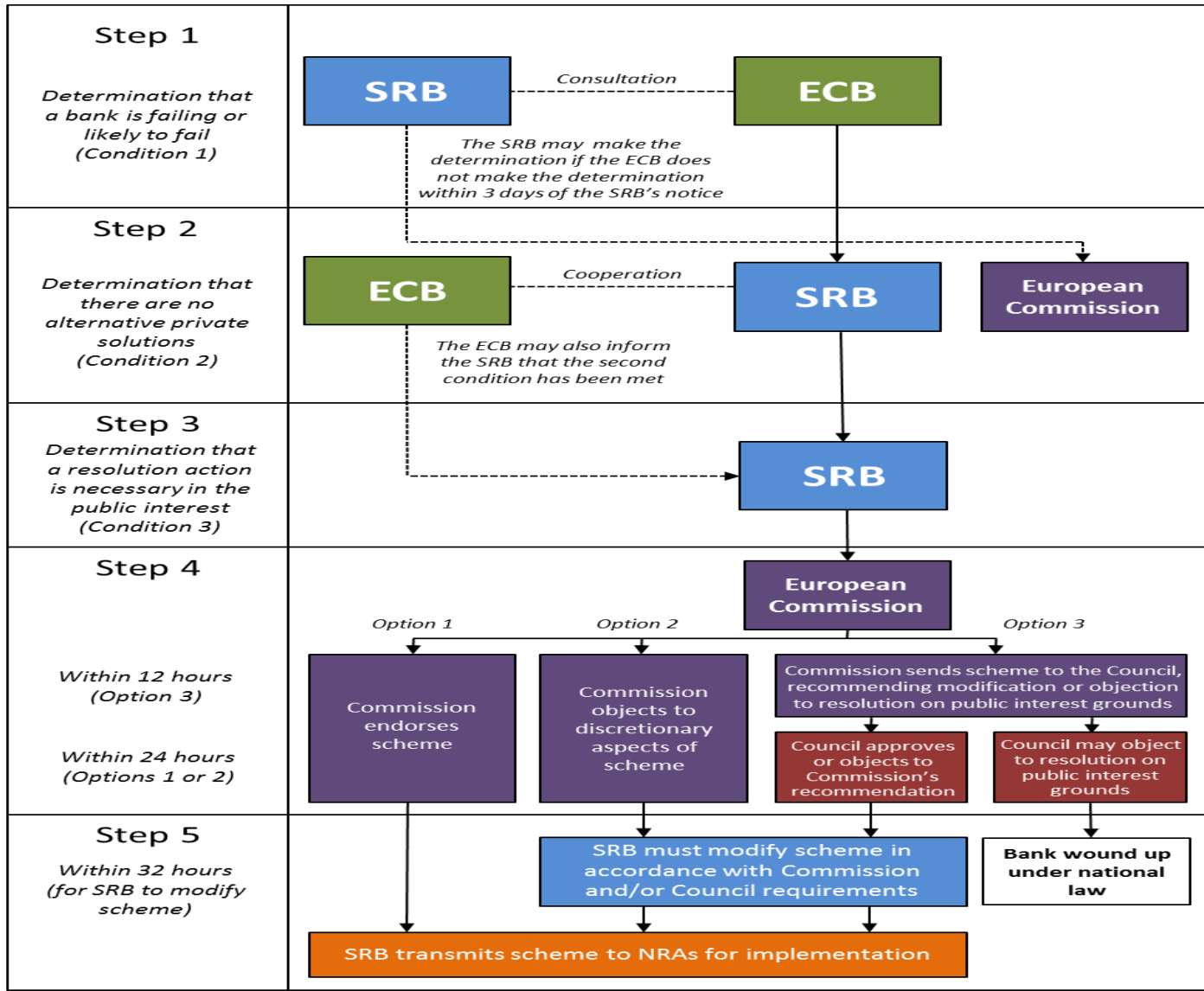
However, the resolution function is consistent with the supervisory function and should use all **synergies** between two intimately linked analyses.

