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# RESOLVABILITY OF BANKING UNION BANKS: **2021**

July 2022

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# Contents

## Resolvability of Banking Union banks: 2021

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Abbreviations	4
Key Findings	6
Next steps	8
<b>1. The SRB approach to resolvability</b>	<b>10</b>
<b>2. Preferred resolution strategy and tools</b>	<b>18</b>
<b>3. 2021 resolvability assessment results</b>	<b>24</b>
3.1. Main achievements on the work prioritised by the SRB	26
3.2. Work ongoing on other priorities and main work ahead	32
<b>4. Way forward</b>	<b>36</b>
Annex I	38

# Abbreviations

<b>AT1</b>	Additional Tier 1
<b>BRRD</b>	Bank Recovery and Resolution Directive
<b>BU</b>	Banking Union
<b>CBR</b>	Combined Buffer Requirement
<b>CET1</b>	Common Equity Tier 1
<b>ECB</b>	European Central Bank
<b>FSB</b>	Financial Stability Board
<b>FMI</b>	Financial Market Infrastructure
<b>G-SIIs</b>	Globally Systematic Important Institutions
<b>IRT</b>	Internal Resolution Team
<b>LAA</b>	Loss-absorption amount
<b>LRE</b>	Leverage Ratio Exposure Measure
<b>LSI</b>	Less Significant Institution
<b>MCC</b>	Market Confidence Charge
<b>MIS</b>	Management Information Systems
<b>MPE</b>	Multiple Points of Entry
<b>MREL</b>	Minimum Requirement for Own Funds and Eligible Liabilities

<b>NCNP</b>	Non-covered non-preferred
<b>NIP</b>	Normal insolvency proceedings
<b>NRA</b>	National Resolution Authority
<b>PIA</b>	Public Interest Assessment
<b>RCA</b>	Recapitalisation amount
<b>RPC</b>	Resolution Planning Cycle
<b>PRT</b>	Preferred Resolution Tool
<b>SAR</b>	Separability Assessment Report
<b>SI</b>	Significant Institution
<b>SoB</b>	Sale of Business
<b>SPE</b>	Single Point of Entry
<b>SRB</b>	Single Resolution Board
<b>SRM</b>	Single Resolution Mechanism
<b>SRMR</b>	Single Resolution Mechanism Regulation
<b>TLAC</b>	Total Loss-Absorbing Capacity
<b>TREA</b>	Total Risk Exposure Amount
<b>VRT</b>	Variant Resolution Tool

# Key Findings

**The Single Resolution Board's resolvability assessment and 'heat-map' for 2021 show that banks have made significant progress in the SRB's priority areas.**

This is the first time the Single Resolution Board (SRB) publishes its assessment of bank resolvability. The assessment is based on the work undertaken regarding the resolvability capabilities prioritised in 2020-2021 and on the information available to the SRB during the drafting phase of 2021 resolution plans until end-September 2021. The level of progress achieved by the banks in the 2021 resolution planning cycle has been reviewed against the phase-in of the *Expectations for Banks*<sup>1</sup>, which has to be completed by the end of 2023 to achieve full resolvability.

**Developing resolvability is a marathon, not a sprint.** The good progress shown here is the result of a continuous and iterative process, and an active dialogue between the SRB and the institutions under its remit in the Banking Union (BU). Over the past years, the SRB has put in place a clear framework of expectations and operational guidance, as well as a phased-in approach to achieving resolvability across the different areas. This has paid off in terms of measuring the progress towards resolvability, and to clearly identify and fill the residual gaps.

The resolution work started in response to the global financial crisis, when the EU agreed that an **orderly and effective resolution regime** is key to ensure that the impact of a failure of a bank on the real economy, the financial system and public finances is minimised. The Bank Recovery and Resolution Directive (BRRD) introduced a regime for the recovery and resolution of credit institutions and investment firms in the EU, and the Single Resolution Mechanism Regulation (SRMR) established the SRB in 2015 and entrusted it with applying the resolution framework for the banks and investment firms of the countries participating to the Banking Union.

Most of the SRB's banks (82% of the total number of SRB banks accounting for 97% of total exposure at risk) are earmarked for resolution. In contrast, liquidation is foreseen for 18% of the banks, which account for 3% of total exposure at risk, mostly made up of public development banks and smaller banks with a specific business model.

<sup>1</sup> See *Expectations for Banks*, Single Resolution Board, 1 April, 2020. The EBA has published in January 2022 its guidelines on improving resolvability for institutions and resolution authorities, taking stock of the best practices developed by EU resolution authorities, including the SRB.

**Large banks (G-SIIs and Top Tier banks) are the most advanced category, demonstrating sound progress on the resolution capabilities that the SRB has prioritised in 2020-2021. Banks have significantly improved their ability to absorb losses and recapitalise in the case of failure** by means of steady build-up of their Minimum Requirement for Own Funds and Eligible Liabilities (MREL) capacity, crucial to execute any bail-in strategy. The vast majority of banks met the intermediate MREL targets by 1 January 2022 and most of them already meet the final MREL target to be complied with at the end of the transition period, on 1 January 2024. Since end 2019, the shortfall against the final target has more than halved. Progress has also been observed in the areas of governance, loss absorption and bail-in execution, operational continuity, access to financial market infrastructures and communication planning. For instance, banks have taken significant actions to be able to execute bail-in at short notice, to maintain the continuity of their critical functions and core business lines, and to produce the information required for resolution action.

The SRB expects banks to achieve full resolvability by the end of 2023 – i.e. to meet the MREL targets according to the determined schedule and to put in place all operational capabilities supporting the execution of their strategy. This resolvability assessment will be performed each year, and the main results will be subsequently published.

## Next steps

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**The work in resolvability and having resolution plans ready for action does not stop.** The resolvability assessment is an iterative process over years and the SRB has therefore adopted a phase-in approach for implementing the Expectations for Banks by end-2023. Equally, regular updates are necessary to correspond with the changes in banks' business models. Banks' operations change, as does the economic outlook, therefore the work in resolvability and having resolution plans ready for action does not stop. The SRB will continue its work with banks to manage failures, in order to protect financial stability and public funds.

**The SRB monitors closely the fulfilment of the resolvability conditions and requests banks to address any significant shortcomings within 12 months.** In any case, where substantial shortcomings would lead to the determination of a substantive impediment, a formal procedure will start, asking banks to take the necessary remedial actions. Our monitoring will be further stepped up in the near future, with the use of more testing, deep dive exercises and on-site inspections.

For the current year, the SRB's priorities remain the continued build-up of adequate MREL capacity; the enhancement of banks' capabilities to manage liquidity and funding in resolution; further progress on separability of assets and business reorganisation plans; and additional work on readiness of management information systems. As usual, banks have also received individual working priorities for the on-going resolution planning cycle and effective implementation will continue.

The priorities for 2023 will be communicated to banks in Q3 2022. They will include finalising the work on liquidity and other remaining capabilities, as well as ensuring full compliance with the final MREL targets.

**Going forward, banks will need to provide evidence that they keep their resolvability capabilities operational at all times to effectively support resolution action,** if need be. To this end, banks will be requested to take a holistic view for testing their resolvability conditions every year, according to a multi-annual work programme. The SRB's proactive testing exercises will ensure that banks' resolvability capabilities are adequate and that any necessary adjustments are addressed in a timely fashion.







