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EBA 2022 - European Resolution Examination Programme

Contents

Executive Summary	5
1. Introduction to EREP	6
2. Timeline	7
3. Key topics identified for the 2022 convergence plan for resolution purposes	8
3.1 Addressing MREL shortfalls	9
3.2 Management Information Systems for Valuation	10
3.3 Liquidity Needs in Resolution	11

List of figures

Figure 1: Generic timeline view of the EREP cycle	7
Figure 2: The key topics for the 2022 EREP	8

Abbreviations

BRRD	Bank recovery and resolution directive (Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014)
CA	Competent authority
EBA	European Banking Authority
EREP	European Resolution Examination Programme
ESEP	European Supervisory Examination Programme
EU	European Union
FSB	Financial Stability Board
MIS	Management Information Systems
MREL	Minimum Requirement for own funds and Eligible Liabilities
RA	Resolution authority

Executive Summary

According to its founding regulation, the European Banking Authority (EBA) shall contribute to enhancing convergence across the internal market and it shall play an active role in building a common supervisory culture and consistent supervisory practices throughout the European Union.

The EBA is launching for the first time a European Resolution Examination Programme (EREP) which aims at informing resolution authorities' (RAs') planning processes for selecting resolution planning priorities for 2022 and shaping their practices concerning selected topics on which European traction is needed.

On this basis, all RAs are expected to consider the following key topics when developing their 2022 priorities:

1. Addressing MREL shortfalls
2. Management Information Systems for Valuation
3. Liquidity Needs in Resolution

As done in previous years for the supervisory priorities, objective elements or attention points will be developed per key topic i) to support RAs in focusing their attention in relation to each key topic, ii) to contribute to comparable resolution practices across the EU, and iii) to facilitate the objective assessment at the end of the year by the EBA.

The EBA will monitor how the key topics, put forward by this document, are i) embedded in RAs' priorities for 2022 as well as ii) reflected in RAs' activities throughout the year. The EBA will use the most appropriate convergence tools at its disposal to conduct the assessment, in particular questionnaire and desk-based review. The EBA, through its participation in resolution colleges, will also monitor the level of implementation in the work of colleges. The result of these activities will feed a specific report to be published in Q1 2023.

Considering the importance of coordination between the resolution and prudential framework, the EBA will also follow up the recommendations formulated in the Report on interlinkages published last year, with initial focus on the specific aspect of coordination between resolution and competent authorities.

1. Introduction to EREP

1. The European Resolution Examination Programme ('EREP') is an EBA programme aimed at focusing greater attention on monitoring implementation, with a view to fostering greater convergence of resolution practices and informing the need for review/development of new regulatory products.
2. The programme has an annual calendar-year focus. The project is based on a yearly cycle with overlaps between the assessment of the performance of one cycle and agreement on new topics for the next one. One phase will encompass the coordination and decision processes for determining the key priority topics, followed by the implementation and monitoring phase.
3. The phase of implementation and monitoring will continue based on the outcome of the previous phase. It will require authorities to follow, as appropriate and relevant, the priorities set in the EREP. The EBA will monitor the implementation. The monitoring phase will run the next calendar year after priorities are set and will close with the publication of the report, estimated to be ready in Q1 of the year after the monitoring period.
4. Converging practices and methodologies contribute to achieving more consistency across the EU, which is indispensable also in the context of cross-border banking groups. Therefore, resolution colleges are also expected to implement these key items.
5. In previous years, the key priorities have been put forward by the EBA in the annual convergence plans for supervisory practices, which from this year will be called ESEP (European Supervisory Examination Programme). The evolution in naming reflects ongoing efforts to harmonise, to the extent possible, the EBA's convergence initiatives across the supervisory and resolution cycles.
6. While there are various areas that will warrant the attention of EU resolution authorities in 2022, the EREP puts forward a handful of key items that, in the view of the EBA, are important for a common EU traction regarding resolution practices. It is, however, equally important to channel institution-specific considerations into the RAs' priorities, alongside the EREP-driven priorities. Adequate attention should be given to relevant issues - institution or Member State specific - even if these are not mentioned in the EREP.
7. Among other aspects that will stay at the focus of EBA action, the coordination between resolution and prudential framework will still play a crucial role. Last year, the EBA published a Report on interlinkages¹ between recovery and resolution plans which explored the relationship between the two forms of plan. The Report makes a series of recommendations designed to support relevant authorities and institutions in making an effective interlinkage between

¹ <https://www.eba.europa.eu/eba-publishes-report-interlinkages-between-recovery-and-resolution-planning>

recovery and resolution planning. The EBA will appropriately follow up these recommendations and further consider exploring the type of practical issues that have emerged from this analysis.

