

4. Using SREP outcomes for early intervention and resolution purposes

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10-11 June 2015 | EBA Seminar on SREP Guidelines

Outline

1. Interplay between the supervision and resolution
2. Using SREP as triggers for early intervention measures
3. Using SREP as means to determine 'failing or likely to fail'

Interplay between supervision and resolution

CRD

authorisation, minimum requirements,
on-going supervision (SREP)

CRD sets requirements for (among others):

- **Authorisation** (including own funds, liquidity, governance, internal controls etc.)
- **Minimum own funds and liquidity**
- **On-going supervision** (SREP)
- **Supervisory measures** (including additional own funds and liquidity)

➡ Tasks for competent authorities

BRRD

recovery and resolution framework

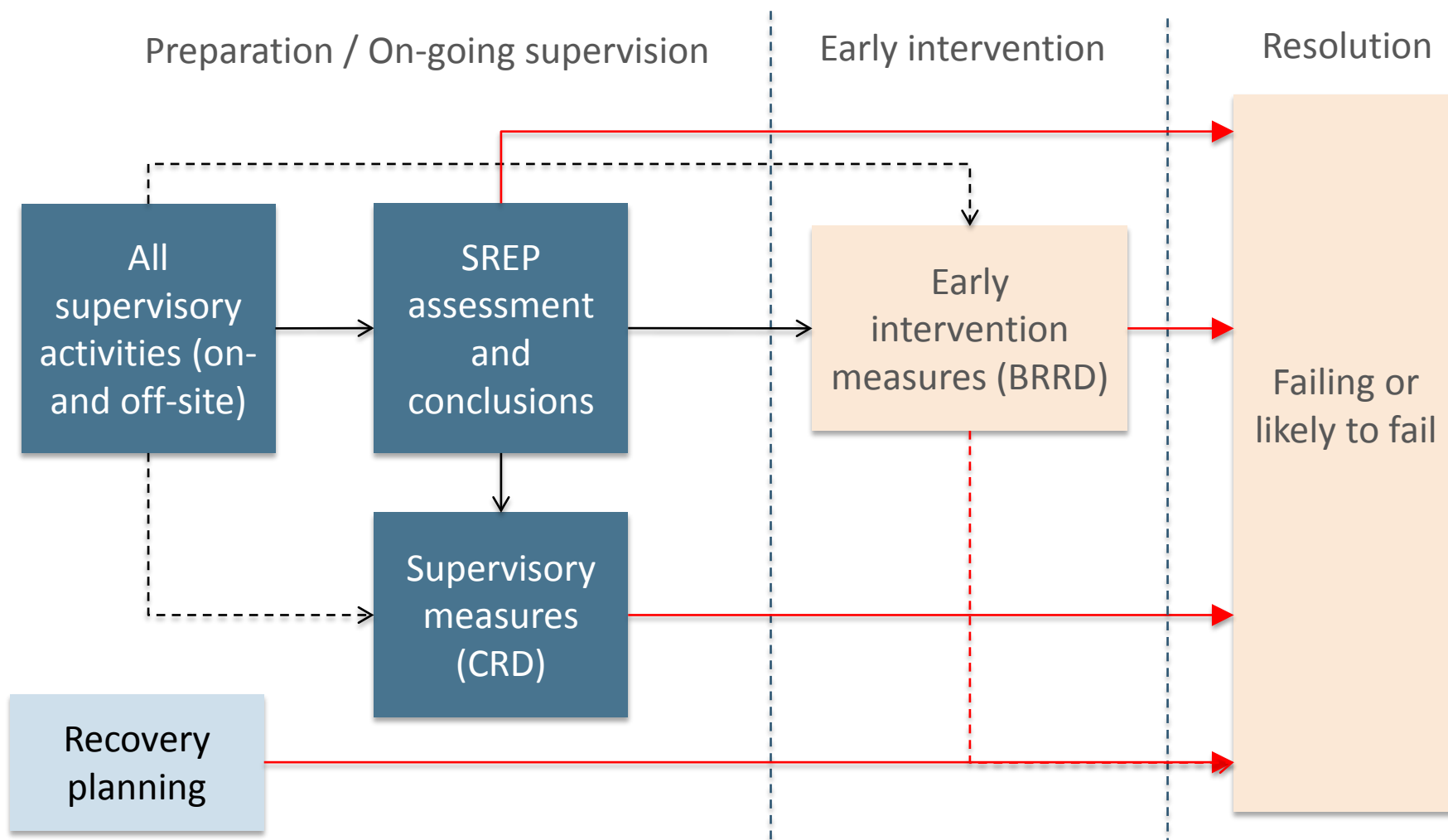
The BRRD establishes three pillars:

- **Preparation** (recovery and resolution planning)
- **Early intervention** (i.e. application of early intervention measures specified in the BRRD)
- **Resolution** (application of resolution tools based on determination that an institution is failing or likely to fail)

