RESOLVABILITY OF BANKING UNION BANKS: 2022

September 2023

Single Resolution Board

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Abbreviations

BRRD	Bank Recovery and Resolution Directive
CBR	Combined Buffer Requirement
CET1	Common Equity Tier 1
ECB	European Central Bank
FMI	Financial market infrastructure
G-SIIs	Globally Systematic Important Institutions
LRE	Leverage ratio exposure measure
MCC	Market confidence charge
MIS	Management information system
MPE	Multiple points of entry
MREL	Minimum requirement for own funds and eligible liabilities
NRA	National resolution authority
RCA	Recapitalisation amount
RPC	Resolution planning cycle
PRT	Preferred resolution tool
SAR	Separability Assessment Report
SI	Significant institution

SoB	Sale of business
SPE	Single point of entry
SRB	Single Resolution Board
SRM	Single Resolution Mechanism
SRMR	Single Resolution Mechanism Regulation
TLAC	Total loss-absorbing capacity
TREA	Total risk exposure amount
VRT	Variant resolution tool

Key findings

In this second edition of the Resolvability Assessment report, the Single Resolution Board (SRB) takes stock of the work undertaken by banks under its remit[1] to build up the resolvability capabilities prioritised until the end of December 2022[2], in accordance with the timeline set by the *Expectations for Banks*[3] and the *2022 MREL policy*[4].

The 2022 Resolvability Assessment shows that banks under the SRB's remit continue to make steady progress in building up their resolvability capabilities:

- **Despite adverse market conditions and rising geopolitical tensions, banks have maintained their momentum in building up their MREL capacity.** Two-thirds of the banks have reached their final MREL target for 2024, including the Combined Buffer Requirement (CBR). As a result, the aggregate MREL shortfall across all SRB banks has decreased by one third compared to 2021, and now amounts to 0.3 percent of the total risk exposure amount (TREA).
- **In parallel, banks have also taken steps to improve their preparedness to operationalise bail-in.** While holding sufficient loss-absorbing resources at all times is key, it is equally important for banks to be able to use these funds in a crisis. To this end, most banking groups now pay more attention to the development of internal loss transfer and recapitalisation mechanisms. In addition, banks with liability contracts governed by the law of a third country have taken steps to ensure contractual recognition of bail-in.

In the meantime, the SRB has increased its expectations in line with the timeline for the implementation of the Expectations for Banks. Three capabilities related to liquidity in resolution, separability and Management Information Systems (MIS) were introduced. The SRB asked banks to be able to estimate their liquidity needs in resolution under at least two scenarios. The SRB also requested banks to prepare for an asset separation or restructuring plan, depending on their resolution strategy. Finally, in 2022 banks had to develop and test their MIS capabilities to support valuation and bail-in execution. While these efforts are demanding, they are key to ensuring a swift and informed decision-making at the time of resolution execution.

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[1] A dedicated report on Less Significant Institutions' (LSIs) Resolution Planning and Crisis Management will be published separately.

[2] The SRB's approach to resolvability is explained in more detail in the first edition of this publication SRB 2021 Resolvability Assessment report.

[3] See Expectations for Banks, Single Resolution Board, 1 April 2020.

[4] See Minimum Requirement for Own Funds and Eligible Liabilities (MREL), Single Resolution Board, 8 June2022.

In 2023, banks are expected to work on closing the main remaining gaps to support resolvability. This means that banks need to meet their final MREL target and demonstrate that they have covered any outstanding material gaps. At the end of the transition period, the SRB will review whether any shortcomings remain. Depending on the materiality of any identified impediments to resolvability, the SRB will take proportionate action, including the launch of an impediments procedure.

Next steps

Effective planning for resolution is an iterative process that requires banks to maintain, test and adjust their resolvability capabilities regularly over time to ensure that institutions are prepared to respond to any crisis events, including those driven by emerging risks. Therefore, resolution plans need to become fully operational and plan for sufficiently flexible strategies allowing authorities to respond to different crisis scenarios.

As the transition period set by the SRB for implementing the Banking Package and the resolvability capabilities set out in the Expectations for Banks is coming to an end, the focus will increasingly shift to a regular and holistic testing of banks' resolvability capabilities. Regular testing of banks' resolvability capabilities is needed to verify that they work effectively and/or to identify any areas where further work may be warranted to be able to act swiftly in a crisis setting. While most banks have already conducted several targeted testing exercises in selected areas of the Expectations for Banks (mainly regarding bail-in execution and MIS capabilities), they will now need to engage in a more structured testing of their resolvability capabilities against a set of common criteria defined in a multiannual work programme aimed to ensure institutions' resolvability on a continuous basis[5]. The testing exercises to be conducted each year with the support and guidance of the SRB should allow to further substantiate the resolvability conclusions reached so far or reveal any possible shortcomings which will need to be addressed within a given timeframe.

