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A European solution to deal with failures of medium-sized banks in the Banking Union

In Europe, we have built our resolution framework from scratch in just a few short years. This required prioritising tasks in the initial phases. Up to now, we have mainly focused on the operationalisation of the bail-in tool, as it is the preferred resolution strategy for most of the banks under our direct remit. We have done so because the largest institutions are those that imply a larger risk for financial stability.

One of our current priorities at the SRB is to work on the transfer tools at our disposal. The latter serves the purpose of improving the resolvability readiness of Significant Institutions falling under our direct remit with transfer tools as preferred resolution strategy. Indeed, experience has taught us that the failure of medium-sized institutions can also hamper financial stability, so all banks must be resolvable.

In such cases, the MREL targets are modulated through bank-by-bank adjustments to the recapitalisation amount. However, such transfer tools are not a free lunch, and they come at a cost. Indeed, where a key driver of value for the main assets transferred are the client relations, any transfer strategy must reflect the need to maintain these client relations. Bailing in non-covered deposits might in such cases damage client relationships and thereby possibly deplete the franchise value. Therefore, banks must build up the necessary MREL calibrated to ensure a successful exit from the market in case of failure.

The European Deposit Insurance Scheme (EDIS) is the main missing element of our Banking Union, intended not least to break the bank-sovereign-doom-loop. It is closely related to bank resolution. Indeed, we support further exploring the use of EDIS in resolution, in combination with the SRF. However, the existing restrictive rules for the use of DGS funds to support a sale of business put into question its operationalisation. Thus, we call for the removal of DGS super priority in the creditor hierarchy, and a review of the "Least Cost Test" to provide stringent and harmonised criteria across the Banking Union. Such amendments could provide solid funding options for the transfer tools, and subsequent exit of market of ailing medium-sized banks. Of course, the review of the crisis management and deposit insurance framework is inextricably intertwined with the discussions on EDIS that are taking place in parallel. Only EDIS would ensure a harmonised and European approach, guaranteeing the same level of protection for all depositors.

If this were not the case, it would lead us to an undesired outcome: the renationalisation of bank failures. Relying on national DGS funds and national decisions could put pressure to circumvent resolution and go for national solutions, especially in case access to DGS has lower burden-sharing requirements than the SRF. We cannot afford to go back to past mistakes based on inconsistent national solutions that inevitably reinvigorate the sovereign-bank doom-loop. Banking failures in the single market require a European approach.

All of the above is also closely linked to the need for a targeted harmonisation of the key features of bank liquidation regimes, to set the basis for a harmonised EU liquidation regime. This is important for us in order to carry out our Public Interest Assessment and respect the "non-creditor-worse-off" principle. The SRB would have administrative liquidation powers for banks under our direct remit, and National Resolution Authorities would have more consistent and efficient powers to transfer assets and liabilities in liquidation, to be funded through EDIS with a robust governance system within the Single Resolution Mechanism.

"Aller guten Dinge sind drei." BRRD3 must ensure that we have a well-functioning European solution for all banks. This requires ultimately granting the SRB with stronger powers to deal with bank failures in the Banking Union, together with the management of EDIS. I believe in completing our framework to reduce value destruction, increase and harmonise deposit protection, ensure transparency and reliability, safeguard public funds, and improve financial stability.