➡ Tasks for competent authorities and/or resolution authorities

Goal ➡ To ensure continuum and consistency between on-going supervision (SREP), early intervention and resolution

Continuum between on-going supervision, early intervention and resolution



Continuum explained in the guidelines

1. Guidelines on common procedures and methodologies for SREP (EBA/GL/2014/13)
2. Guidelines on triggers for use of early intervention measures (EBA/GL/2015/03)
3. Guidelines on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail (EBA/GL/2015/07)

Apply from
1 January 2016

GL on SREP

Assessment framework (SREP elements)

Assessment process

Assessment methodology

Scoring (definition and application)

Application of supervisory measures

GL on triggers for EI

Triggers based on SREP outcomes (scores)

Use of thresholds in the monitoring of indicators under SREP

‘External’ triggers: significant events

Decision on the application of early EI measures

GL on failing or likely to fail

Objective elements to be considered by authorities

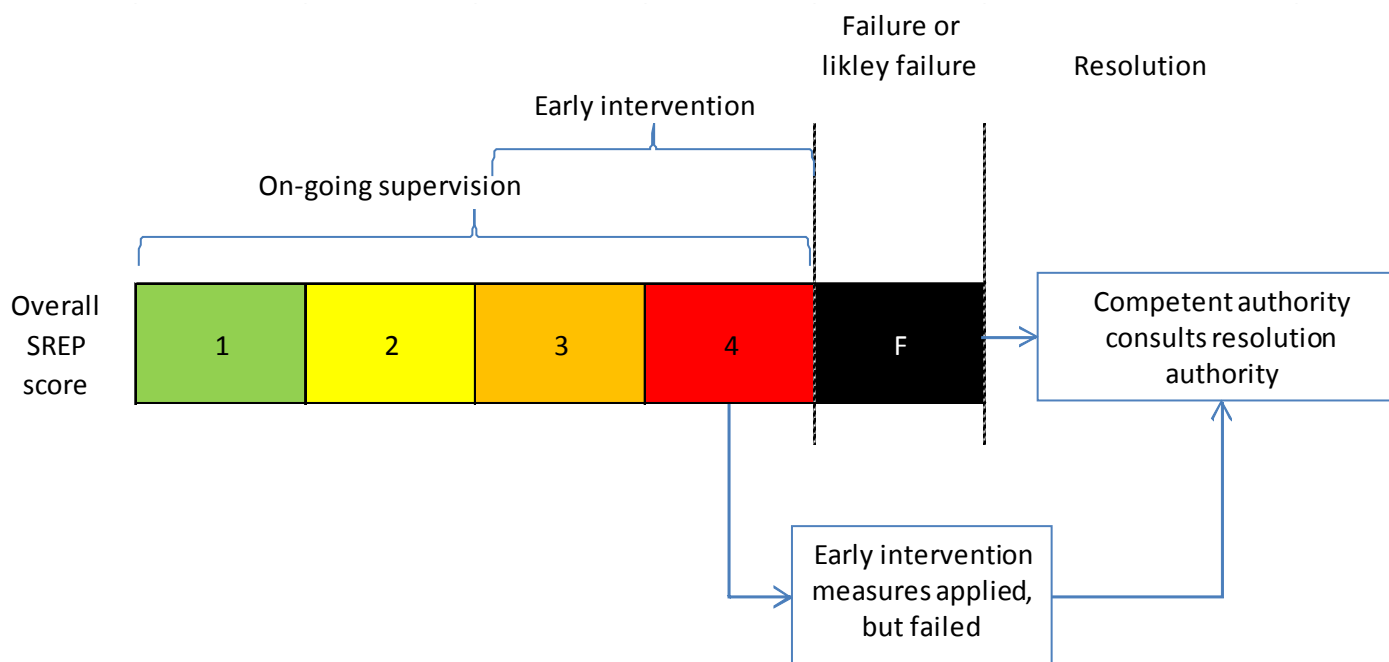
Using SREP for the determination

Determination by resolution authorities

Information exchange procedures, including SREP info

Using SREP scores as links in the continuum

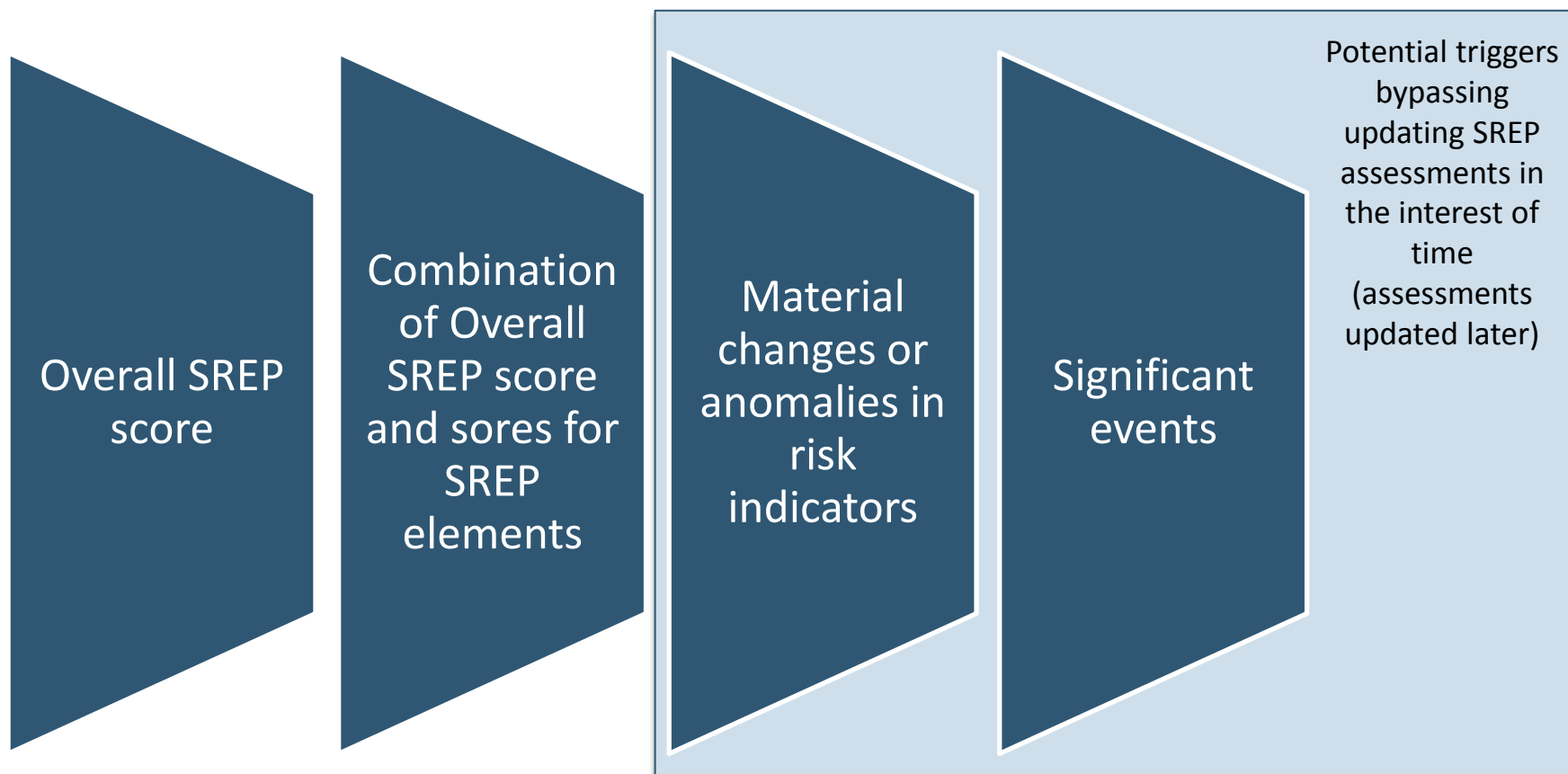
- Overall SREP score ('4') and combination of scores (Overall SREP score of '3' and any of the SREP element scores of '4') will be used as triggers for the decision on the application of early intervention measures
- Overall SREP score 'F' triggers consultation with the resolution authorities



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Triggers for application of EI measures



Breaching the triggers should prompt (a) further investigation of the situation, if the cause is not known, and (b) decision on the application of early intervention measures

2.2. Triggers based on SREP outcomes

Overall SREP
score is '4'

Overall SREP
