RESOLVABILITY OF BANKING UNION BANKS: 2023

July 2024

Single Resolution Board

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Table of Contents
Resolvability of Banking Union banks: 2023

Abbreviations 4
Key findings 5
Introduction 7

1 Progress on the capabilities prioritised by the SRB in 2020-2021 8
1.1 Governance and communication 9
1.2 Bail-in execution 10
1.3 Operational continuity and access to Financial Market Infrastructures (FMIs) 11

2 Progress on the capabilities prioritised by the SRB since 2022 12
2.1 Liquidity and funding in resolution 13
2.2 Management Information Systems (MIS) 14
2.3 Separability and reorganisation 15

3 Conclusions and next steps 18

Annex 1. Preferred resolution strategies and tools 22

Abbreviations

BRRD	Bank Recovery and Resolution Directive
CBR	Combined Buffer Requirement
ECB	European Central Bank
FMI	Financial market infrastructure
G-SIIs	Globally Systematic Important Institutions
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
SAR	Separability Assessment Report
SPE	Single point of entry
SRB	Single Resolution Board
SRM	Single Resolution Mechanism
SRMR	Single Resolution Mechanism Regulation
TREA	Total Risk Exposure Amount

Key findings

In this third edition of the Resolvability Assessment report, the Single Resolution Board (SRB) takes stock of the progress made by banks in building up their resolvability capabilities[1] until December 2023, in line with the SRB *Expectations for Banks.*[2]

December 2023 marked an important milestone for resolvability in the Banking Union, as banks under the SRB's remit showed steady progress in meeting the SRB's *Expectations for Banks* and MREL policy.

- Over the past years and despite periods of deteriorated market funding conditions, banks have built up their MREL levels. All banks which had to comply with their final targets as of 1 January 2024 managed to meet their requirements (both external and internal). The remaining shortfall pertains to a small number of banks that have a transitional period that goes beyond 1 January 2024. The external MREL shortfall including the Combined Buffer Requirement (CBR) amounts to EUR 6 bn, compared to a MREL instruments global amount of 2,555 bn EUR.

- Compared to last year, the SRB observed progress from banks in three areas: the estimation of liquidity needs in resolution and identification of sources of collateral, the generation of the valuation dataset and preparation for a sale-of-business and the restructuring post bail-in. The SRB is following up with banks to close the remaining gaps in these areas. A few very large banks are still expected to fine-tune their strategy in terms of crisis communications and on the implementation of bail-in.

As of next year, the SRM will open a new chapter of its resolvability assessment based on a revised methodology and the systematic testing of banks' capabilities. This new approach to assessing resolvability will be more risk-based, relying on a standard template for all banks to enhance transparency. It will be accompanied by resolvability testing, which will cover the methods available to banks to measure their resolvability, including dry-runs, desktop exercises and walkthroughs. The testing will assess resolvability capabilities, identify areas for improvement, and ensure that the resolution strategy can be implemented in an effective and timely manner. The resolvability assessment criteria and the guidance on testing will be subject to public consultation. They will cover all of the SRB's *Expectations for Banks* over a three-year horizon, in order to enhance predictability for the industry.

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

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

Given the material changes to the approach from 2025 onwards, the timing of the next publication of the SRB resolvability assessment will be subject to the new methodology. The SRB will keep monitoring banks' efforts to close remaining gaps and will continue to engage with the industry regarding progress on resolvability.

Introduction

This publication translates the results of the **SRB Heatmap tool**[3]**, which is the SRB's main tool to assess progress made by banks in building their resolvability capabilities** in line with the SRB *Expectations for Banks*. The SRB Heatmap tool provides criteria for:

- assessing banks' progress on resolvability conditions, via four progress levels ranging from insufficient progress to full progress; and
- assessing the weight of each resolvability condition for the resolution strategy of each bank.

The combination of the criteria above provides a robust measurement of banks' progress in the areas that are most critical to the successful execution of the resolution strategy and helps the SRB identify potential impediments to resolvability and take corrective action where needed.