Recent crises in the US and Switzerland have shown that banks and resolution authorities have to increase their level of preparedness to deal with rapidly unfolding crises. In order to adequately deal with such situations, resolution strategies have to be flexible enough to be fully actionable to respond to a range of scenarios, as the crisis may develop at different speeds and with considerable uncertainty. To this end, the SRB will continue engaging with banks to further operationalise resolution strategies. This could include combining several resolution tools within the preferred strategy or requesting banks to develop the elements needed for implementing an operational variant strategy, aimed at dealing with a wider range of liquidity and solvency crisis scenarios. As a result, the work on transfer tools, liquidity monitoring and access to funding in resolution, will remain high on the SRB's agenda.

[5] The EBA Guidelines on Resolvability (EBA/GL/2022/01, January 2022) will enter into force on 1 January 2024, together with Guidelines on testing (EBA/GL/2023/05, June2023). These guidelines require that the SRB, as an EU resolution authority, carries out its resolvability assessment on the basis of the systematic testing of banks' resolvability capabilities according to a multi-annual work programme.

An active and continuous dialogue with the banking industry is key to the successful achievement of the above-mentioned objectives. The SRB will increase its engagement with banks on the operationalisation of resolution strategies, the approach to resolvability testing and with consultation documents on policy guidance. In this way, the SRB aims to increase efficiency and leverage on best practices to foster convergence across BU banks, with a view to improve the banking sector's overall resilience.

1 | Preferred resolution strategy and tools

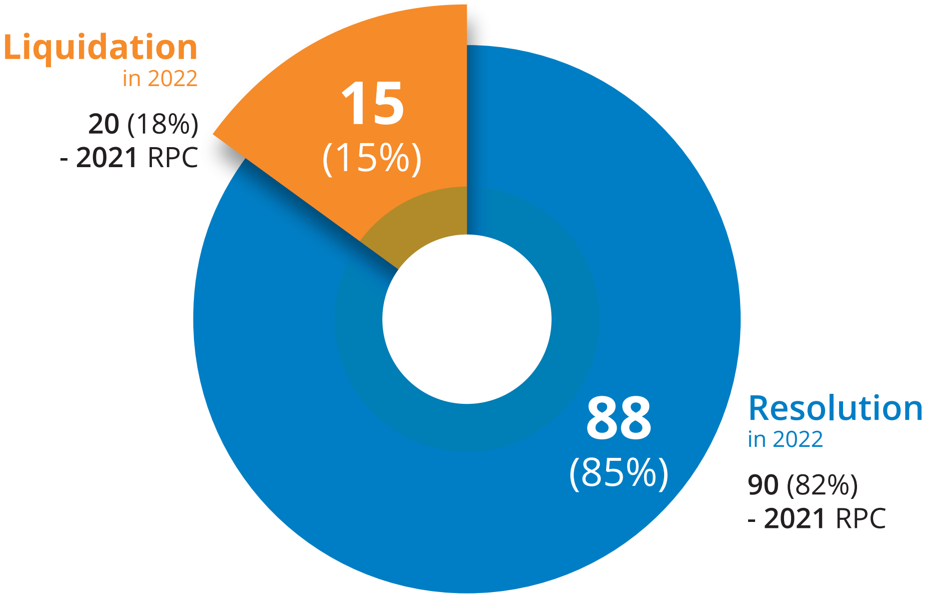
The main features of resolution plans in 2022 have remained stable. Bail-in and sale of business remain the preferred resolution tools. Slight differences compared to the 2021 resolution planning cycle relate to five banks that exited the SRB's direct remit.

In 2022, the SRB developed 103 resolution plans[6] for the banks under its direct remit[7]. Resolution remains the preferred course of action in 88 plans (85% of the total), accounting for 97% of the total exposure at risk (Total Risk Exposure Amount, TREA). Liquidation is foreseen for 15 plans (15%), which represent 3% of TREA (Fig. 1), mostly made up of public development banks and smaller banks with a specific business model.

[6] Compared to the estimate of 108 plans announced in the 2022 SRB Work Programme, the difference is due to banks leaving the SRB scope.

[7] The number of banks under the remit of the SRB changes each year, according to the flows of banks entering and exiting the direct supervision and resolution of the ECB-SSM and SRB respectively. The number of resolution plans in the 2022 planning cycle is lower than the number of banks due to several institutions being subsidiaries of another banking group under the direct remit of the SRB, for which one joint plan is provided. Furthermore, it excludes the plans for which the SRB acts as a host resolution authority and only contributes to the drafting of resolution plans (Banking Union subsidiaries of banking groups headquartered in Non-Participating Member States).