1

The SRB approach  
to resolvability

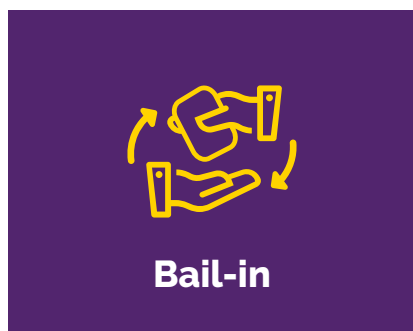
The SRB started its work on resolvability in 2015. Since then, it has successfully developed and enhanced resolution plans with dedicated bank-specific strategies and tools for all the banks under its remit. The focus is on operationalising the main strategies and tools, with the Expectations for Banks setting out a roadmap for the milestones that banks are expected to reach in order to be fully resolvable by the end of 2023. MREL is a key component of those expectations.

**The SRB develops resolution plans to prepare for potential failures of banks. Continuous resolvability assessment is a key component for measuring the credibility and feasibility to either liquidate the bank under normal insolvency proceeding or to resolve it by applying resolution tools.**

For each bank, the SRB assesses and selects which strategy is the most suitable to deal with its failure. It first looks at whether it would be feasible and credible to wind up the bank under normal insolvency proceedings and investigates the presence of a “public interest” (Public Interest Assessment, PIA<sup>2</sup>). If the PIA is positive, i.e. it is considered in the public interest that the bank be resolved, the SRB defines a preferred resolution strategy, determining, depending on the banks’ business model and organisation, whether the resolution action would be applied to a single (SPE) or multiple entities within the group (MPE), and the resolution tools to be applied.

<sup>2</sup> <https://www.srb.europa.eu/en/content/public-interest-assessment-0>.

**Figure 1.** Resolution tools



The bail-in tool **provides for the write down and conversion of equity and debt**, placing the burden on shareholders and creditors rather than on taxpayers.



The sale-of-business tool **allows for the total (share deal) or partial (asset deal) transfer** of the distressed bank's business to one or more purchasers.



The bridge institution tool **enables the transfer of part or all of the shares or assets, rights and liabilities to a temporary entity** that can be disposed in order to separate it from the rest, while preserving the critical functions of the failing bank.



The asset separation tool **can transfer assets, rights, or liabilities from a failing bank or a Bridge Bank to an Asset Management Vehicle (AMV)** with the aim to maximise their value for an eventual sale, or an orderly wind-down. This tool cannot be used as a standalone tool and should be combined with one of the other three.

Orderly resolution requires effective application of the resolution tools envisaged for each bank. **This in turn requires banks to have in place sufficient financial resources and adequate operational capabilities.**

- ▶ Banks should maintain the minimum requirements for own funds and eligible liabilities (MREL), allowing them to absorb losses and/ or recapitalise in a crisis situation. The SRB policy regarding MREL derives from the European legislation (BRRD, SRMR, CRR and CRD) as modified in 2020 with the Banking Package<sup>3</sup>. The first SRB policy was published in 2016 and the last update was released in 2022<sup>4</sup>.
- ▶ Banks should achieve full resolvability for credible and feasible implementation of a resolution strategy. The SRB policy regarding *Expectations for Banks*, published in 2020, describes best practices and sets benchmarks for assessing resolvability. The SRB has also released additional guidance<sup>5</sup> specifying in more detail how the banks have to fulfil the main resolvability conditions.


**Becoming resolvable requires banks to dedicate significant time and multi-disciplinary resources for the development and maintenance of such capabilities over the years.** Therefore, the SRB has adopted a phase-in approach for their implementation, ending in 2023 (Table 1). To achieve resolvability in line with the *Expectations for Banks*, the SRB sets and communicates bank-specific and common priorities each year.

<sup>3</sup> The Banking Package implements at the European level further material elements of the Basel III framework, which was finalised at the end of 2017, by way of amendments to the CRR (CRR II) and CRD (CRDV). It also amends the Recovery and Resolution Directive and Regulation (amendments to Directive 2014/59/EU ("BRRD") and Regulation 806/2014 ("SRMR"), BRRD II and SRMR II). See "[MREL Policy under the Banking Package](#)", Single Resolution Board, 20 May 2020




<sup>4</sup> See updated "[Minimum Requirement for Own Funds and Eligible Liabilities \(MREL\) Policy under the Banking Package](#)" published on 26 May 2021 and "[Minimum Requirement for Own Funds and Eligible Liabilities \(MREL\)](#)" published on 8 June 2022.

<sup>5</sup> [Operational Guidance on OCIR](#), [Operational Guidance for FMI Contingency plans](#), [Operational guidance on Bail in implementation](#), [Guidance on liquidity and funding in resolution](#), [Operational guidance for banks on separability for transfer tools](#), [SRB Framework for Valuation and Data Set](#)

**Table 1** Timeline for the phase-in of the Expectations for Banks

Expectations for Banks Dimensions	Bank deliverable and context	Resolution planning cycle (RPC)
 <p><b>1. Governance</b></p>	<ul style="list-style-type: none"> <li>• Governance arrangements supporting resolution preparedness</li> </ul> <p><i>Appropriate governance arrangements were part of the minimum expectations communicated to banks in previous priority letters. Detailed expectations related to governance with regard to other dimensions (e.g. operational continuity, access to FMIs, MIS) may be communicated in future cycles.</i></p>	Ongoing
 <p><b>2. Loss absorbing and recapitalisation capacity</b></p>		
a. MREL	<p><i>Banks are expected to meet the MREL requirements in line with the legal framework, the SRB MREL policy and as specified in individual decisions, taking into account the transitional periods.</i></p>	<p>Intermediate MREL target by 1 January 2022</p> <p>Final MREL target by 1 January 2024<sup>6</sup></p>
b. Operationalisation of bail-in	<ul style="list-style-type: none"> <li>• Bail-in playbooks</li> </ul> <p><i>Banks are expected to prepare full bail-in playbooks covering internal and external bail-in execution. Banks have already been asked to work on bail-in playbooks, as communicated in previous priority letters.</i></p>	2020 -2021
 <p><b>3. Liquidity and funding in resolution</b></p>	<p><i>Banks are expected to work on liquidity as a priority as from the 2021 resolution planning cycle, starting with the ability to estimate liquidity and funding needs in resolution. Going forward, banks are expected to demonstrate capabilities to measure, report and forecast their liquidity position in resolution, as well as to identify and monitor assets that can be used as collateral to obtain funding in resolution.</i></p>	2021-2023
 <p><b>4. Operational continuity and access to FMI services</b></p>		
a. Operational continuity	<ul style="list-style-type: none"> <li>• Identification and mapping of interconnectedness and assessment of operational continuity risk.</li> <li>• Actions to mitigate risks to operational continuity and measures to improve preparedness for resolution.</li> </ul> <p><i>Banks have already been asked to work on operational continuity arrangements, as communicated in previous priority letters. The expectations on operational continuity arrangements will first support the continuity of critical functions before extending to other necessary services, as needed.</i></p>	<p>Ongoing</p> <p>2020-2023 (critical functions prioritised)</p>

<sup>6</sup> In line with the legislation, for some entities, the transition period may differ and follow a determined schedule.