The Heatmap assessment is mainly based on the review of the evidence submitted by banks to demonstrate that they have implemented the *Expectations for Banks*. This includes a review of banks' reports, multi-annual work programmes and resolvability self-assessments along with the underlying evidence. Additionally, it encompasses evaluating the quality assurance processes performed by banks on these deliverables. The SRB's assessment also draws on the results from testing exercises conducted by banks in selected areas of the *Expectations for Banks* (e.g. on bail-in execution and MIS capabilities).

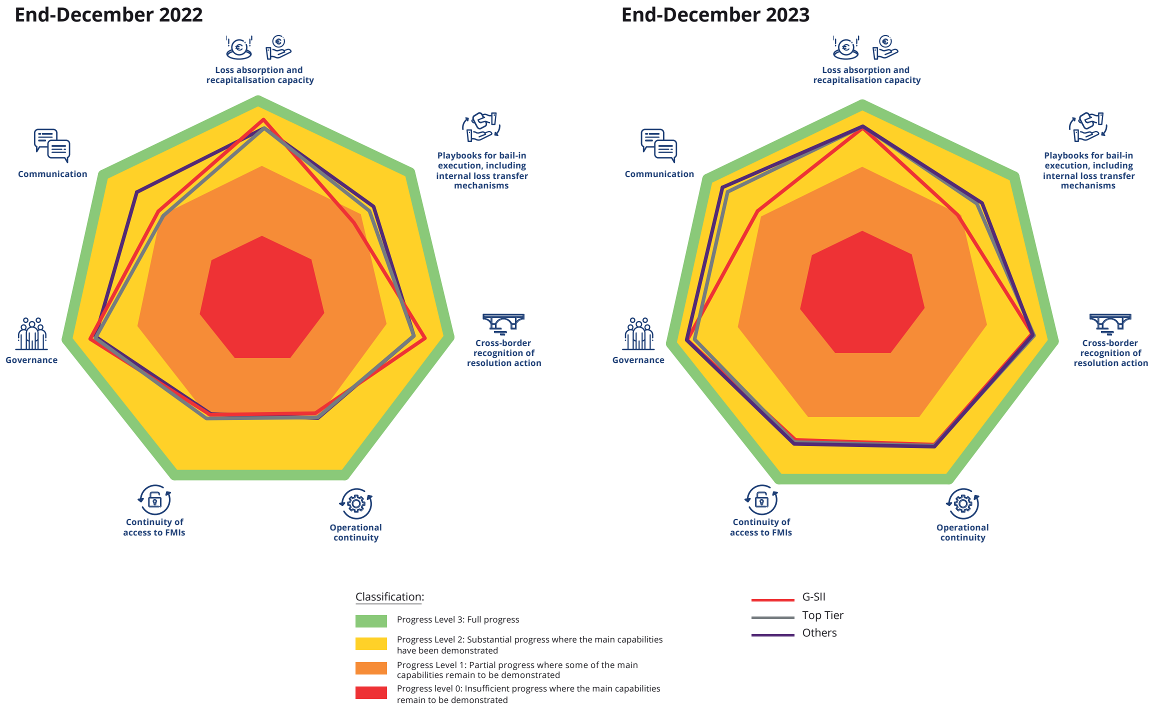
The results of the 2023 Resolvability Assessment are structured thematically, starting with the SRB *Expectations for Banks* that were prioritised in the first years (Section 1) followed by the ones prioritised most recently (Section 2) to better illustrate the progression compared to last year's publication, including by type of bank. It also provides an overview of banks' progress towards all SRB *Expectations for Banks*. Annex 1 recalls the number of resolution plans drafted by the SRB in cooperation with the relevant NRAs and the type of tools envisaged in case of resolution.

[3] See SRB's new heatmap approach, Single Resolution Board, 22 July 2021.

1 | Progress on the capabilities prioritised by the SRB in 2020-2021

Figure 1 provides an update at the end of 2023 on the first set of capabilities that banks were requested to implement in 2020-2021 and which are related to the implementation of the bail-in tool. It shows that, overall, banks have made substantial progress in all areas.