Figure 1. Banks earmarked for resolution or liquidation at the planning stage



As in the 2021 cycle, most plans[8] envisage resolution at the level of the consolidating parent entity ('Single Point of Entry Strategy'), meaning that this action is only taken at that level. For a few banking groups operating in subgroups which are financially, legally or operationally independent from other parts of the group, resolution action is instead envisaged at subgroup level, under a **Multiple Point of Entry Strategy** (9 banks[9] follow an MPE strategy).

Bail-in remains the preferred resolution tool for 82% of the plans (Fig. 3). Sale of business remains the second preferred resolution tool. Variant strategies should address circumstances in which the preferred strategy would not be feasible or credible. Sale of business is the most frequent tool envisaged as a variant to open bank bail-in, whereas a bridge institution is often used as a variant to sale of business, in combination with bail-in.

[8] Excluding 12 plans for Banking Union subsidiaries of third country banking groups which follow the group resolution strategy.

[9] For the 9 banks, resolution action was envisaged for 14 subgroups in 2022, vs. 17 in 2021.

Figure 2. Single Point of Entry versus Multiple Point of Entry

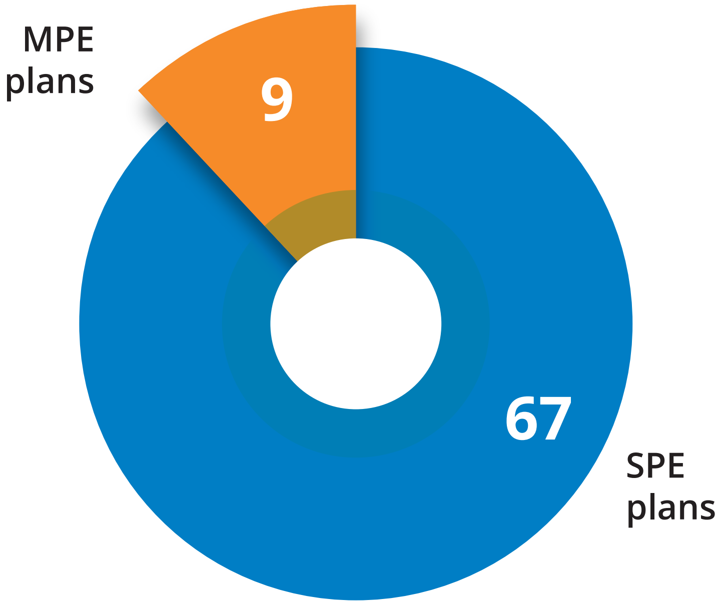
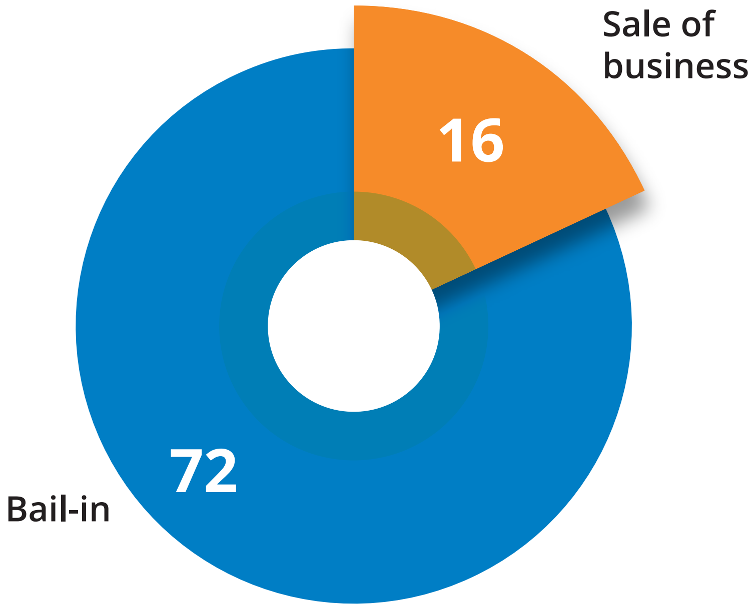


Figure 3. Preferred resolution tool



2 | 2022 Resolvability Assessment

The SRB released a policy on resolvability in 2020 (Expectations for Banks). It introduced a staggered approach, until the end of 2023, for its full implementation. In particular, for each year between 2020 and 2023, the SRB asked banks to develop specific capabilities (as opposed to all resolvability conditions altogether). In 2021, liquidity in resolution and management information systems (MIS) were set as key priorities, while in 2022 the focus was on separability and restructuring capabilities.

The SRB's resolvability assessment confirms that banks have made material progress in all areas of the EfBs, more recently the smaller banks have caught up with the largest ones. Some progress has been made on the more recently introduced capabilities, although most of the remaining work is expected to be completed by the end of this year.

The 2022 Resolvability Assessment takes stock of the work undertaken by banks to build up the capabilities that had to be implemented by the end of December 2022[10], in accordance with the timeline set by the Expectations for Banks[11] and the 2022 MREL policy[12].