Expectations for Banks Dimensions	Bank deliverable and context	Resolution planning cycle (RPC)
b. Access to FMIs	<ul style="list-style-type: none"> <li>Identifying, mapping and assessing of dependencies <i>Banks have been requested to provide the FMI Report yearly since 2017.</i></li> <li>FMI contingency plan <i>Banks have been asked to develop FMI contingency plans in previous priority letters. Such plans were expected to cover, at a minimum, five key FMI service providers in 2020 (prioritising critical providers that may take risk management measures).</i></li> </ul>	<p>Ongoing</p> <p>2020-2023 (critical functions prioritised)</p>
 <p>5. Information systems and data requirements</p>	<ul style="list-style-type: none"> <li>MIS for bail-in execution <i>Banks are asked to prepare the MIS to extract in a timely and complete fashion the necessary liability data for bail-in. All banks were expected to demonstrate progress in 2020/2021 and establish the MIS capabilities to deliver the liability data for bail-in at short notice by end of 2022. This capability will be tested and the results will be assessed by the resolution authorities.</i></li> <li>MIS for valuation <i>The work on MIS for valuation was a priority in 2021. In 2020, according to individual priorities, certain banks conducted a gap assessment and subsequently produce a workplan to show substantive progress going forward. In principle, all banks are expected to have MIS capabilities for valuation by the end of 2023.</i></li> </ul>	<p>2020-2022</p> <p>2020/2021-2023</p>
 <p>6. Communication</p>	<ul style="list-style-type: none"> <li>Communication plan <i>Communication capabilities in resolution were part of the minimum expectations communicated to banks in previous priority letters.</i></li> </ul>	<p>Ongoing</p>
 <p>7. Separability and restructuring</p>	<ul style="list-style-type: none"> <li>Separability and business reorganisation measures <i>Banks are expected to develop these capabilities, where necessary and proportionate, having regard to the yearly working priorities that will be communicated in the priority letters.</i></li> </ul>	<p>2021-2023 Bank-specific</p>



**The SRB has put in place a consistent process for assessing and monitoring how well banks are progressing in implementing the resolvability conditions.**

The process is integrated in each planning cycle,<sup>7</sup> where the SRB regularly engages with banks to gather information and to discuss the progress made. The results of the resolvability assessment are summarised in a 'heat-map' tool.<sup>8</sup> This tool defines harmonised horizontal criteria for:

- ▶ Assessing banks' progress on resolvability conditions that have been already implemented. The heat map considers four progress levels, ranging from insufficient progress to best practice; and
- ▶ Assessing the impact of each resolvability condition on the feasibility of the resolution strategy.

The combined assessment of the above criteria shows, in a consistent way, whether banks have made sufficient progress in the areas that are most critical for the successful execution of their resolution strategy and support the SRB in identifying potential impediments to resolvability and taking corrective action where needed.

<sup>7</sup> Further details on the RPC activities are available on the SRB website:  
<https://www.srb.europa.eu/en/content/resolution-planning-cycle-rpc-booklet>

<sup>8</sup> See "[SRB's new heat-map approach](#)", Single Resolution Board, 22 July 2021.







# 2

## Preferred resolution strategy and tools

The Single Point of Entry strategy and bail-in tool are the most widely chosen features of resolution planning at the SRB, representing 80% of the plans. The sale-of-business constitutes the second most preferred resolution tool. A dedicated annex displays the equivalent metrics for the LSIs under the national resolution authorities' remit.

**For the 120<sup>9</sup> banks under its direct remit in 2021, the SRB developed resolution plans<sup>10</sup> that define credible and feasible strategies so that banks can fail in an orderly manner. Resolution is the preferred course of action at the planning stage.**

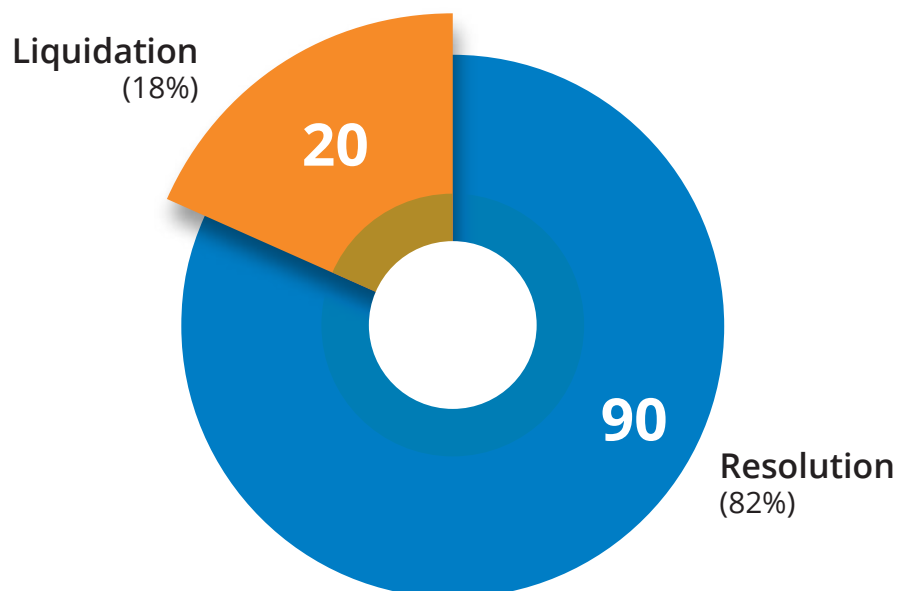
The majority of banks are too large or systemically important to go into insolvency<sup>11</sup> (i.e. normal insolvency proceedings) without financial stability effects and/or provide banking services that are critical for the economy and not substitutable in an appropriate timeframe. The banks earmarked for resolution represent 82% of the total and account for 97% of the total exposure at risk (Total Risk Exposure Amount, TREA, cf. fig. 2). Liquidation is foreseen for 20 banks (18%) which account for 3% of TREA, mostly made up of public development banks and smaller banks with a specific business model.

<sup>9</sup> Banks under the SRB's remit

<sup>10</sup> The number of resolution plans in 2021 planning cycle is lower than the number of banks under the SRB remit since several institutions are subsidiaries of another banking group under the direct remit of the SRB for which one joint plan is provided. Furthermore, it excludes banks under the SRB remit for which the SRB acts as a host resolution authority (so-called 'host cases') and therefore only contributes to the drafting of resolution plans.

<sup>11</sup> See the presence of a "public interest" mentioned supra.

**Figure 2.** Banks earmarked for resolution or liquidation at the planning stage



**In general, resolution action is foreseen at the level of the consolidating parent entity.** According to the Guidance<sup>12</sup> from the Financial Stability Board (FSB) and EU law<sup>13</sup>, there are two approaches to determine resolution strategies – single point of entry (SPE) and multiple point of entry (MPE). An SPE strategy implies that the resolution takes place at the level of the parent entity. Losses of the subsidiaries must be covered by the parent entity, leaving operating critical subsidiaries (located in the same or other jurisdictions) to pursue their operations unaffected by the resolution measure. By contrast, the adoption of an MPE strategy implies that resolution action may be applied to more than one operationally and financially independent entity within the group. To select the preferred resolution strategy of each banking group, the SRB assesses the banking model, geographical footprint, and level of centralisation and/or interconnections between group entities (fig. 3).<sup>14</sup> The vast majority of the resolution groups follow an SPE strategy (fig. 4).