Figure 1. Update on the resolvability conditions prioritised in 2021



1.1 Governance and communication

This year's resolvability assessment confirms that banks have improved most in the areas of governance and communication. In particular, banks have taken measures to ensure that the management body is actively involved in the resolution planning activities in accordance with their multi-annual work programmes. This includes establishing clear lines of responsibility and ownership for steering and overseeing resolution planning activities.

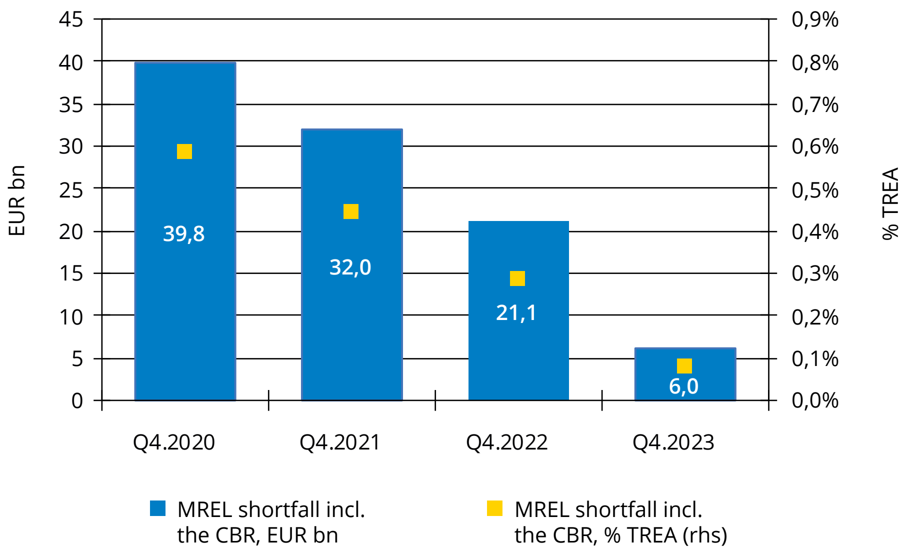
Banks have enhanced their communication plans to ensure timely, robust and consistent communication with relevant stakeholders. This requires more work for the largest banks given the high number of stakeholders involved.

1.2 Bail-in execution

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)[4]

All banks that had to comply with their final MREL targets as of 1 January 2024 have met their MREL requirements. At year-end 2023, only banks that have a longer transitional period to meet their final targets[5] reported a shortfall, amounting to a total of EUR 6 bn (Figure 2). The SRB is closely monitoring closure of their MREL shortfalls before the final deadline, which is expected in most cases in 2024-2025.[6]

Figure 2. MREL shortfalls of resolution entities against final targets



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

In general, banks have a sufficient level of loss absorption and recapitalisation capacity to support bail-in execution. Banks have achieved good progress in supporting the cross-border recognition of resolution action via the introduction of bail-in recognition clauses in relevant contracts. Banks also developed their internal processes and management information systems (MIS) further to support the operational execution of the write-down and conversion (WDC). This includes, where relevant, the development of an internal loss transfer and recapitalisation mechanism within the resolution group, allowing losses to be upstreamed from the subsidiaries to the resolution entity. For the larger banks, this work is still ongoing.

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

[5] For some entities, the transitional period ends after 1st January 2024, as per Article 12k (1) and (4) SRMR.

[6] For further information, including methodological considerations please see the SRB MREL dashboards.