The resolvability assessment was performed using the SRB Heat-map tool[13], which defines horizontal criteria for:

- assessing banks' progress on resolvability conditions. 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 combination of the above criteria provides a consistent indication of whether banks have made sufficient progress in the areas that are most critical to the successful execution of the resolution strategy and assists the SRB in identifying potential impediments to resolvability, in order to take corrective action where needed.

The Heat-map assessment is mainly based on the review of the evidence submitted by banks to demonstrate that they have implemented the Expectations for Banks in accordance with the staggered approach mentioned above. This includes a review of banks' self-assessment reports in accordance with their multi-annual work programmes, along with the underlying evidence substantiating the relevant progress, as well as the quality assurance processes deployed by the banks in relation to these deliverables. The SRB's assessment also took into account any results from testing exercises conducted by the banks in selected areas of the Expectations for Banks (e.g. on bail-in execution and MIS capabilities).

The results of the 2022 Resolvability Assessment are presented in three parts:

- Section 2.1 provides an update on the Expectations for Banks which were the first to be implemented, with respect to the implementation of the bail-in tool. It presents a comparative analysis with respect to the previous assessment, referred to 2021 (published in July 2022);
- Section 2.2 presents the progress made on the resolvability profiles that had to be implemented by the end of last year in relation to liquidity in resolution, MIS capabilities, separability and restructuring;
- Section 2.3 presents the aggregate Resolvability Heat-map outcomes (combination of progress and impact levels) for all resolvability conditions of the Expectations for Banks as at the end of 2022.

[10] The SRB's approach to resolvability is explained in more detail in the first edition of this publication SRB 2021 Resolvability Assessment report.

[11] See Expectations for Banks, Single Resolution Board, 1 April 2020.

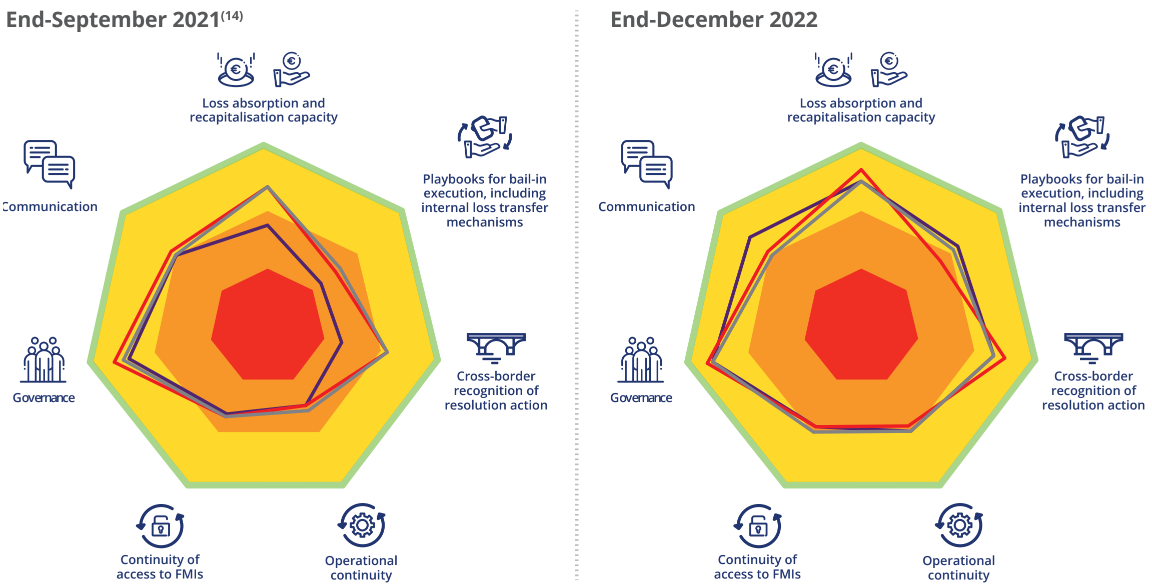
[12] See Minimum Requirement for Own Funds and Eligible Liabilities (MREL)", Single Resolution Board, 8 June 2022.

[13] See SRB's new heat-map approach, Single Resolution Board, 22 July 2021.

2.1. Progress since last year publication

Figure 4 provides an update at year-end 2022 on the capabilities that banks were expected to implement in 2021[14]. It shows that banks made steady progress across all resolvability conditions, with smaller and less complex banks catching up with larger banks in all relevant areas.

Figure 4. Update on the resolvability conditions prioritised for the 2021 resolvability assessment



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

[14] SRB 2021 Resolvability Assessment Report.