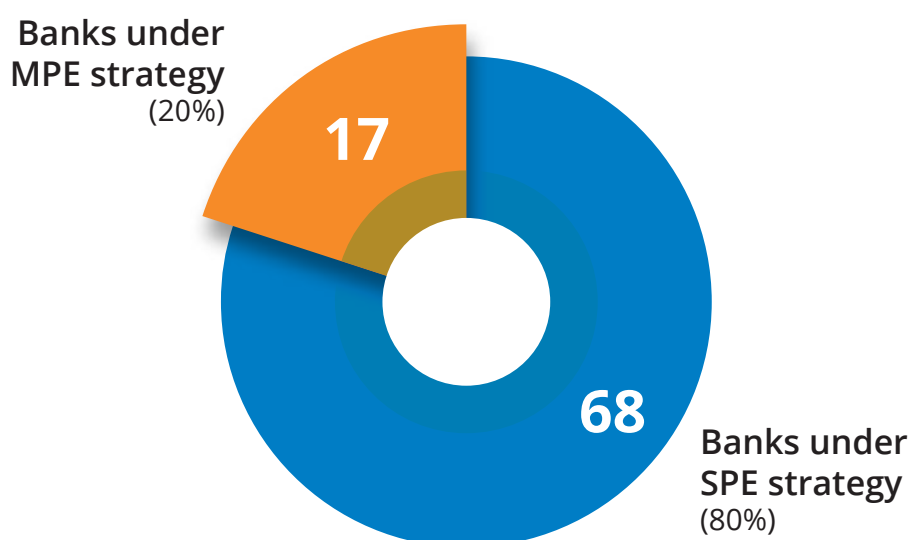
<sup>12</sup> FSB Guidance on developing effective resolution strategies, July 2013 (FSB).

<sup>13</sup> Recital 80 Directive 2014/59/EU (BRRD)/ Recital 84 Regulation (EU) 806/2014 (SRMR), Recital 4 Directive (EU) 2019/879 (BRRD2)/ Recital 4 Regulation (EU) 2019/877 (SRMR2).

<sup>14</sup> Article 25(1) DR 2016/1075 – the strategy is assessed “given the structure and business model of the bank”. See also FSB Guidance 1.2 – the choice of strategy needs to take account of the existing structure, business model and particular characteristics.

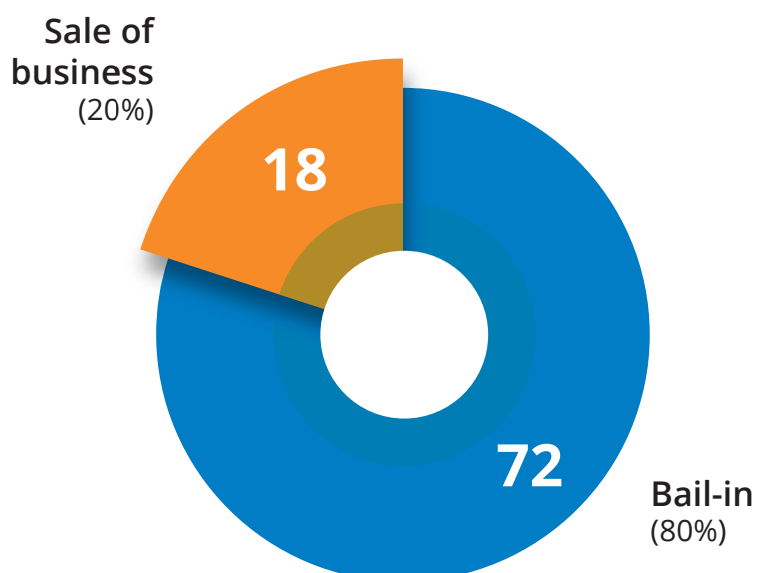
**Figure 3.** Factors determining the resolution approach

Visual showing tendencies towards SPE/MPE (not all may apply)

**Figure 4.** Single Point of Entry versus Multiple Point of Entry in SRB resolution plans

**Bail-in is the most commonly envisaged resolution tool (fig. 5).** As mentioned above, the SRB can resort to four main tools in resolution. Bail-in and sale-of-business are currently the two main tools envisaged as preferred in resolution plans. The SRB also assesses whether one or more variant strategies need to be considered, to address circumstances in which the preferred strategy would not be feasible or credible. Sale-of-business or a bridge institution are often used as a variant consideration, in combination with write-down and conversion of capital instruments.

**Figure 5.** Preferred resolution tools at the planning stage









3

**2021 resolvability  
assessment results**



The outcome of the 2021 SRB resolvability assessment shows that banks have made significant progress on the work prioritised by the SRB and therefore aligned to the phased-in approach, in accordance with the timeline set by the Expectations for Banks guidance. On the whole, with the work ongoing, they are on track to achieve full resolvability by the end of the transition period, in 2023. G-SIIs are the most advanced category of banks.

Banks have improved their ability to absorb losses and recapitalise. This is shown, for all banks, by the steady build-up of the MREL capacity, crucial to execute any bail-in strategy. The majority of the banks already meets their final MREL target. Where banks still need to issue, a solid funding plan is being implemented, maintained and monitored. Almost all entities comply with their binding intermediate targets (2022) and the SRB is strictly monitoring the few shortfall cases. The SRB has also set individual MREL targets for most of the banking groups' subsidiaries and is in progress of completing the enlargement of the scope of non-resolution entities subject to the requirements. All G-SIIs meet their TLAC and/ or MREL requirements.

Large banks are the most advanced on all prioritised resolvability conditions.

## 3.1. Main achievements on the work prioritised by the SRB

All banks with a resolution strategy need to demonstrate that they are able to absorb losses and recapitalise to avoid recourse to public funds. Therefore, as shown in the timetable for the phase-in of the *Expectations for Banks* (Table 1 above), the SRB has geared banks' efforts towards strengthening their **loss absorbing and recapitalisation capacity**, first and foremost through the build-up of **MREL**, while taking the necessary measures for the swift **execution of the bail-in tool** in a crisis. This includes making sure that their internal **governance, processes** and **communication** systems can readily support the execution of the bail-in tool.

The effective application of the bail-in tool must be accompanied by measures ensuring that the banks' critical functions and core business lines are maintained operational during and post-resolution to avoid disruption in the financial system and to safeguard financial stability within the Member States. Therefore, banks also need to demonstrate they have taken measures to ensure the **operational continuity** of their critical functions and core business lines throughout resolution, including contingency plans with **FMI service providers** they rely upon.

Figure 6 illustrates the progress made by banks on the capabilities they were expected to implement at the time of the resolvability assessment exercise (covering the period till end-September 2021, with the phase-in of the resolvability conditions recalled in Table 1). This progress is assessed using the SRB Resolvability Heat-map, which defines four impact and four progress levels, ranging from insufficient progress to best practice. The conditions related to loss-absorbing capacity, bail-in recognition, governance and communication appear as the most advanced ones for all the banks.