1.3 Operational continuity and access to Financial Market Infrastructures (FMIs)

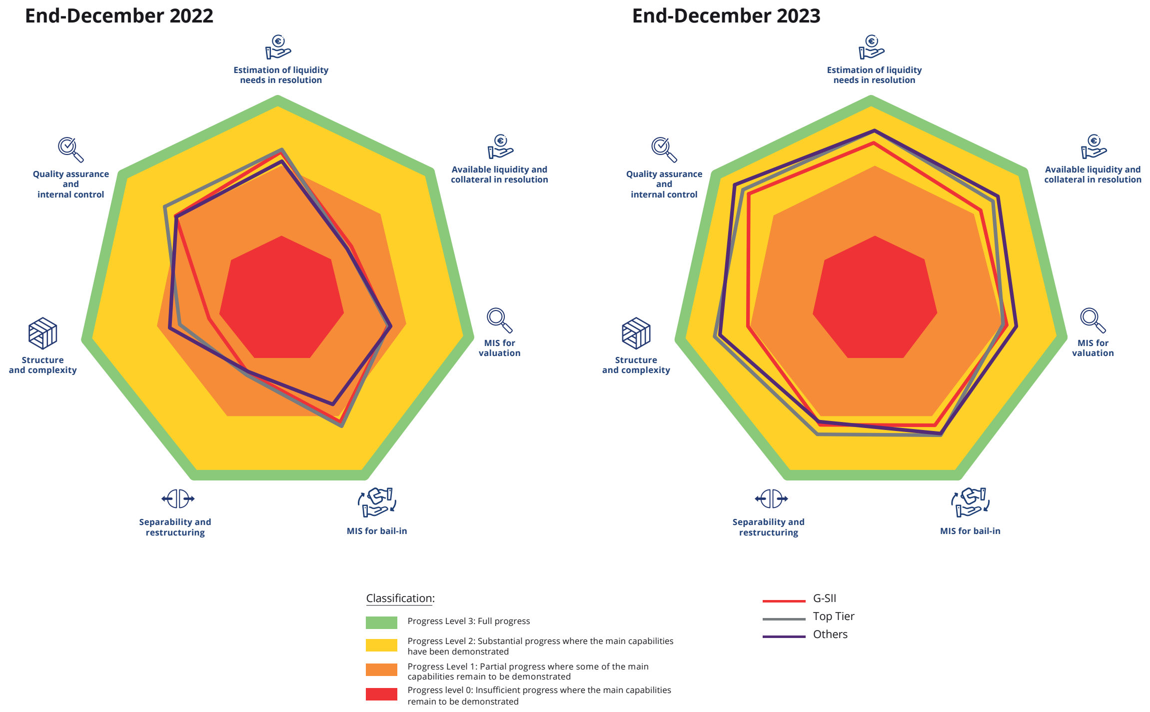
Banks have taken further measures and safeguards to ensure that critical and essential functions can be maintained during a process of resolution. In concrete terms, this means that critical functions in resolution are adequately staffed and that access to the necessary infrastructure and operational assets can be maintained at all times. With banks starting to work on more tailored resolution strategies, including transfer tools either in combination with or as a variant to bail-in, it will become even more important for banks to facilitate the transition of services governed by service level agreements to third parties and subsidiaries in the event of the separation of critical functions or core business lines.

Overall, banks have developed comprehensive contingency plans to maintain access to FMI service providers in resolution. Those plans describe the infrastructure, processes, and the operational and financial arrangements needed to maintain sufficient access to FMIs in resolution. When relevant, banks have also initiated efforts to facilitate client portability, aiming to ensure the transfer of client positions and assets to alternative service providers.

2 Progress on the capabilities prioritised by the SRB since 2022

Figure 3 provides an update at the end of 2023 on the set of capabilities that the SRB expected banks to implement in 2022-2023[7]. These capabilities relate to the estimation of liquidity needs in resolution, the identification of liquidity sources and collateral, management information systems (MIS) as well as separability and reorganisation. The two charts below show that banks have achieved substantial progress in these areas.

Figure 3. Update on the resolvability conditions prioritised in 2022



2.1 Liquidity and funding in resolution

Banks have developed capabilities to estimate liquidity needs under a slow and a fast-moving outflow scenario that they may face throughout resolution. In this context, banks were requested to forecast their liquidity position during different phases of resolution, ranging from the run-up to resolution, until at least six months after the resolution event. In their estimations, banks were asked to factor in any variations to their funding structures that may stem from the resolution process, including the impact on intragroup funding arrangements or from heightened financial obligations stemming from FMI service providers. Banks are in close contact with the SRB to fine-tune the methodology underlying their estimations.

[7] See SRB 2022 Resolvability Assessment publication.