2.1.1 Bail-in execution

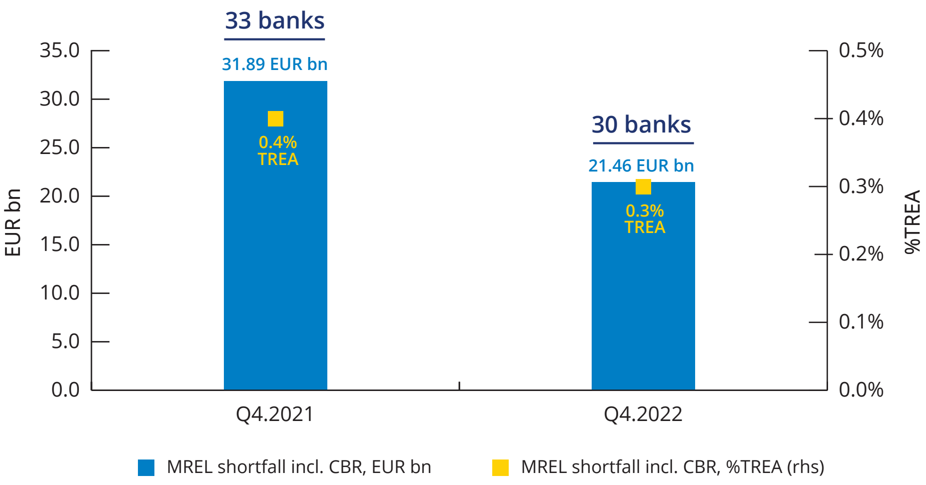
MREL[15]

The SRB is closely monitoring MREL compliance to ensure that all banks will meet the final MREL targets according to schedule. As at the end of 2022, all entities complied with their binding intermediate targets.

The aggregate shortfall against the banks' final targets[16] decreased by about one third compared to Q4 2021 (EUR 21.5 bn at the end of 2022, or 0.3% of total TREA of the banks under the SRB remit, Fig. 5), primarily driven by the high issuance activity in 2022, especially in the last quarter. This shortfall is attributable to 30 banks (see Fig. 5), mostly mid-sized ones and a few classified as Top Tier[17].

The SRB has also expanded the scope of non-resolution entities on a yearly basis and set MREL targets for most of the individual subsidiaries (non-resolution entities) of banking groups[18].

Figure 5. MREL shortfalls of resolution entities against final targets*



**We only consider banks under the remit of the SRB for 2022 RPC for which data is available.*

[15] All MREL numbers are computed including the combined buffers requirement (CBR).

[16] By final targets we refer to January 2024 deadline, without considering that some banks have extended deadlines. For further information, please see the SRB's quarterly [MREL dashboards](#).

[17] Banks having more than EUR 100 billion in total assets.

[18] For more detailed information on MREL data refer to the SRB quarterly [MREL dashboards](#).

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

Banks have made further progress on bail-in operationalisation. In particular, smaller and less complex banks have improved significantly, closing the gap with larger banks. Overall, banks have improved their ability to identify and classify their bail-inable liabilities in a way that respects the applicable hierarchy of claims. Nevertheless, banks are still working towards automating their MIS capabilities to fully support these processes. Most banking groups have also made progress in the development of their internal loss transfer and recapitalisation mechanisms, to make sure these are operating effectively in resolution. In addition, banks with liability contracts governed by the law of a third country are taking steps to ensure contractual recognition of bail-in and resolution powers. In this regard, the SRB is also strengthening its cooperation and dialogue with third-country authorities, in order to achieve a full understanding of third countries' national laws and regulations and enhance preparedness in resolution plans.

2.1.2 Operational continuity and access to FMIs

Banks have put in place arrangements and safeguards to ensure the continuity of their critical functions and core business lines in resolution. While banks had initially focused on service contracts supporting their critical functions, they are now extending consideration to their core business lines. Some work still remains for several banks whose resolution strategy foresees the separation of critical functions or core business lines and their transfer to a third party. In these specific cases, banks are documenting the information that would facilitate the identification of services and the rapid preparation of transitional service agreements (TSAs), should this be required in the event of a resolution.

Banks demonstrate a good understanding of the financial and operational requirements to ensure the continuity of access to FMI services. Most banks have developed contingency plans describing the infrastructure, processes, and the operational and financial arrangements in place to ensure continued access to FMI service providers in the event of resolution. However, in the latter respect, banks will need to fine-tune their estimates of increased liquidity requirements from FMIs under different scenarios. In some cases, banks still need to finalise arrangements and safeguards to make their service contracts with FMI service providers resolution-resilient. In a similar vein, they also need to demonstrate that they would be able to support client portability in order to ensure that client positions and assets could be smoothly transferred to contingent service providers in the event of resolution.

2.1.3 Governance and communication

Banks show increased involvement of their management body and senior management in resolution planning activities. Banks more consistently demonstrate that they are integrating their resolution planning processes and capabilities into their internal control and quality assurance frameworks. As part of enhancements made in their governance systems, banks have also improved their crisis communication capabilities. On the whole, banks have made good progress in identifying the key stakeholders to be informed in the event of a resolution and in preparing key messages and processes to be implemented, if needed. However, in light of new emerging risks such as geopolitical instability, digitalisation risks and crypto-asset risks, most banks will need to strengthen their risk management and control frameworks to improve their level of preparedness and communication in a crisis.