**Figure 6.** Progress made by type of bank on the resolvability conditions prioritised by the SRB**Classification:**

- Progress Level 3: Best practice
- Progress Level 2: Substantial progress where the main capabilities have been demonstrated
- Progress Level 1: Partial progress where some of the main capabilities remain to be demonstrated
- Progress level 0: Insufficient progress where the main capabilities remain to be demonstrated

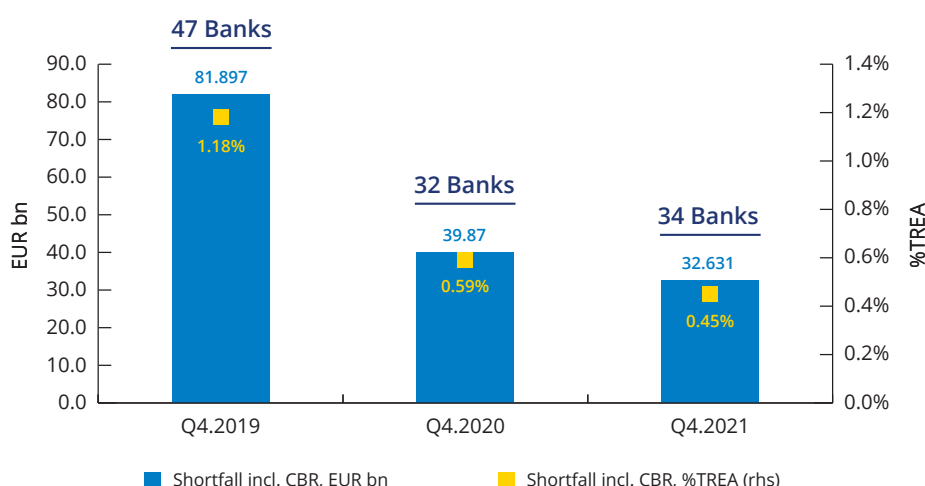
- G-SII
- Top Tier
- Others

### 3.1.1 Bail-in execution

#### MREL<sup>15</sup>

The successful execution of bail-in relies on sufficient MREL capacity. EU law (BRRD 2) has set two targets to be met by EU banks: the first one (intermediary) by 1 January 2022 and the second one ('final') by 1 January 2024<sup>16</sup>. As of Q4 2021, most banks under the SRB's remit already met their final target including the capital buffers (CBR). The aggregated shortfall<sup>17</sup> amounted to EUR 32.6 bn, showing a decrease by more than 50% since end-2019 (Figure 7). For the 34 banks, those shortfalls represented 0.45% of the overall TREA of the system and accounted for 3.51% of their own TREA (Figure 8). These banks are mostly mid-sized banks with only a few classified as Top Tier. The SRB is closely monitoring MREL compliance to ensure that all banks will meet the final MREL targets according to their determined schedule.

**Figure 7.** MREL shortfalls of resolution entities (towards their 2024 targets)\*



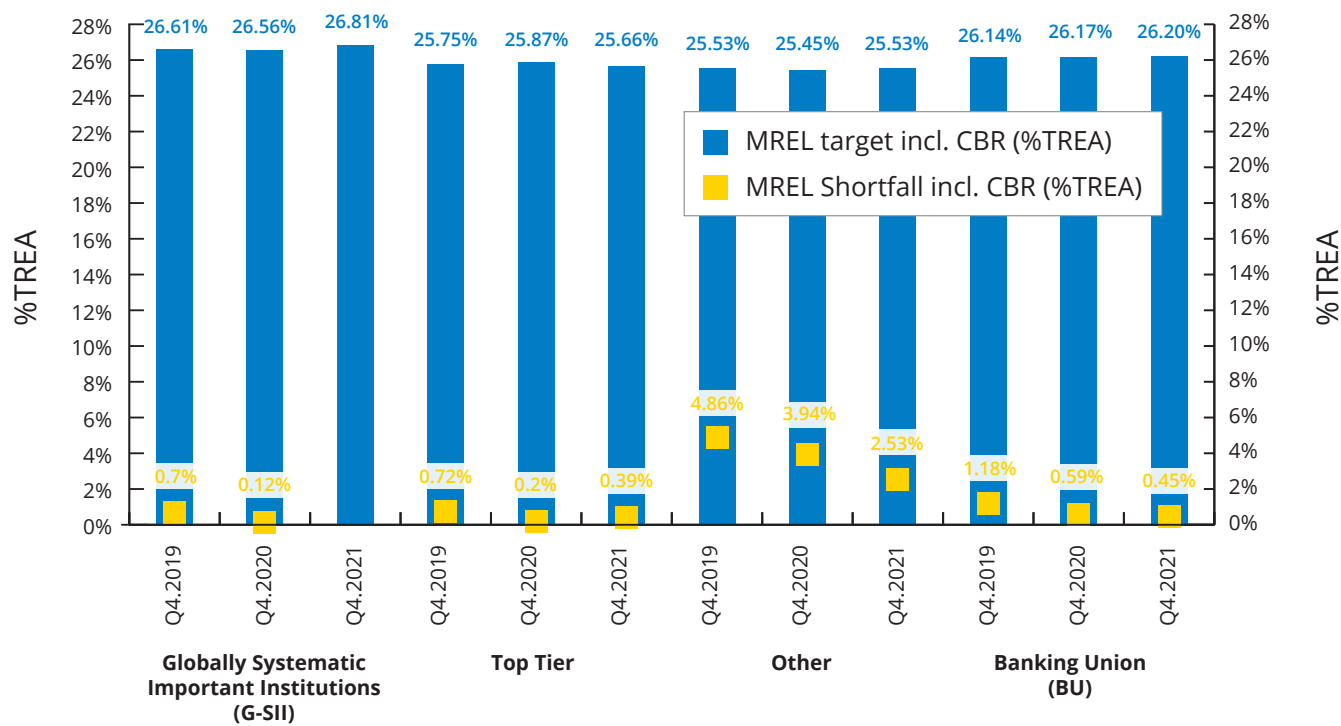
*The number above the bar represents the number of entities in shortfall. Out of 47 banks in shortfall in Q4.2019, 17 banks fully closed it over the last two years and two, instead, entered into shortfall.*

<sup>15</sup> All MREL numbers are computed including the combined buffers requirement (CBR).

<sup>16</sup> In line with the legislation, for some entities, the transition period may differ and follow a determined schedule.

<sup>17</sup> For further information, please see the SRB's quarterly [MREL dashboards](#).

**Figure 8.** Evolution of MREL targets and shortfalls of resolution entities by type of bank (2024 targets), %TREA



Almost all entities comply with their binding intermediate targets (2022), and the SRB is strictly monitoring the very small number of outliers.

The MREL policy recognises that a feasible and credible resolution strategy may involve the sound placement of loss-absorbing capacity in all parts of the resolution group. The SRB has set individual MREL targets for most of the individual subsidiaries (so-called non-resolution entities) and has enlarged the scope of non-resolution entities on a yearly basis. For more detailed MREL data, the SRB releases a quarterly MREL dashboard on its website.

### Other bail-inable liabilities, playbooks and cross-border aspects

Banks have progressed in identifying other bail-inable liabilities to absorb losses and permit their recapitalisation post resolution. In order to support the operational execution of the bail-in tool, all banks have developed playbooks describing the steps they would undertake to effectively execute bail-in at short notice, including how their governance and communication arrangements can be readily activated. In 2020, all banks were expected to deliver a first version of their bail-in playbook, covering internal and external processes for execution of bail-in on instruments issued in domestic and non-domestic markets. By year-end 2021, a more advanced version of the playbook was expected, covering other liabilities eligible for bail-in. These documents are currently being evaluated and progress in this area will be reflected in the 2022 heat-map exercise, which will take place by the end of the year.

One of the main areas that remains to be further documented in bank playbooks relates to internal loss transfer mechanisms. Banks will also have to report the results of testing the operational capabilities set out in their playbooks. The SRB has reflected its expectations in these areas in the updated guidance on bail-in playbooks<sup>18</sup>.

In addition, cross-border banks have taken significant steps to ensure contractual recognition of the bail-in tool and that resolution powers can effectively be applied.