Banks are better able to identify assets that can serve as collateral for obtaining funding both during and after resolution. Having already well-established processes for mobilising assets that qualify as central bank eligible collateral, banks have further operationalised their ability to mobilise other marketable assets that could become eligible for central bank funding. They have developed an understanding of how to identify and estimate the liquidity value of such assets should they need to be mobilised in resolution. This includes analysing the operational steps and timing necessary for the mobilisation of those assets as well as potential legal, operational and regulatory challenges at different levels of consolidation.

Banks have enhanced their capabilities to monitor and report liquidity before, during and after resolution. Accurate measurement and reporting are key for firms' resolvability and have proven very valuable during past crises cases. By the end of 2023, banks were requested to demonstrate their ability to swiftly measure and accurately report their liquidity requirements and resources[8]. In order to leverage on the work already undertaken for supervisory purposes, the SRB and the ECB developed a "Joint Liquidity Template". This template was used in a Joint Liquidity Exercise to capture banks' liquidity position over a five-day period under specific crisis assumptions at different levels of consolidation (resolution group level and some key liquidity entities), with focus on data quality and reporting capabilities, as well as timeliness of data provision. While the testing exercise was broadly successful, some banks still need to address shortcomings related to data quality issues and the timeliness of the data provision.

2.2 Management Information Systems (MIS)

Setting up robust management information systems (MIS) is a key aspect of a bank's resolvability to support the operationalization of resolution strategies and tools. To fulfil the SRB's expectations, banks have established dedicated governance structures to ensure that their MIS can generate the information needed for resolution planning. Moreover, banks have also enhanced their MIS capabilities to produce the necessary information to perform a fair, prudent and realistic valuation. The SRB expectations in this respect will be enhanced in the coming cycles combined with additional testing.

In a similar vein, banks enhanced their capabilities to produce the dataset for applying bail-in. The availability of data at short notice is a key prerequisite for an effective application of the write-down and conversion powers and the use of the bail-in tool. Where the strategy envisages a transfer tool, banks have worked on their ability to set-up virtual data rooms (VDR) or comparable arrangements to facilitate the swift execution of a sale transaction.

8 SRB Operational Guidance for Banks on the measurements and reporting of the liquidity situation in resolution, June 2023.