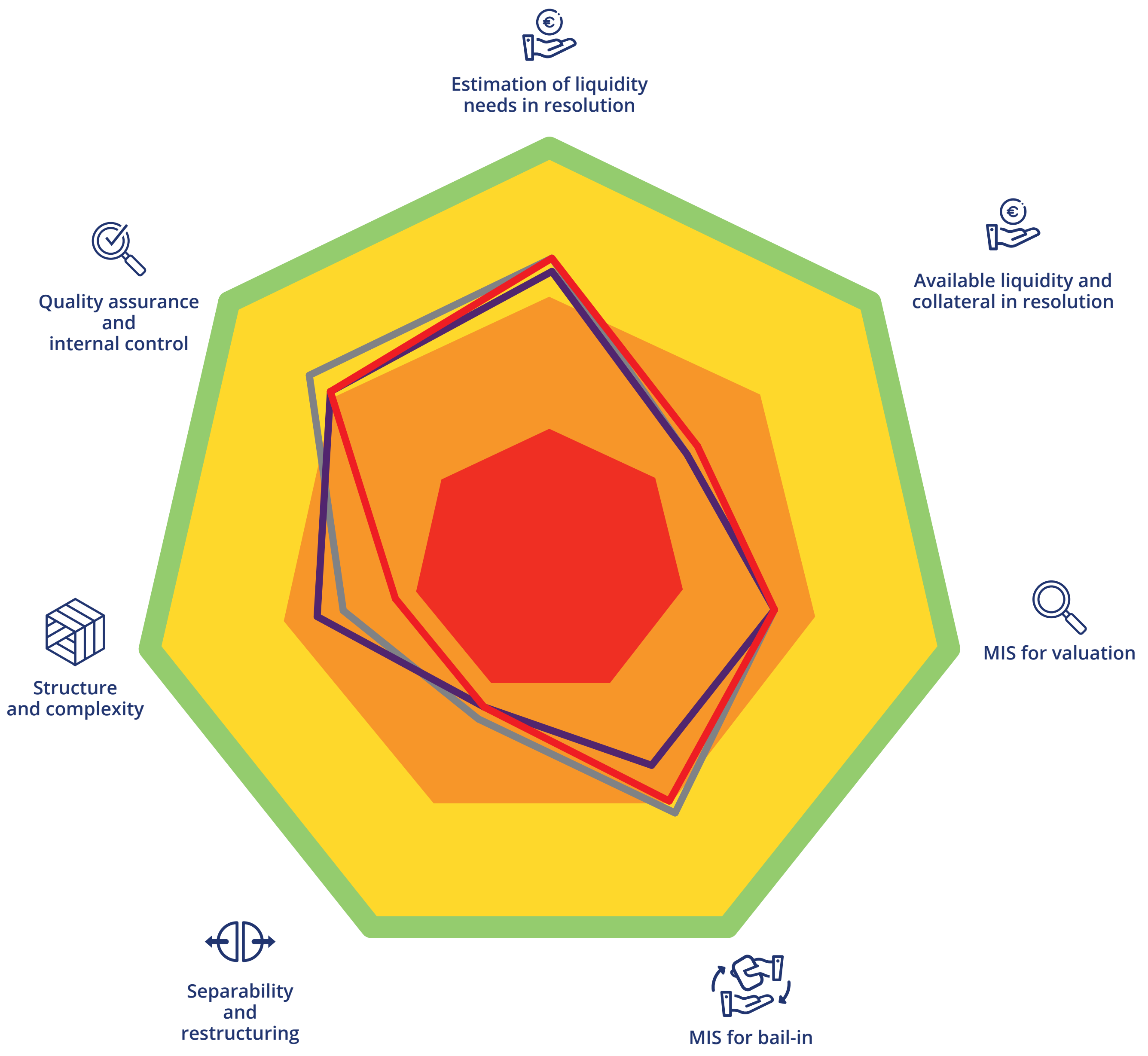
2.2. Progress on newly introduced priorities

For any resolution strategy to be credible, feasible and successful, it is crucial that banks have access to sufficient liquidity before, during and after resolution. In parallel and depending on their strategy, banks also need to prepare for an asset separation and/or restructuring and automate their MIS capabilities to ensure that they can produce the necessary datasets for conducting a robust valuation and executing bail-in. The 2022 Resolvability Assessment shows that the work on these priorities has already started, but needs to be completed in the course of this year.