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

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



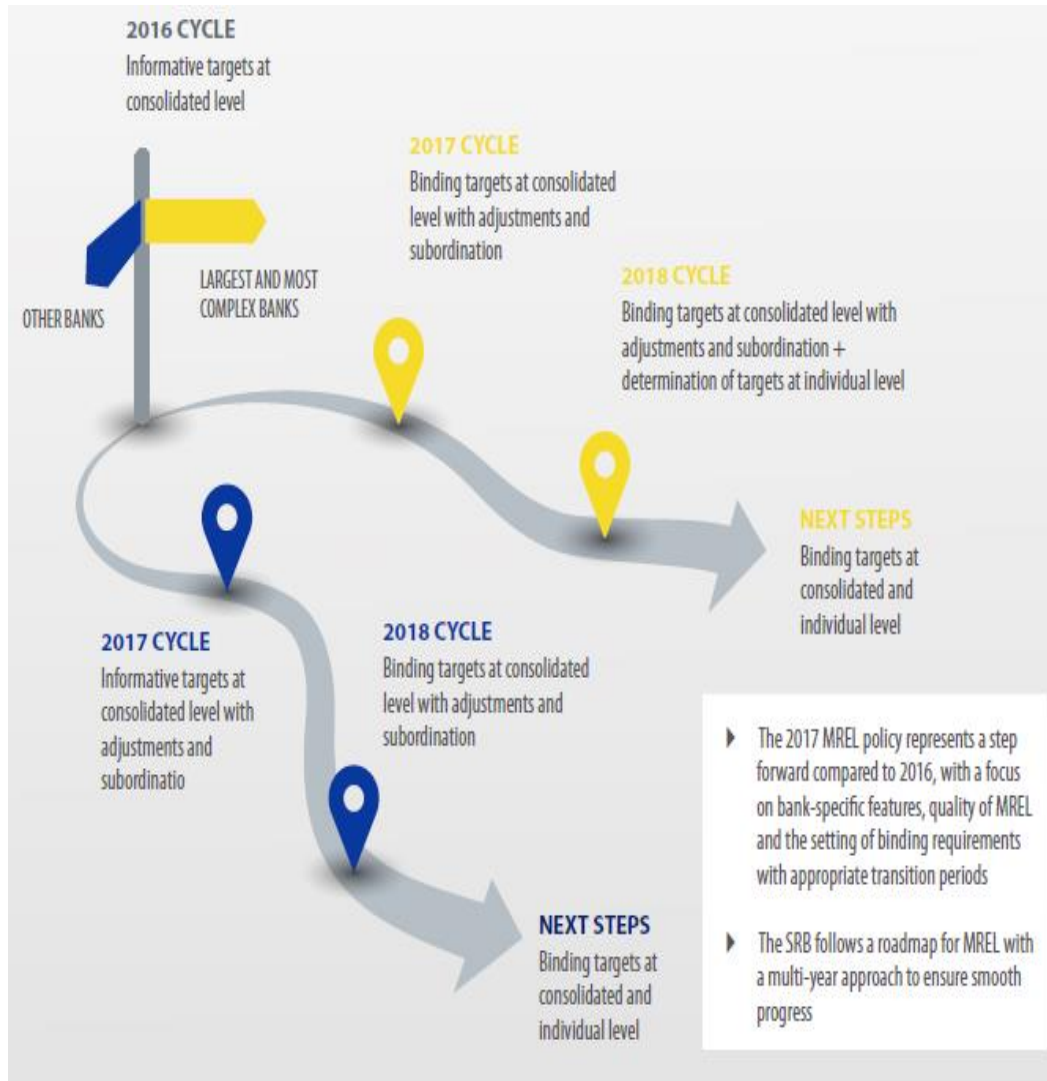
Source: Board's annual report

- 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**

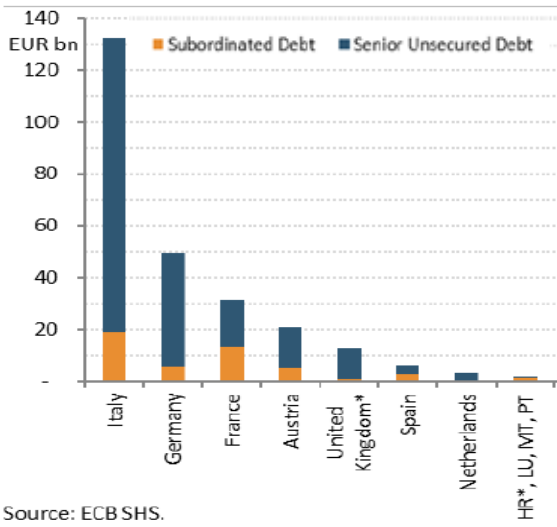


# 8.

## The bail-in: the preferred tool

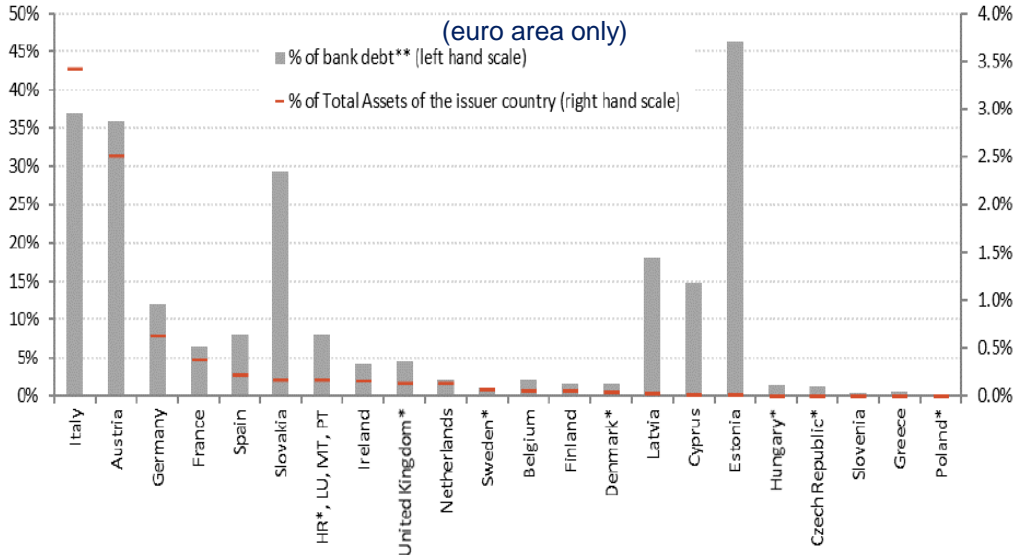
The Resolution Directive (BRRD) is based on **the leasehold logic** but reality sometimes hits the principles....

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



 <b>BNP PARIBAS</b>	Retail bank and specialised financial services Corporate and institutional services Presence in 73 countries
 <b>BPCE</b>	Bank of proximity and insurance Retail Bank Presence in 50 countries with strong anchoring in France with two cooperative networks
 <b>CRÉDIT AGRICOLE</b>	Bank of proximity Savings, insurance Specialised financial services Large customer Presence in 49 countries with strong territorial anchor
 <b>SOCIÉTÉ GÉNÉRALE</b>	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