2.3 Separability and reorganisation

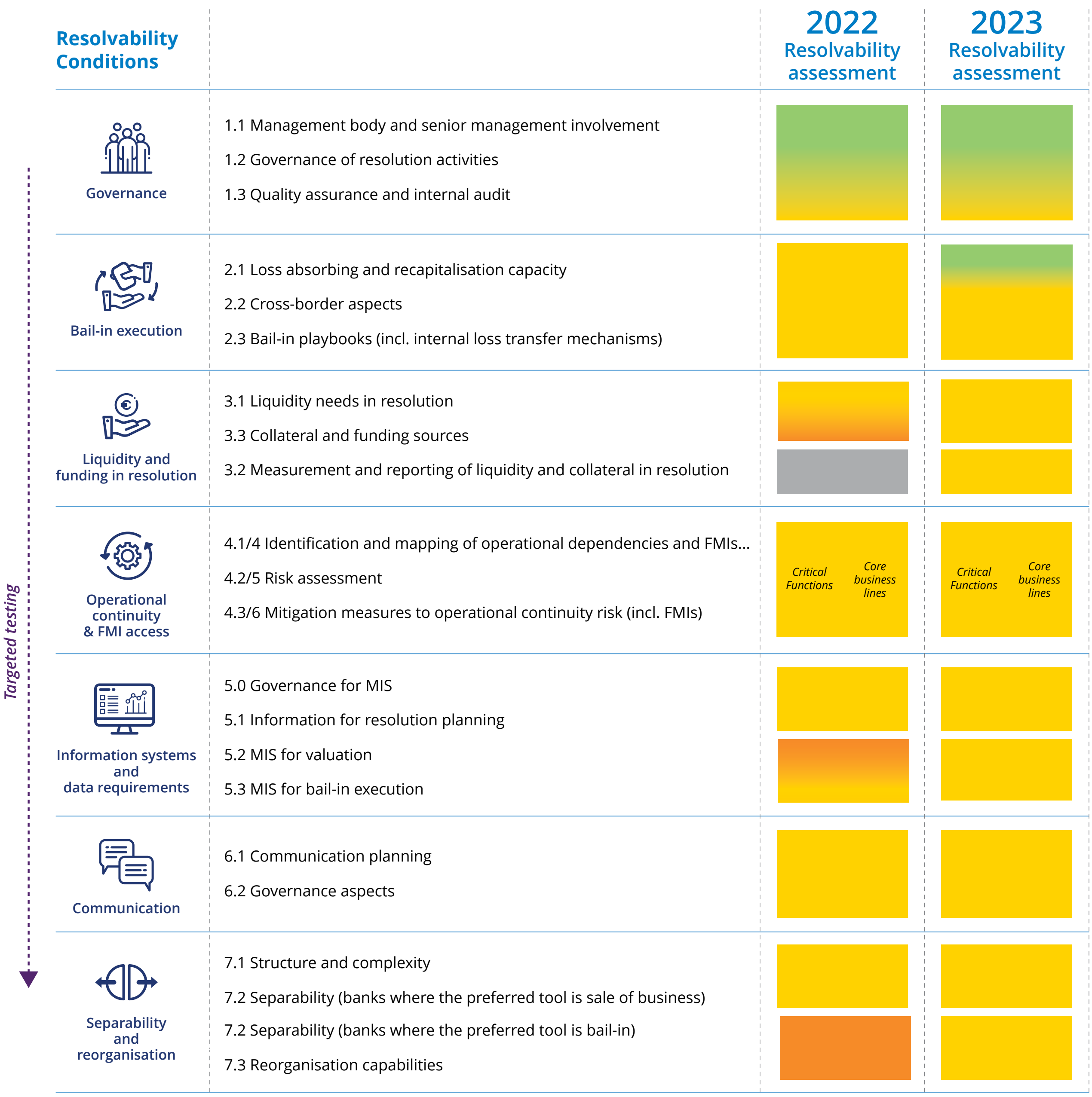
Banks whose preferred resolution tool is an open bank bail-in (Annex 1) have progressed in identifying restructuring and reorganisation options that are credible and appropriate to restore long-term viability post bail-in. Throughout 2022-2023, banks submitted comprehensive Business Reorganisation Plan Analysis Reports ("BRP Analysis Reports"). These reports outline potential restructuring measures that banks may contemplate implementing to restore long-term viability post-resolution. They also measure the potential impact of the various options on banks' solvency and liquidity positions, identify key stakeholders and the estimated timeline for executing each option.

Banks whose preferred resolution tool is sale-of-business have also progressed in their work on separability, which is essential to ensure that critical functions can be separated and sold at the time of resolution. The majority of these banks have developed separability analysis reports (SAR) for the intended transfer(s) as well as playbooks to facilitate their implementation. Separability analysis reports are designed for both the resolution authority and potential investors. They earmark the portfolios potentially suitable for transfer to third parties, taking into account the market interest and the purchasing capacity of prospective buyers. Their analysis encompasses the assessment of legal safeguards needed for partial transfers and outlines processes for transitioning services to third parties to ensure the continuity of critical functions and core business lines. To support the actual transfer of the identified portfolio(s), the transfer playbooks delineate operational steps, identify stakeholders involved and outline the timeline for executing each transfer. Banks are still fine-tuning their SAR and transfer playbooks in order to ensure operational readiness.

In line with the timeline set by the SRB, banks whose strategy envisages a sale-of business as a variant strategy to open bank bail-in have prioritised the work on post-bail-in reorganization planning. Subsequently, these banks have initiated the work on separability analysis supporting potential transfers.

Figure 4 shows that banks have made progress in aggregate on each of the principles of the *Expectations for Banks*, though additional efforts are needed.

Figure 4. 2023 Heatmap outcomes on all SRB *Expectations for Banks*



Classification:

- Full progress
- 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

3 Conclusions and next steps

2024 marks a strategic shift for the SRM with the launch of its "Vision 2028" strategy, founded on risk identification, crisis readiness and resilience. Recent events highlighted the emergence or exacerbation of diverse risks that pose potential threats to financial stability. These range from geopolitical and macroeconomic uncertainties to declining asset quality and turmoil in the banking sectors of the United States and Switzerland. Hence, it is imperative for banks, regulatory authorities and all relevant stakeholders to remain vigilant and prepared in the face of these risks.

