



EU framework for bank crises

Bank Recovery and Resolution Directive (BRRD)

Single Resolution Mechanism Regulation (SRMR)

These slides accompany the explanation of the acquis to Albania and North Macedonia and can only be used for that purpose. Their content is subject to further development of the acquis and interpretation by the Court of Justice of the European Union

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Key principles

Underlying considerations:

- Bank crises may lead to systemic implications
- Existing insolvency laws not equipped to deal with crisis of certain banks
- Incentive to bail-out and moral hazard

Objectives of the framework:

- Provide tools to facilitate orderly resolution of banks crises and limit systemic implications
- Protect depositors
- Reduce use of public resources (through use of resolution funds)

Overview of the framework

Two main legislative acts:

- Bank Recovery and Resolution Directive (BRRD)***
- Single Resolution Mechanism Regulation (SRMR)***

Several additional legal resources as well as guidance

State aid rules relevant

BRRD and SRMR

BRRD

- Applies in the whole EU - transposition
- Principles of resolution and resolution tools
- Safeguards and powers of national resolution authorities
- Measures to collect contributions for resolution funds and rules on use of the funds

SRMR

- Applies directly within the banking Union
- Creates the Single Resolution Board and Single Resolution Fund
- Coordination with BRRD provisions

Preparatory/preventive actions

Measures to be taken to prepare banks for a possible crisis

- **Recovery plans:** actions/measures to be taken in case of a significant deterioration of the financial conditions of the bank
- **Resolution plans:** actions to be taken in case of a bank's failure

In addition, competent authorities are equipped with early intervention powers

Triggering resolution

Conditions to initiate resolution

- **Bank is failing (or likely to fail)**
 - Capital issues
 - Liquidity shortage
 - Bank needs state aid to maintain its viability (with limited exceptions, including precautionary recapitalisation or precautionary liquidity)
- **No private measures or supervisory/early intervention measures available**
- **Public interest in triggering resolution**
 - Bank crises may put one of the objectives mentioned above at risk
 - Insolvency not adequate measure

Interactions between competent and resolution authority

Tools available in resolution

Four tools available:

- **Sale of business**
 - Transfer assets and liabilities to a purchaser
- **Asset separation tool**
 - Separate assets and liabilities
 - Transfer of certain A/L to Asset Management vehicle – so called *bad bank* – to sell at a later time or liquidate
- **Bridge bank**
 - Temporary bank controlled by the resolution authority
 - Continue critical functions of the resolved bank
 - *Parts not sold/transferred: put into insolvency*
- **Bail-in**
 - Write down/conversion of liabilities to cover losses and recapitalise the institution

Funding resolution

- *Key principle: minimisation of public resources*
 - Public support can be accessed only after bank has sufficiently contributed with private means to loss coverage/recapitalisation – through bail/in of 8% total liabilities
 - Avoid moral hazard
- *Sources available*
 - Resolution fund(s) based on contributions from the industry in proportion to their covered deposits
 - Alternative funding sources
 - Government financial stabilisation tools
- *State aid rules must be complied with*

SRMR – general principles

Rationale for the adoption of the Regulation

- More integrated institutional set up for Member States sharing the euro currency
- Single currency & enhanced economic/fiscal coordination within EMU due to EA sovereign debt crisis
- Delinking financial health of banks and sovereign
- Consistent application of common rules and standards for bank supervision and resolution

SRMR established the Single Resolution Board

Distribution of tasks between the Single Resolution Board and the National resolution authorities (NRAs):

- Board is directly responsible for cross-border and significant banks
- NRAs are responsible for all other banks (provided no use of the Fund is required).

Decisions on measures to be taken in resolution are made by the Board, but NRAs are involved

- Resolution planning as well as execution

SRMR created the Single Resolution Fund

- *Funds collected from industry contributions by NRAs in the Banking Union are transferred into the SRF*
- *Target level: 55 bn by 2024 (1% covered deposits in the BU)*
- *Fund is managed by SRB and can be used in resolution subject to compliance with the bail-in requirement (minimum 8% total liabilities)*
- *State aid rules must be complied with*