Fig. 6 illustrates banks' progress on the capabilities prioritised by the SRB for the 2022 Resolvability Assessment. Overall, it shows that more advanced progress has been achieved on the capabilities introduced since 2021 (estimation of liquidity needs in resolution, MIS capabilities, structure and complexity and quality assurance) than on capabilities introduced in the course of 2022 (available liquidity and collateral, separability and restructuring). In these areas, banks are expected to deliver most of the remaining work by the end of 2023.

Regarding separability, a distinction needs to be drawn between banks whose preferred strategy involves a transfer tool and banks for which it is envisaged as a variant to open bank bail-in. The former started working on separability in 2019 and have achieved advanced progress since then (see Fig. 7). This includes identifying portfolios for transfer and potential buyers, and developing operational processes to support the execution of sale transactions. For the vast majority of banks for which bail-in is the preferred strategy (see Section 1 of this report), work on separability was mainly initiated in 2022, as part of the operationalisation of a variant strategy that includes an asset transfer tool and as part of post-bail-in restructuring. In light of the later phase-in, the SRB expects these banks to complete work in this area in 2023 and beyond.

Figure 6. Progress on the resolvability conditions prioritised for the 2022 resolvability assessment (Heat-map)



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

2.2.1 Liquidity in resolution

Banks have demonstrated that they have established capabilities to estimate their liquidity needs in resolution under slow and fast moving scenarios. Under these scenarios, banks have identified the main drivers of their liquidity needs in resolution considering counterparty behaviour in terms of outflows, access to short-term wholesale funding, and heightened financial obligations stemming from FMI service providers. They have also considered legal, regulatory and operational obstacles to the transferability of liquidity and funding between group entities where applicable. Going forward, banks still need to fine-tune their analyses by providing their estimates at a more granular level for material entities and currencies, also considering heightened liquidity requirements from FMI service providers under several scenarios. In order to foster consistency across banks' scenarios to be considered while integrating lessons learnt from recent crisis cases, the SRB will develop further guidance on the assumptions to be used. **Overall, banks are able to provide information on the sources of funding that can be mobilised in resolution, either through the use of central bank eligible assets or through other assets that could be used to obtain central bank funding.** Banks have well-established processes for mobilising assets that qualify as central bank eligible collateral. Most of them have also started identifying other assets that could become eligible for central bank funding, subject to the implementation of specific measures, such as improving the overall data quality in certain securitisation portfolios or assessing assets with unknown eligibility status. Banks are expected to anticipate, insofar as possible, the actions they can take in the resolution planning phase, to be better prepared in crisis. As part of this work, banks are also considering legal and regulatory requirements. By the last quarter of 2023, banks will be required to demonstrate that they are able to measure and report their liquidity position and available collateral at short notice. Progress in this area will be reflected in the Heat-map assessment conducted in the first quarter of 2024.

2.2.2 MIS capabilities

Over the last two years, banks have assessed and tested their capabilities to produce the relevant datasets for valuation and bail-in execution. Banks are now in the process of addressing identified shortcomings in their MIS. Over time, banks will be expected to demonstrate increasingly automated capabilities to produce the information before and during resolution under different scenarios and resolution tools. The SRB will continue to monitor improvements, applying the necessary proportionality and having regard to the specific characteristics of banks and resolution strategies.

2.2.3 Structure, separability and reorganisation

Banks whose preferred resolution tool is an open bank bail-in have started working on restructuring and re-organisation options that could restore their long-term viability and competitiveness after resolution. In this context, banks have assessed potential impacts on their solvency and liquidity positions, and their readiness to execute them. In the course of 2023, banks are expected to enhance their preparedness to swiftly execute any of these options by identifying the stakeholders involved and the estimated timeline for each step. The next Heat-map assessment will reflect banks' progress in this area.

Banks whose preferred resolution tool is sale of business show good progress in their preparedness to implement this tool. Most of these banks have developed advanced separability analysis reports on the intended transfer(s) and a preliminary operational playbook to support their execution. The 'separability analysis report' (SAR) is an analytical document intended for the resolution authority and potential investors. It looks primarily at portfolios that could be transferred to a third-party, having regard to market appetite and capacity to take them on. It also considers the application of legal safeguards to partial transfers, as well as processes for transitioning services to third parties in order to ensure operational continuity of critical functions and core business lines. To support the implementation of the transfer of the envisaged portfolio(s), the transfer playbook describes the operational steps, the stakeholders involved and the timeline to execute each transfer.