The SRB is reviewing its resolvability assessment methodology (Heatmap) towards a more risk-based approach. The revision will notably aim at better capturing emerging risks in the resolvability assessment framework as well as incorporating lessons learnt from past crisis cases. While banks were already requested to self-assess their resolvability capabilities against the *Expectations for Banks* in the implementation phase, the forthcoming policy changes will be formalized through a standardised "self-assessment template" that all banks within the SRB's remit will be requested to submit. This initiative aims at enhancing transparency and promoting consistency across the Banking Union. The self-assessment template will be a key document for the SRB, informing its resolvability assessment and allowing it to calibrate banks' resolvability testing efforts.

In parallel, the SRB is reinforcing its control function and developing a comprehensive resolvability testing framework to assess whether banks' capabilities are in place and can operate effectively in practice. As a result, the outcome of the Heatmap might change in the future to better reflect banks' operationalisation of capabilities phased-in from 2020 to 2023. Resolvability testing is not a novelty for banks. In the implementation phase, banks were already requested to conduct testing in targeted areas such as bail-in, MIS for valuation and liquidity among others. The SRB is now shifting towards a more comprehensive testing framework to challenge banks' crisis readiness against an evolving risk landscape in line with its strategic objectives. This will take the form of a multi-annual testing programme, which will span from 2026 to 2028, as set out in the EBA Guidelines on testing.[9]

A multi-annual testing programme setting both common and institution-specific priorities will be defined for each bank. This tailored programme will be supplemented by resolution authority-led testing, including deep-dives and on-site inspections where necessary. Any testing performed by banks in the transition phase of the *Expectations for Banks* will be factored-in for the definition of bank-specific priorities within the multi-annual testing programme.

The success of this new approach for assessing bank resolvability will greatly depend on a continuous and constructive dialogue with stakeholders of the banking industry. In order to incorporate the industry's views in its revised approach to resolvability assessment, the SRB will consult the industry on the main features of the new methodology (Figure 5). Banks as well as any other stakeholders will be invited to comment on the new resolvability self-assessment report template as well as testing techniques envisaged in the multi-annual testing programme.

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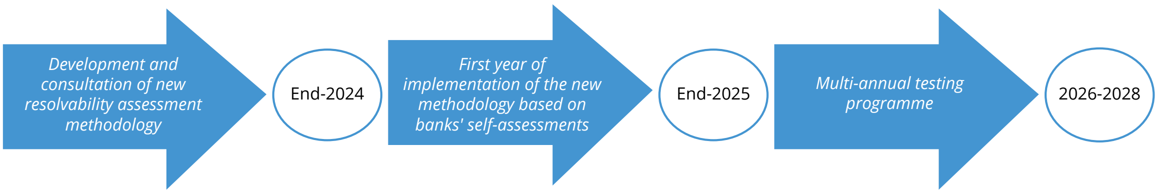
9 EBA/GL/2023/05, Guidelines amending Guidelines EBA/GL/2022/01 on improving resolvability for institutions and resolution authorities under articles 15 and 16 of Directive 2014/59/EU (Resolvability Guidelines) to introduce a new section on resolvability testing, 13 June 2023.

Figure 5. Interplay between the new resolvability assessment methodology and testing



In addition, the SRB expects further operationalisation of both the preferred and variant resolution strategies. Additional policy and technical work are already being developed to facilitate the operationalisation of transfer tools. Both the bridge bank and asset separation tools should be considered as relevant options in certain scenarios and should be readily implementable. The operationalisation of resolution strategies also implies having more operational resolution plans with a clear path to implementing the different resolution acts and adopting the adequate communication.

