



Press Release

Luxembourg, 19 December 2017

Bank resolution: work started, but still a long way to go, say EU Auditors

The Single Resolution Board (SRB), which was set up to ensure the resolution of banks in the EU, is still “very much a work in progress”, according to a new report from the European Court of Auditors. Resolution is the restructuring of a failing bank in order to safeguard financial stability and public interests, with minimal costs to taxpayers. The auditors identified shortcomings in the contingency plans for bank resolution prepared by the SRB, which has been required to take on considerable responsibilities in a very short time span.

The SRB is a key element of the European Banking Union. Established in the wake of the 2008 financial crisis, its mission is to resolve failing banks with as little impact as possible on the financial stability and real economy of euro area Member States and others.

The auditors identified deficiencies in preparations for the full range of bank resolution arrangements that might be required. Although the SRB has worked long and hard to ensure that at least preliminary versions of their “resolution plans” are in place for most banks, those adopted so far do not meet the standards laid down, say the auditors.

“The set-up of the SRB from scratch was a very significant challenge”, said Kevin Cardiff, the Member of the European Court of Auditors responsible for the report. “Although its weaknesses must be seen in the start-up context, there is still a long way to go”.

The auditors make a number of recommendations relating to the rules and guidance for resolution plans, as well as for their preparation. They also address issues of staffing and the SRB’s legislative framework.

The SRB should first determine when the first rulebook-compliant resolution plan is to be drawn up for each bank, say the auditors. It should prioritise them in terms of the risk of failure. Each plan should address the resolvability of the bank concerned, including the determination of substantive impediments and the feasibility and credibility of the chosen strategies.

To ensure that the banking sector has enough loss-absorbing capacity, the SRB also needs to

The purpose of this press release is to give the main messages of the special report by the European Court of Auditors. The full report is on www.eca.europa.eu.

ECA Press

Mark Rogerson – Spokesperson T: (+352) 4398 47063

Damijan Fišer – Press Officer T: (+352) 4398 45410

12, rue Alcide De Gasperi - L-1615 Luxembourg

E: press@eca.europa.eu @EUAuditors eca.europa.eu

M: (+352) 691 55 30 63

M: (+352) 621 55 22 24

finalise a system of rules and guidance for resolution planning, including a policy for determining minimum requirements for banks' own funds and eligible liabilities. Guidance notes and a resolution planning manual need to be developed or updated, as appropriate.

Staffing delays have negatively impacted all areas of the SRB's activities, say the auditors, despite the commitment and motivation of its staff. The SRB needs to accelerate its recruitment efforts and resource its HR function appropriately, particularly for more specialised and senior posts. If staffing targets cannot be met, or if interim measures are required, the SRB should consider alternative solutions.

The distribution of operational tasks between national authorities and the SRB, including the division of responsibilities, is still unclear, and internal resolution teams are understaffed. The SRB urgently needs to address these issues, say the auditors.

Notes to Editors

To prevent a recurrence of the 2008 financial crisis, the EU has developed new institutional structures to ensure a safer financial sector. These include the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). This report focuses on the Single Resolution Board (SRB), which, together with national resolution authorities within the euro area, forms the SRM. There are about 140 banks under the SRB's remit.

Supervisors are in charge of the permanent prudential supervision of banks within their remit. If recovery or intervention measures are not effective, a bank is assessed as "failing or likely to fail" and the resolution authorities step in. The SRB, with the assistance of national resolution authorities, is responsible for contingency planning for the resolution of all significant banks and less significant cross-border banks in the euro area.

Resolution occurs where the authorities determine that a bank is failing or likely to fail and where there is no other supervisory or private-sector intervention to prevent this failure. If there is a public interest, the bank is resolved; otherwise, national insolvency procedures apply. Resolution should ensure the continuity of the bank's critical functions and preserve financial stability. The aim is to avoid future bail-outs and therefore to reduce the cost to taxpayers.

Special Report No 23/2017: "Single Resolution Board: Work on a challenging Banking Union task started, but still a long way to go" is available on the ECA website (eca.europa.eu) in 23 EU languages.