2. Timeline

8. For the first cycle – priorities set in this paper – there will be no report in 2022. The first report, for the priorities set in 2021 and monitored throughout 2022, will be published in Q1 2023.

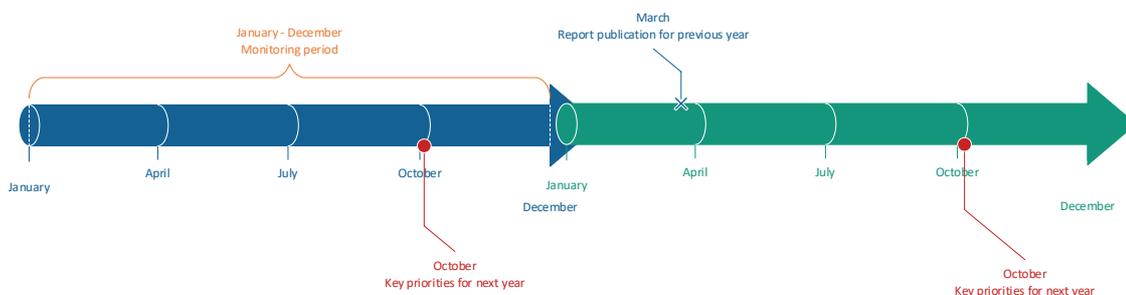


Figure 1: Generic timeline view of the EREP cycle

9. The EREP seeks to ensure that, across the EU, authorities simultaneously address issues that are considered important to improving resolution planning in the EU. To monitor the extent of progress on these topics, the EBA will review developments during the year from the following perspectives:
- Compliance:** if requirements of the Bank Recovery and Resolution Directive are being applied,
 - Comparability:** comparing how resolution procedures and methodologies are implemented, and
 - Consistency:** examining the outcomes of the approaches adopted to assess consistency.
10. The first EREP articulation proposes three main topics for the programme next year. The expectation is that resolution authorities will incorporate these issues into their individual work programmes for the year. The EBA will monitor the outcomes and publish the findings in a convergence report in 2023.

11. The EBA is aware that RAs could have additional, specific priorities at national level or targeted for specific institutions. The EREP should foster an EU traction around main resolution topics without decreasing the importance of additional, specific action.

3. Key topics identified for the 2022 convergence plan for resolution purposes

12. In selecting topics for review, the EBA has identified issues that are considered material to advancing resolution planning, relevant to the regulatory products that have recently been developed, broadly consistent with the priorities that resolution authorities are pursuing and where relevant, linked to tasks being pursued under the European Supervisory Examination Programme. The three proposals are set out below.
13. Each topic incorporates a number of objective elements and/or attention points to i) support resolution authorities in focusing their attention on key aspects of each topic, ii) contribute to the development of comparable resolution practices across the EU and finally iii) facilitate the objective assessment at the end of the cycle by the EBA.
14. The expectation is that EU resolution authorities will ensure that each of the identified areas is factored into their work programmes for the year. Harmonised analysis of these issues will help ensure that core topics are considered and addressed. Throughout 2022, but primarily in the final months and in early 2023, the EBA will employ various mechanisms to gather findings from each of the areas outlined in this note. In addition to ongoing monitoring through engagement in resolution colleges, the EBA will use questionnaires, surveys and may consider bi-lateral visits to selected authorities in order to collect relevant information.



Figure 2: The key topics for the 2022 EREP

3.1 Addressing MREL shortfalls

15. The most prominent resolution tool expected to be deployed in European Union (EU) banking failures remains the bail-in tool. Since the introduction of the BRRD in 2015, the development and implementation of policies with respect to minimum requirements for own funds and eligible liabilities ('MREL') has consistently featured among the main priorities of European resolution authorities.



16. The work has gathered momentum in recent years and Article 45(m) of the BRRD² provides for transitional arrangements toward the introduction of full MREL requirements by a deadline date of 1 January 2024. At this point, as part of the transitional arrangements, many authorities have set binding interim targets for banks to achieve (deadline date of 1 January 2022).

17. In the 'EBA Quantitative MREL Report' issued in February 2020, it was noted that, based on data as of December 2018, 117 resolution groups exhibited an MREL shortfall of EUR 178 billion, with levels varying depending on the type and size of the bank and its resolution group.