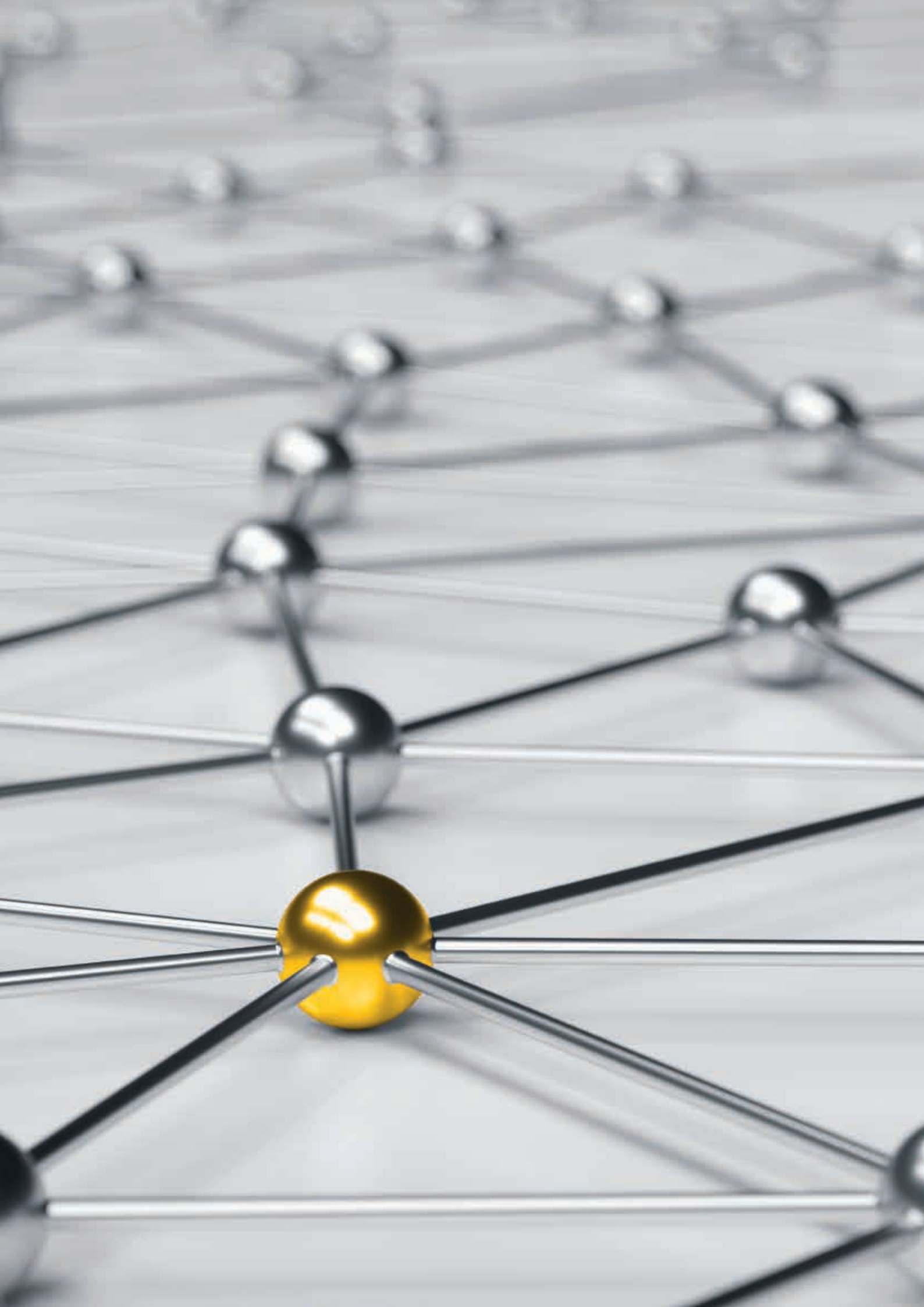
G-SIIs stand out in terms of progress, as they have started to implement resolvability conditions at an earlier stage in line with international standards. This is particularly the case as regards the build-up of their loss-absorbing and recapitalisation capacity and the development of internal loss transfer mechanisms.

## 3.1.2 Operational continuity and access to FMIs

On the whole, banks have advanced well in their work to maintain the continuity of their critical functions in resolution. For instance, they have made their critical service contracts more “resolution-resilient” so that they will not be terminated ahead of or in the middle of a resolution action. They are also ensuring their management information systems allow swift access to critical information.

In the context of estimating their funding needs in resolution by end-2021 (see section 3.2 below), banks are expected to further assess heightened liquidity requirements from their FMIs in a resolution and document how the contingency plan addresses them.

<sup>18</sup> See [Operational Guidance for Bail-in Playbooks \(June 2022\)](#)



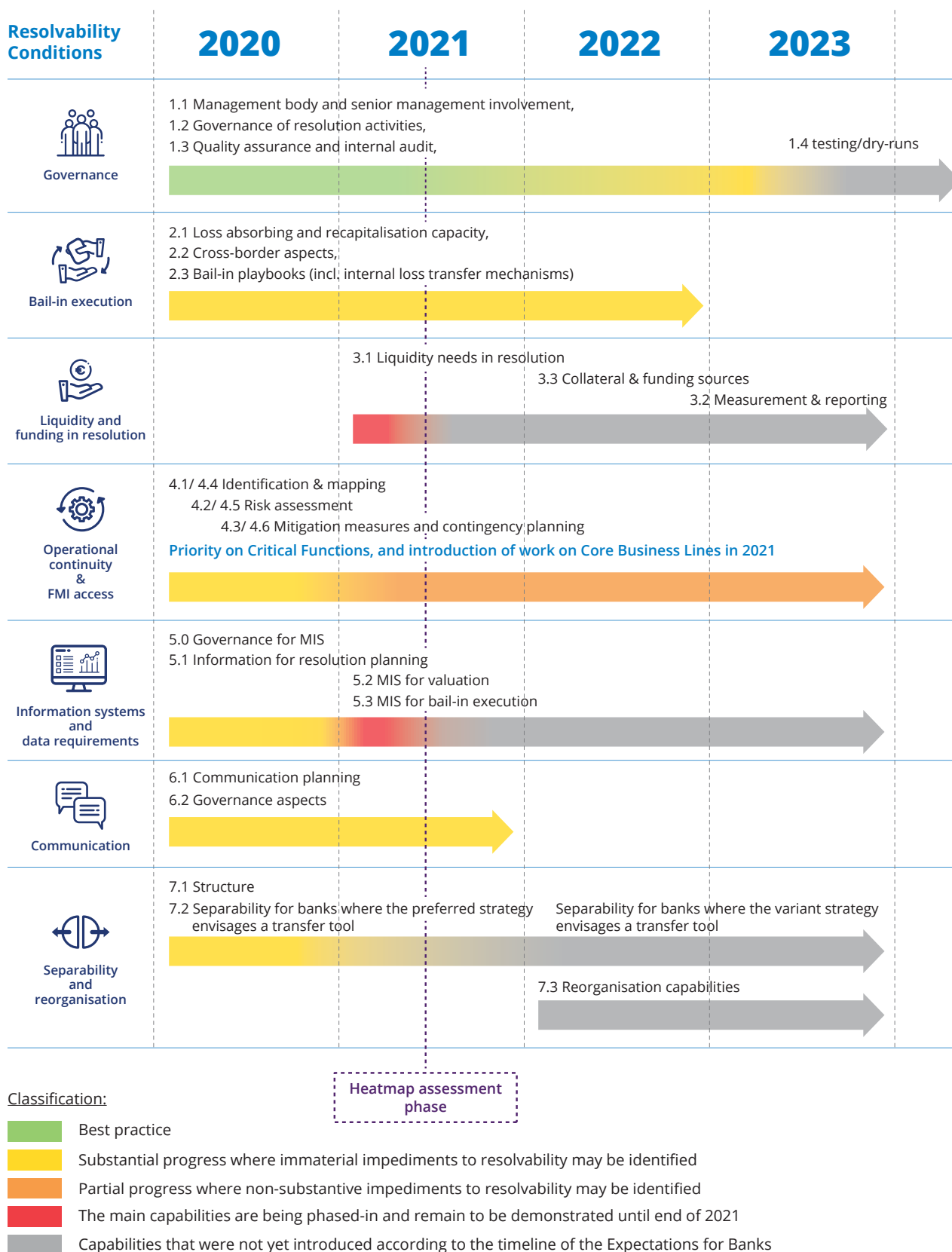
## 3.2. Work ongoing on other priorities and main work ahead

The 2021 heat-map provides an overview of the progress achieved until end of Q3 2021. But there clearly remains work to be completed in line with the phasing in of the Expectations for Banks. The progress towards meeting the phased-in priorities for 2022 and 2023 will be reflected in the subsequent heat-map exercises.