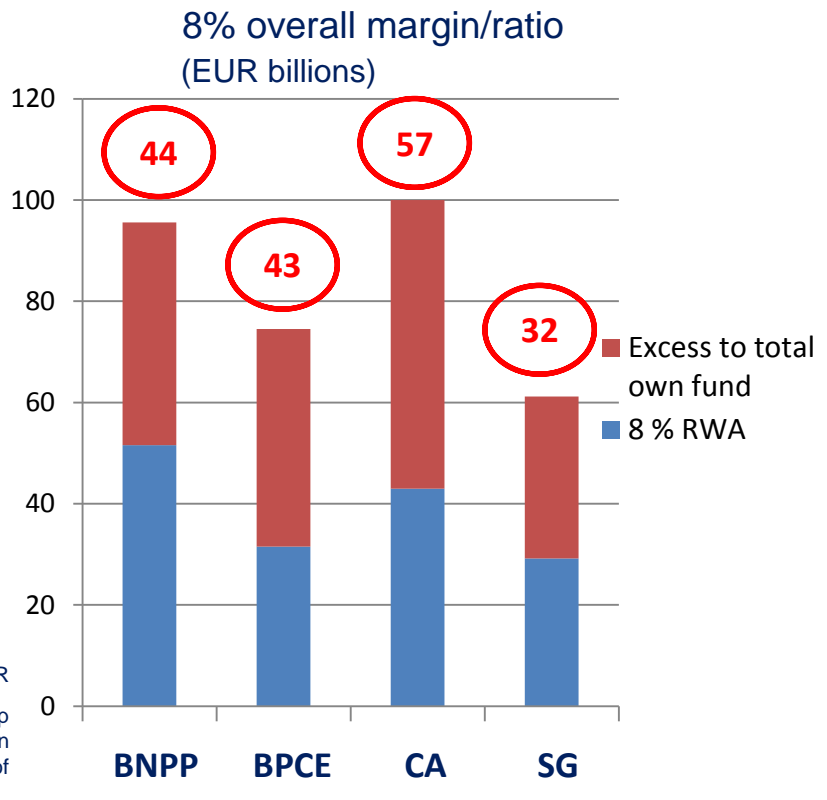
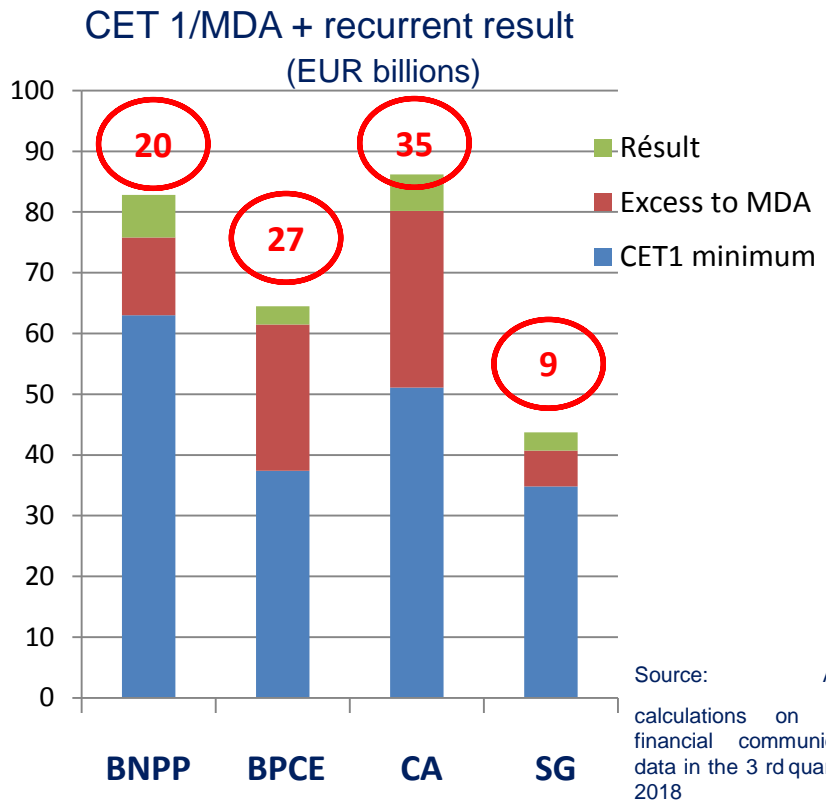
Is «distance» to resolution the same as for other types of banks?

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](http://www.acpr.banque-france.fr)

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