

SRM-EBF Boardroom Dialogue – Agenda

12 June 2018 / European Banking Federation, Avenue des Arts 56, 1000 Brussels, Belgium

Thank you, Jose Maria. Ladies and gentlemen,

We have reached the end of the SRM Boardroom Dialogue meeting and it is my task to provide some closing remarks. After a long and intense dialogue this morning, I am the only obstacle between you and a tasty lunch, therefore I will be short.

First, I would like to thank all the speakers for their lively and stimulating presentations, as well as all the participants for the successful contribution to the conference.

I would definitively consider this first Boardroom Dialogue a true success. It has enabled us to better understand the supervisors' expectations on how to set MREL to achieve resolvability and it has helped identify the key issues in assessing resolution plans, including the arrangements needed, in terms of governance, organisation and procedure to properly manage the resolution process, if and when triggered. We also noted the impressive progress made in a short period of time, introducing new procedure and tools to address banking crisis. It was striking to see in the Lehman case the lack of any emergency procedure to address the crisis.

At the same time, we have heard from our colleagues in the industry what the main concerns and practical problems are in meeting the supervisors' expectations.

This morning discussion is a practical example of what is meant by "building resolvability together", as highlighted by Elke at the beginning of her introductory speech. From the Q&A sessions is also very clear that banks are adopting a proactive approach aimed at incorporating the "resolvability principles and tools" in the day to day management.

The first very clear conclusion we can draw is that banks and market participant needs certainty and therefore it is essential to stabilise and clarify the regulatory framework, which, unfortunately is not the case for the time being.

The second general remark is that european legislators, regulator and supervisors should try to strike a better balance between stability and growth, as stability is a precondition for growth but in the longer period there is no stability without growth. To this extent the different pieces of regulation developed in different time with different goals (sometimes not in a fully coordinated and consistent manner) should be assessed in a more holistic approach to highlight the possible unintended consequences and the possible negative interplay or overlap.

Beyond this general remark many issues have been discussed. Is a long list: the first session, opened by the remarks of Dominique, focused

- MREL calibration and setting at proper level the subordination requirement;
- How to properly implement the “proportionality principle” in the resolution framework. Jose Maria noted that not all banks have equal access to subordinated debt markets (this being more complex for medium and small banks), so their capacity to issue such instruments is not uniform across the industry, making such additional issues more problematic for certain types of banks;
- MREL eligibility criteria, with reference to liabilities issued under a third country law and subordinated liabilities;
- Market liquidity and the ability of the market to absorb at reasonable price the new issuance of MREL Eligible liabilities;

The second part introduced by and Mauro focused more on organisational aspects.

- how to ensure operational continuity and maintaining access to fundamental market infrastructure as well how to improve capacity to manage liquidity during resolution.

- How to ensure that the Eurozone will be considered a true single jurisdiction for regulatory and supervisory purposes in order to reduce the regulatory burden and uncertainty about key decision (such group restructuring) for cross border groups – as highlighted by Francesco Giordano – but, perhaps most importantly, to overcome the risk of ring fencing in a crisis.

It will be impossible to cover all the issues discussed so apologies if I forgot to mention some.

I will conclude noting that the transposition of the international Total Loss Absorbency Capacity (TLAC) standard into EU legislation and, particularly, the European self-initiative for a Minimum Requirement for Own Funds and Eligible Liabilities (MREL) risks being a major threat to the European banks capacity to continue financing the European economy.

In particular, I would like to point out the critical decision that **the ECOFIN** took in its session of 25 May 2018, regarding the level of the minimum **MREL subordination requirement** and the (flexibility) discretionary powers given to the resolution authorities in setting the level of subordination above the minimum subordination requirement.

The negative consequences of such an approach can be summarized as follows:

- 1) a disproportionate increase in funding costs which would be reflected in higher costs of credit for households and firms coupled with the risk of a new wave of deleveraging with negative impact on the economy at large,
- 2) lacking a fixed cap to the subordination requirement might increase the uncertainty for banks in planning new issuances of MREL eligible subordinated liabilities aggravating the risk of concentration or bottlenecks in the market;

3) it widen the competitive gap between US and EU banks, at a time when the new US administration has passed a law aimed at recalibrating the regulatory burden on US banks.

Therefore, along with the EBF Board, we requested the Bulgarian Presidency that a cap to the TLOF was placed at 8%, which is the less burdensome scenario, in order to avoid undesirable effects on the economy.

I would also make a point regarding the **attainability of MREL targets**. Beyond the risk of inflated MREL targets that are provided for in the Council text, I am also concerned that other elements emerging in CRR and CRD discussions are making the satisfaction of MREL more difficult to attain.

I am referring to the treatment of debt issued under third country law, and under the law of the UK, potentially a future third country.

In this sense, the **Brexit related issues** must be carefully assessed and properly managed.

Adequate **grand-fathering provisions**, applicable to both subordinated and senior preferred liabilities outstanding, should be included in the legislative texts. Notwithstanding some reassuring statement from the Commission, this does not appear to be the case in the current proposals.

In conclusion, I strongly believe that any calibration above the TLAC Term Sheet and/or its application beyond G-SIIs to a wider group of banks needs to be carefully tested by an impact assessment exercise to ensure that the benefits outweigh the costs and that the framework is consistent with the Commission's jobs and growth agenda.

It is time to close my final remarks and to officially announce the end of the SRB Boardroom Dialogue meeting.

Once again, I would like to express my appreciation to all the participants for taking time out of their busy day to attend the meeting. We hope to repeat this high-level event on a regular basis.

Now, on behalf of the EBF, I would like to invite you all to the networking lunch downstairs in the executive dining room.