Figure 9 summarises both the level of progress at the time of the 2021 heat-map assessment (end Q3 2021) and those resolvability conditions that remain to be implemented by end-2023. Compared to Figure. 6, it provides the full picture of resolvability conditions of the *Expectations for Banks*, and the phase-in period of the principles underlying each condition as detailed in Table 1.



**Figure 9.** 2021 Heat-map outcomes on all resolvability conditions of the Expectations for Banks, having regard to the timetable of their phase-in



### Liquidity in resolution

As concerns liquidity, banks are expected to complete their work by the end of 2023. By the time the SRB's heatmap assessment took place (Q3 2021), most banks have been able to identify the main drivers of their liquidity needs in resolution, as well as the main entities acting as a liquidity provider or receiver. The estimation and quantification of funding needs in resolution has been delivered towards the end of 2021 and will therefore be reflected in the 2022 heat-map assessment. By the end of 2022, banks are requested to demonstrate they have identified sufficient liquidity sources and collateral that can be mobilised in resolution. Progress made in this area will then be reflected in the heat-map assessment exercise conducted in 2023.

### MIS capabilities

Finally, by the end of 2023, banks will need to demonstrate the capability of their management information systems to swiftly assess, project and report their liquidity needs and sources of liquidity in resolution.

Banks have substantially progressed in improving their MIS for producing the resolution planning information, including the LDR data, templates on critical functions, FMIs information. Banks have also worked on automating the mapping of their service catalogue, repository of service contracts and repository of FMIs, in order to have all necessary information at hand in case of resolution. However, this work is still ongoing for most banks.

By the end of 2021, banks were expected to conduct an assessment of their MIS capabilities for producing the **dataset for bail-in execution** and the **dataset for conducting a valuation**. By the time of the 2021 heat-map assessment, more than half of the banks had already delivered their self-assessments, while the other half, reporting at year-end, will be reflected in the 2022 heat-map exercise.

In the course of the next resolution planning cycles, the SRB will closely monitor how well banks are addressing any identified shortcomings to their MIS capabilities, as a result of the dry-runs planned for most banks as from this year. The SRB will further engage with banks to broaden the scope of their testing exercises going forward.

**Structure, separability and reorganisation**

Banks with significant trading book activities, starting with G-SIIs, took measures to ensure that trading activities can be wound-down in an orderly way in resolution.

By the end of the current year, all banks for which the preferred tool is open-bank bail-in are expected to demonstrate restructuring and re-organisation capabilities post-resolution. All banks for which the preferred strategy is sale-of-business are requested to demonstrate the feasibility to separate portfolios envisaged for a transfer, and to deliver a transfer playbook. For most of these banks, the work on separability analysis had already started in previous years, and will be further deepened in 2022/23.

A modern staircase with white rectangular steps and dark metal railings is set against a textured, light-colored wall. The staircase leads upwards and to the right. A large yellow rectangular overlay is positioned in the lower-left quadrant of the image, containing the number '4' and the text 'Way forward'.

# 4

Way forward

The first year of banks' implementation of the Expectations for Banks has brought significant progress on resolvability. In 2022 and 2023, banks are expected to continue making progress on the remaining phased-in principles. The SRB will continue to closely monitor the banks' implementation of the remaining resolvability capabilities. In addition, the SRB will work on the further operationalisation of resolution strategies, by introducing more testing and dry-runs, to increase resolution-readiness.

Banks' further progress will be assessed in the 2022 heat-map exercise, conducted in the course of Q3 of the same year and whose results will be compiled in Q1 2023. The SRB will continue publishing the results of these annual resolvability assessment exercises in order to indicate the aggregated results and the general state of play in building resolvability in the Banking Union.

# Annex I

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## Less Significant Institutions under the remit of National Resolution Authorities: 2021

**The SRB performs an oversight function for LSIs resolution planning and decisions provided by NRAs.** Before NRAs adopt resolution measures (e.g. resolution plans, MREL targets, resolution schemes), they formally consult the SRB. The overall objective of the SRB LSI oversight function is to ensure consistency between the SIs and LSIs within the same country, and among LSIs with similar business models across the Banking Union. LSIs resolution plans' coverage has made significant progress in the last four years; in 2021 a resolution plan was drafted for around 93% of the 2085 banks for which a plan was requested.

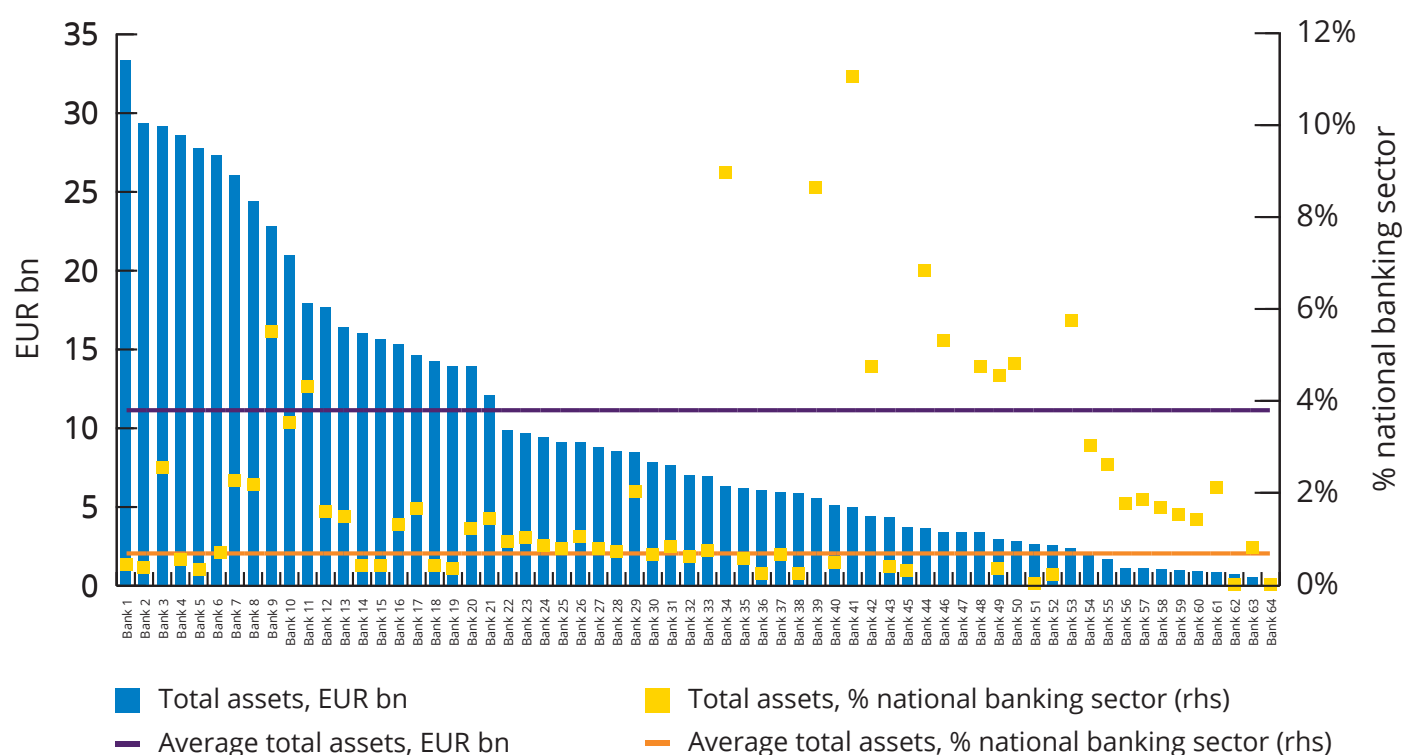
For the vast majority of the banks the preferred strategy in case of failure is liquidation under normal insolvency proceedings. In this case, the MREL requirements are generally set equal to the supervisory requirements. This section illustrates the preferred strategies and tools of LSIs earmarked for resolution as well as the MREL requirements, on the basis of the information provided by NRAs in the consultation process.

