Speech by Elke König at CER

'Coping with Covid: the next steps for banks', 15 December 2020

Good afternoon Christian, ladies and gentlemen, and thank you for the invitation to be part of a CER event once again. I last spoke in this forum almost three years ago in March 2018. Quite a bit has changed since then and I will be addressing some of those issues in my opening remarks to you this afternoon.

The SRB very much welcomes the opportunity to engage with civil society and with organisations such as the CER. The SRB, together with the national resolution authorities and our international partners such as the Bank of England have a great many experts on their payrolls. And yet despite this, we do not know it all. **We do not have a monopoly on wisdom**. That is why I enjoy taking part in events such as this one. I get the chance to put forward out points of view, our positions, our intentions – but more importantly, I get to listen to and understand a range of new views and positions, and often these are perspectives that can feed into further reflection when we are looking at implementing rules and policies in banking resolution in the future.

So, I might first of all look at the impact of Covid in this current year and then secondly, I will try to outline some of the main items coming down the track in 2021 and beyond – even if the future is always difficult to predict with great accuracy.

[The year that was 2020]

<u>So, to my first point</u>, **the year 2020:** this year was dominated really by one subject: **the pandemic**. It is only during these last few weeks that Brexit made it back onto everyone's mind.

The EU authorities, including the SRB, reacted rapidly and in a coordinated way to the crisis to the challenges posed by Covid.

The SRB's approach has been to support the banks where necessary with **operational and financial relief measures**, using the **flexibility in the EU's resolution framework**.

The SRB postponed data requests or the submission by banks of less urgent information related to the upcoming 2020 resolution planning cycle, but as it turns out, there were only minor delays and banks provided all the required information. In light of the challenges posed by resource constraints and adverse market conditions, we remain ready to address any issues in relation to specific requirements with banks on an individual basis.

We also took note of the measures adopted by EU authorities to provide capital relief to banks in support of the economy and will reflect this in our 2020 **MREL decisions**. In addition, **the SRB carefully monitors market conditions**, and reflects the potential impact on transition periods needed for the build-up of MREL. Based on the June 30th figures, the impact of Covid is still reasonably limited.

We have been doing all of this, **without compromising our ongoing focus on making banks resolvable, so that we can promote financial stability and protect the taxpayer. Covid does not change this direction of travel**. In fact, now more than ever, **we must ensure that every bank under the SRB's remit is resolvable.**

Just as in the UK, in continental Europe, certain sectors of the real economy are being severely hit and many businesses, in particular SMEs, are struggling. **The impact on banks balance sheets, in particular an inevitable increase of NPLs, will most likely take another few quarters to be felt,** given the current high level of government support for the real economy.

While certain support measures by European authorities might be necessary right now, **support for banks, or indeed for any business, should only be for those with a sustainable business model.** The exit strategy on current support measures will be a real challenge, and banks that were weak going into Covid will not have become stronger as we hopefully move forward next year.

Some ongoing **consolidation** initiatives show that some banking groups are seriously addressing problems facing the European banking sector, such as poor profitability. EU law does not require the approval from resolution authorities for any M&A transaction, but there is a clear "resolvability angle" to any corporate restructuring. The SRB supports any market initiative that enhances viability, and strongly encourages banks to reflect on resolvability, too, when entering into any such transaction. If you wish to know more, last week we published a guidance document on what we expect from banks undergoing corporate transactions such as mergers and acquisitions.

[Looking ahead – 2021 and beyond]

Now to the second part of my remarks – looking to the future.

For the SRB, in the coming years, our focus will continue to be on building resolvability. Our multi-annual programme for the years 21 to 23 was recently published. I won't go into too much detail as the unsurprising headline is that work at the SRB will continue to focus on making all banks under our remit resolvable. This relates to operational resolvability, as well as the necessary build-up of MREL, a key tool in resolution. **We must keep up the momentum on increasing MREL**, especially in light of the new rules and deadlines in the BRRD2 – this year has been a **transition year in terms of BRRD2 application.**

Another area of focus for the next few years will see the SRB **fully operationalise the use of resolution tools**, and their combined use. In this regard, more work is needed on **transfer tools in particular.**

We must implement the existing resolution framework as effectively as possible, working closely with our partners at national level in the EU, and working with banks themselves. Our '**Expectations for Banks'** document clearly shows the direction of travel for banks, and on top of that, we have recently sent dedicated work programmes for 2021 to all the banks under our remit. The 'Expectations for Banks' document sets out the capabilities the SRB expects banks to demonstrate in order to show that they are resolvable. It describes best practice and sets benchmarks for assessing resolvability. It also provides clarity to the market on the actions that the SRB expects banks to take in order to demonstrate resolvability.

The 'Expectations for Banks' is subject to a **gradual phase-in**. Banks are expected to have built up their capabilities on all aspects by the end of 2023, except where indicated otherwise. Where needed and on a bilateral basis, the SRB and banks may agree alternative phase-in dates. The Expectations are tailored to each individual bank and its resolution strategy, allowing for flexibility and proportionality.

In the coming years, we will also continue to build up the **Single Resolution Fund** until 2023, when it will be fully funded. We are on target at present. Just to remind you, the SRF is a fund that can be called upon in the case of resolution. I am also pleased that just a few weeks ago, agreement was reached at the Eurogroup to implement the backstop to the Single Resolution Fund earlier than originally planned; it will become available in 2022. The decision to implement the backstop effectively doubles the amount of firepower of the fund, and in this will provide confidence to the markets when it is needed most.

[Exiting / NPLs]

With vaccines being rolled out across the continent, there is reason to be optimistic that 2021 will see life and the economy return to something more 'normal'. This will bring about a whole series of questions around the exit strategy. We know that governments are providing manifold support measures for workers and for businesses, but at some point these will have to come to an end as an economy run on subsidies is in principle not desirable, especially if it creates '**zombification'.** What I mean there is businesses that are effectively acting like zombies, thanks to public supports.

For banks, no doubt one of the main concerns will be the rise in **NPLs.** Banks must put in place the measures to **identify and deal with NPLs, sooner rather than later,** and cautious provisioning has never been harmful. However, unlike the last crisis, if banks act properly and proactively, they can be part of the solution not the problem. The current crisis can also be seen as an opportunity for banks to look at **digitalisation and reorganisation** to become more efficient and customer-focused.

Before concluding, I will look at some of the **macro issues** on the radar for the SRB.

[Brexit]

On Brexit, the message is simple; **we are ready and we expect banks to be ready, too**. We continue to work with the national authorities right across the Banking Union and indeed our counterparts over there in the UK, and across the Atlantic, and to handle whatever situation we face in a fortnight's time. The information to EU industry has been clear and consistent for some time now.

Whatever happens, I am sure we will maintain our excellent working relations with the Bank of England.

[Completing the framework]

Within the EU, we must also work to **complete the Banking Union**. The final major priority in order to complete the Banking Union will be the development of a common deposit protection scheme at EU level. This is foreseen in the Banking Union legislation, but progress has been very slow.

The other area the SRB would like to see progress on is the development of a meaningful **Capital Markets Union** to allow capital to flow easily right across the Banking Union. At present, different legal systems and other regulatory barriers make investing in another member state in the EU less attractive than investing in the domestic market. Clearly, this is not ideal for the EU's internal market.

[Conclusion]

Ladies and gentlemen, I am coming to a close. I hope to have given you at least some food for thought on the position of the SRB on some of the major topics in the financial stability world at present. No doubt you will now have some interesting questions to pose on some of these topics.

Thank you for your attention.