18. As the deadline for full binding requirements approaches, the EBA intends to make sure that attention on the need to close possible shortfalls is part of EU-wide action, and to monitor the approaches taken by resolution authorities to ensure that banks meet these obligations, although without disregarding the impact that the pandemic may have had on the capital and liability planning. The focus will, in particular, be on the existence of methodologies and processes put in place by RAs for the use of the powers available under Article 45 (k) BRRD. This provision provides authorities with a wide range of powers to address breaches that might occur, including the power to remove impediments to resolvability, prohibit certain distributions, restrict certain businesses, reduce risk, use early intervention measures, or apply administrative penalties. Understanding the circumstances in which powers are availed of and the actions taken to produce the greatest benefit, will aid authorities as the final deadline approaches.

² Inserted by BRRD 2

3.2 Management Information Systems for Valuation

19. In March 2020, the EBA published the Management Information Systems (MIS) component of the 'Handbook on Valuation for Resolution Purposes'. This dealt with the assessment, in the context of the resolvability, of institutions' capabilities to swiftly provide data and information to support a robust valuation in the event of resolution. This section of the Handbook was developed following the main body of work, which reflected the extent of the deliberations that were required for this important component of speedy and successful resolution.
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- An abstract digital visualization consisting of a grid of blue and white characters, resembling a data matrix or a digital code. The characters are arranged in a regular pattern, with some characters appearing more prominent than others, creating a sense of depth and movement. The overall effect is that of a complex, multi-layered digital environment.
20. An objective of the paper was to strengthen the convergence of resolution practices across the EU to ensure a level playing field and establish EU 'best practices and high-quality methodologies and processes'. Additionally, it sought to support resolution authorities in their interaction with institutions. The chapter focussed on institutions' internal capabilities, a combination of internal data aggregation capabilities and internal valuation models, alongside the development of a data dictionary for benchmarking purposes.
21. In 2022, the EBA intends to monitor progress made and challenges arising in the application of this element of the Handbook. It will seek to compare the approach of authorities to this aspect of the planning process and to make an overall assessment of the actions taken, as well as the degree of preparedness of EU banking groups.
22. The assessment will be broad-ranging and will include the timelines that resolution authorities have set for institutions to complete the development of Valuation MIS, the nature of analysis undertaken to ensure that essential information is available even under rapidly changing conditions, and the extent to which institutions have tested their management information systems under stress scenarios as defined by the resolution authority.

3.3 Liquidity Needs in Resolution

23. The importance of the availability of sufficient liquidity to ensure that institutions that have been placed into resolution can meet their liabilities as they fall due is self-evident. However, notwithstanding the prevalence of the liquidity problems during the global financial crisis, the development of the funding element of resolution plans is an aspect that has tended to lag behind other areas. There are a number of reasons behind this, for instance the complexity of developing methodologies to estimate funding needs, the capacity to measure and report requirements at short notice or the identification and mobilisation of collateral in a stressed environment.
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- A financial chart with a blue background. It features candlestick price data and a white wave-like line. Several numerical values are highlighted in blue boxes: '104.13', '86.72', and '72.88'. In the upper right area, there is a text label '61.6%: 92.19'. The chart also shows a bar chart at the bottom right.
24. However, following the 2018 publication by the FSB of the paper entitled ‘Funding Strategy Elements of an Implementable Resolution Plan’, the approach of resolution authorities to this area has evolved. Accordingly, at this time, it is considered appropriate to foster relevant action towards this objective and to commence monitoring progress in the EU on how advanced banks are in putting appropriate structures in place.
25. To commence work in this area, it is proposed that for 2022, the focus should be threefold: (i) the overall strategies that banking groups have used for seeking to ensure that there will be adequate liquidity in resolution, (ii) the methodologies that have been developed to estimate funding needs in resolution, with particular focus on the assumptions and scenarios considered, and iii) the capability of institutions to provide accurate data at short notice regarding liquidity needs and outflows, identification and reporting of assets which would be expected to qualify as collateral. It is considered that gaining a good understanding of how these elements have been/are being addressed will provide a valuable insight into the state of play in the EU and provide a basis for additional work in this area in the context of future iterations of the EREP.
26. Additionally, in terms of future areas of focus, the ‘Guidelines for institutions and resolution authorities on improving resolvability’ are expected to apply with effect from 1 January 2024. In preparation for this, it is considered that authorities need to understand the gap between the institutions’ current levels of preparedness and the expectations of the Guidelines (as set out in the Section 4.2). Understanding the findings of this gap analysis is likely to be an important area of focus for the EREP in the near future.