### 1. Preferred strategies and tools

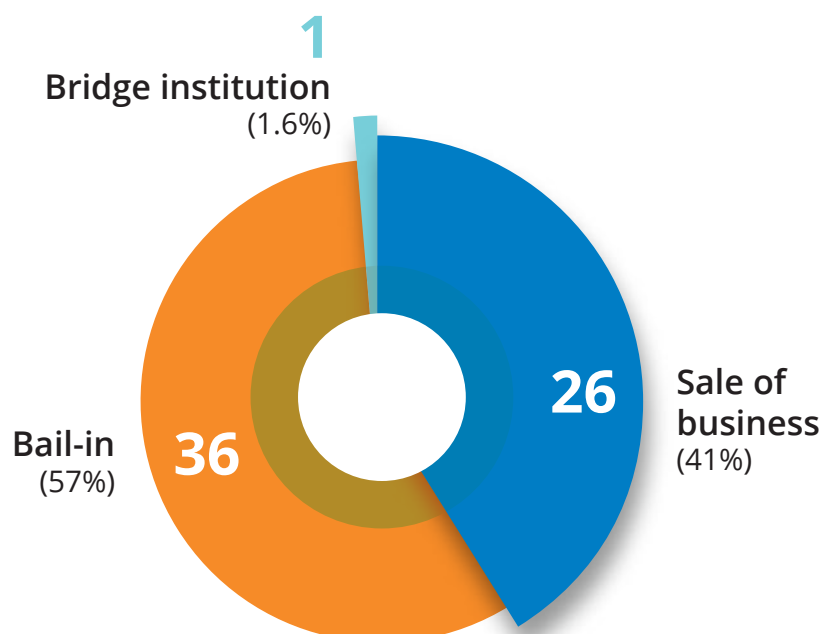
For 64 plans, representing about 14% of the total assets of all the LSIs included in the analysis, resolution was envisaged as the preferred strategy (cf. fig. 10).

**On the basis of the 54 plans for which the oversight was completed at the time of writing, bail-in was the preferred resolution tool; in comparison with SIs, a higher proportion of plans had a preference for transfer tools, with about 40% based on a sale-of-business (primarily as a share deal, cf. fig. 11).**

**Figure 10.** LSIs earmarked for resolution: total size and percentage of the national banking sector



**Figure 11.** Preferred resolution tools



## 2. MREL build-up and composition

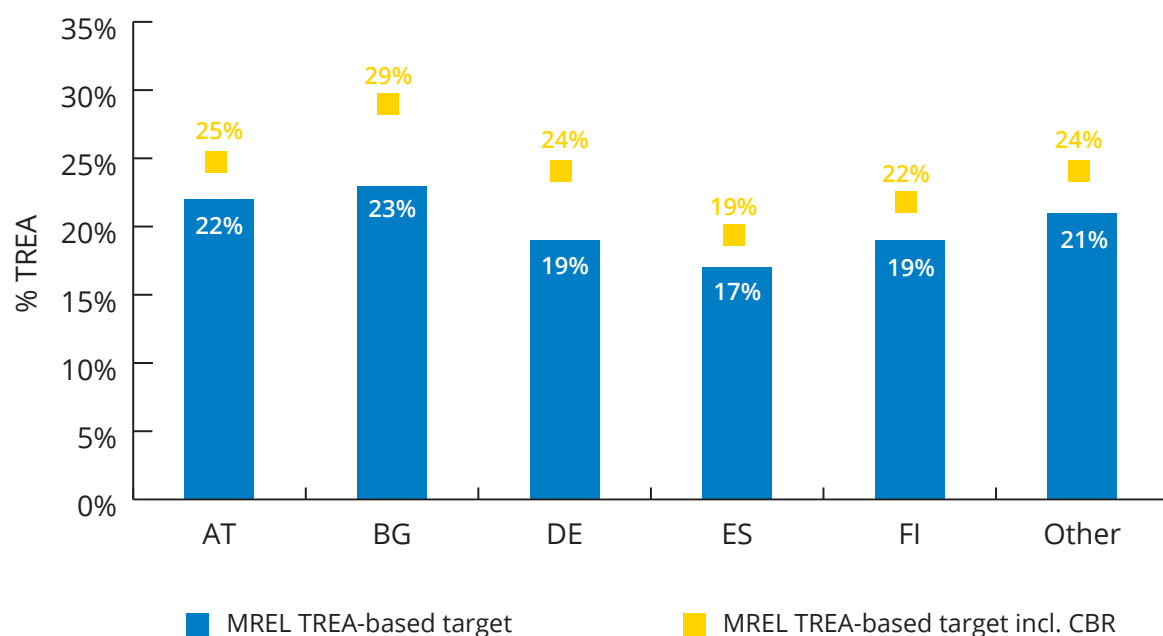
In line with BRRD2 provisions, NRAs have set the final targets, with the corresponding intermediate targets established on 1 January 2022. The average final target for LSIs earmarked for resolution represented 21.4% of the Total Risk Exposure Amount (TREA); when the Combined Buffer Requirement is added, the requirement was equal to 24.7% TREA (cf. Fig. 12).

Almost half of the banks showed a shortfall towards the final target of 1 January 2024, cumulatively reaching around EUR 4.2 bn or 4.5% TREA.



For LSIs earmarked for resolution, the outstanding stock of MREL was composed of Common Equity Tier 1 (53%), followed by senior unsecured liabilities (23%) and non-covered non-preferred deposits (12%). In several Member States, CET1 was the quasi unique source of their MREL-eligible instruments, accounting for almost 100% of the overall MREL stock. In other Member States, the breakdown of MREL-eligible instruments was more diversified due to issuances of senior and subordinated bonds (mainly senior unsecured liabilities and, to a lesser extent, senior non-preferred bonds and Tier 2 capital).

**Figure 12.** Average Final MREL TREA-based target, percentage of Total Risk Exposure Amount









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