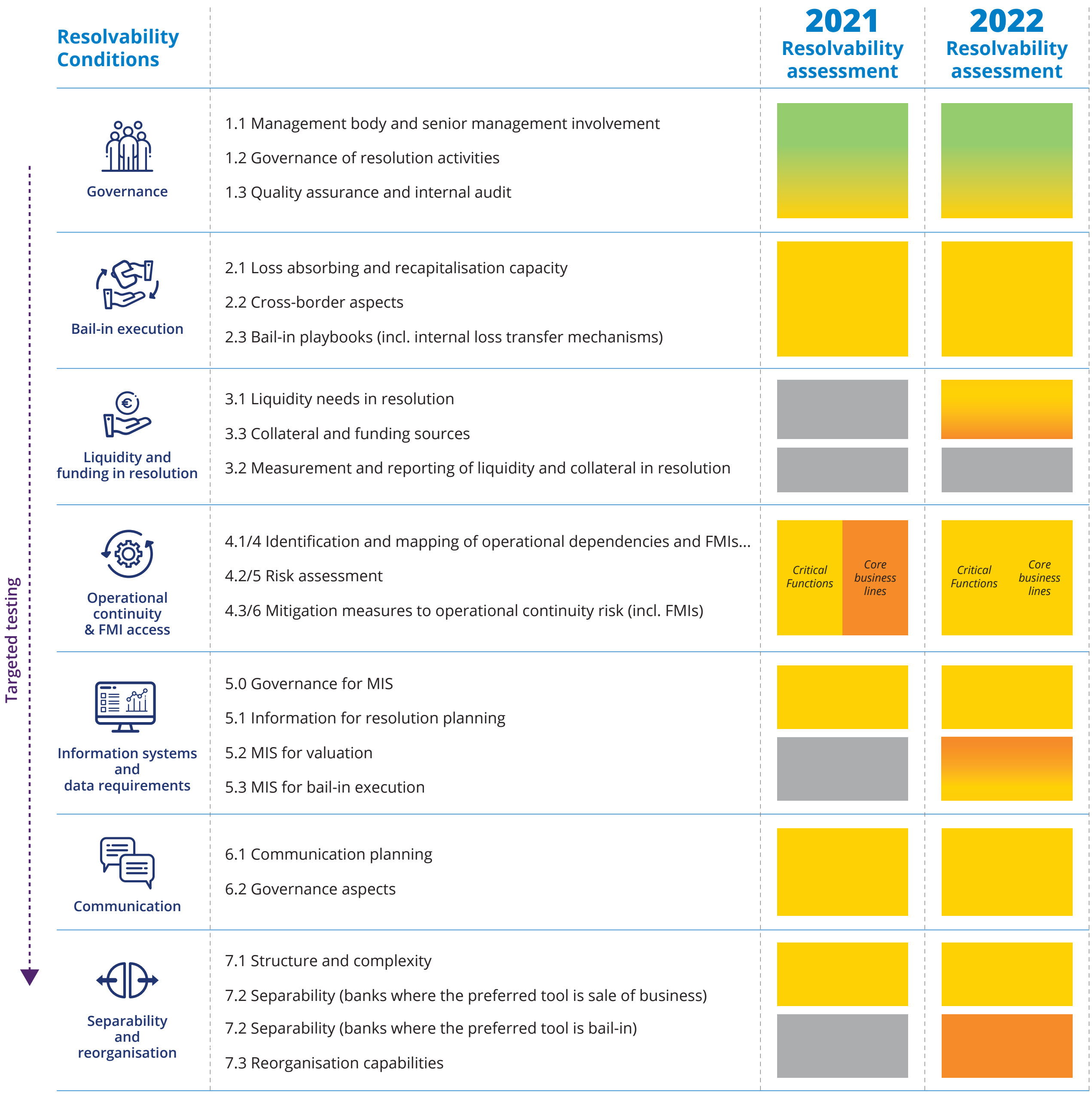
In accordance with the timeline set by the SRB, banks whose strategy envisages sale of business as a variant resolution strategy to open bank bail-in have prioritised the work on post-bail-in reorganisation planning capabilities. Therefore, their progress on separability under a sale of business strategy needs to be further developed.

2.3. Status on all Expectations for Banks

The 2022 Heat-map provides an overview of the progress achieved on all the resolvability conditions. Fig. 7 summarises the progress made as at the end of 2022 on all resolvability conditions of the Expectations for Banks that have been phased in, and those that remain to be implemented in 2023. As also shown in Fig. 6 above, most of the remaining work relates to the capabilities most recently introduced, regarding the mobilisation of liquidity and collateral in resolution, as well as separability and reorganisation for banks whose main tool is bail-in.

Going forward, the SRB's approach to assessing resolvability will also leverage the results of banks' testing of their resolvability capabilities. While banks have already undertaken some testing work in selected areas during the implementation phase of the Expectations for Banks, such as on bail-in execution and valuation, a holistic approach to testing will need to be implemented in line with a multi-annual work programme.

Figure 7. 2022 Heat-map outcomes on all resolvability conditions of the Expectations for Banks



Classification:

- Best practice
- Substantial progress where immaterial impediments to resolvability may be identified
- Partial progress where non-substantive impediments to resolvability may be identified
- The main capabilities were being phased-in and remained to be demonstrated at the moment of the resolvability assessment
- Capabilities not yet phased-in at the moment of the resolvability assessment

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