More optionality in resolution planning should allow the Board to be prepared for implementing a broader range of resolution options. While bail-in has been the preferred resolution tool for all G-SIIs and for the majority of banks under the SRB's direct remit (see Annex 1), some limitations relating to the liquidity, compliance and reputational risk may prevent the institution under resolution from returning to viability. It is therefore of paramount importance to: (i) increase the degree of flexibility of the resolution strategies, leveraging on a proper separability and transferability analysis, as well as to (ii) reflect on how the different resolution tools and powers can best be combined, as to deliver a resolution strategy that protects taxpayers while safeguarding financial stability.

Annex 1

Preferred resolution strategies and tools

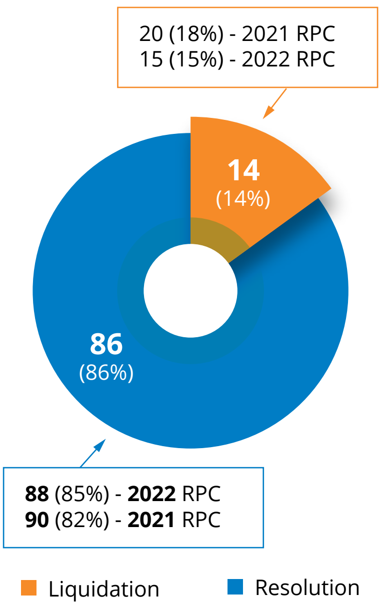
The main features of 2023 resolution plans remained broadly stable, with the Single Point of Entry strategy and bail-in tool being the most widely chosen features of resolution planning at the SRB. Slight differences in number of banks earmarked for resolution or liquidation compared to the 2022 resolution planning cycle were driven by banks' off-boarding from the SRB's direct remit and other bank-specific circumstances.

In 2023, out of 100[10] resolution plans developed for SRB's banks[11], 86 plans were earmarked for resolution (Figure 6). Liquidation was foreseen in 14 plans, overall accounting for 2% of Total Risk Exposure Amount (TREA). The banks earmarked for liquidation were mostly composed of smaller institutions or with a specific business model, in line with earlier cycles.

Bail-in remained the preferred resolution tool for the majority of plans (77%). For around a quarter (23%) of plans, sale-of-business was selected as the preferred resolution tool (Figure 7). To address circumstances in which the preferred strategy would not be feasible or credible, the SRB also assesses whether one or more variant tools should be considered.

Most of the resolution plans (68)[12] follow a Single Point of Entry Strategy (SPE) (Figure 8).

Figure 6. Banks earmarked for resolution or liquidation at the planning stage



10 The difference in the number of plans in 2023 compared to the numbers presented in other SRB publications (i.e. the 2023 SRB Work Programme, the 2023 Annual Report) stems from: i) banks leaving the SRB scope; and ii) four banks under simplified obligations, for which a resolution plan was developed in the 2022 and remains applicable for 2023.

11 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 planning of the ECB-SSM and SRB respectively. The number of resolution plans in the 2023 resolution 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 developed. Furthermore, it excludes the plans for which the SRB acts as a host resolution authority and only contributes to the drafting (Banking Union subsidiaries of banking groups headquartered in Non-Participating Member States).

12 The distribution of plans by resolution strategy excludes 9 plans for Banking Union subsidiaries of third country banking groups which follow the group resolution strategy.

Figure 7. Preferred resolution tool

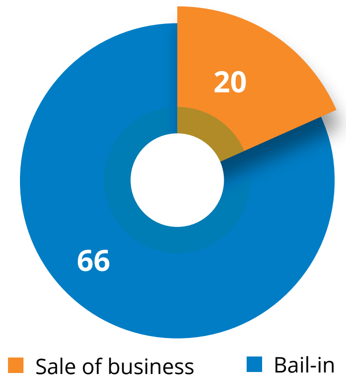
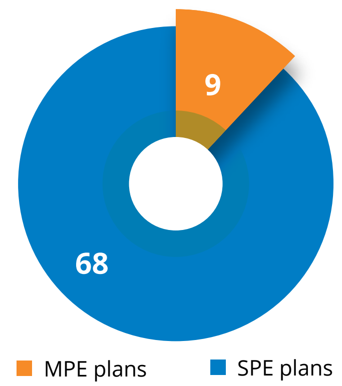


Figure 8. Single Point of Entry vs Multiple Point of Entry



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