score is '3'
and

- Score for internal governance and institution-wide controls is '4'
- Score for business model and strategy is '4'
- Score for capital adequacy is '4' or
- Score for liquidity adequacy is '4'

- SREP scores are assigned based on the requirements of the EBA Guidelines on common procedures and methodologies for SREP

Monitoring of indicators under SREP

CAs need to monitor indicators as part of SREP (at least quarterly)

Need to establish relevant set of indicators for each institution

Need to establish thresholds (absolute and relative) and monitoring patterns relevant to each institution

If monitoring reveals material changes or anomalies in indicators, CAs should:

1. Determine the cause and impact
2. Document the outcomes of the assessment
3. Review the assessment of the respective SREP element and score in light of material information
4. If the revised score leads to the breach of the trigger → decide on EI measure

Depending on the significance of situation and materiality of potential impact CAs may in the interest of time simplify the process and decide on EI without updating the SREP assessment

Significant events

Examples of significant events:

- Major operational loss event
- Significant deterioration in the amount of eligible liabilities and own funds held to meet MREL requirements
- Signals of the need to review asset quality and/or conduct independent valuation
- Significant outflows of funds, including deposits
- Unexpected loss and no replacement of management body /senior management members
- Significant rating downgrades

If significant event occurs:

1. Determine the cause and impact
2. Review the assessment of the respective SREP element and score in light of material information
3. If the revised score leads to the breach of the trigger → decide on EI measure

Depending on the significance of situation and materiality of potential impact CAs may in the interest of time simplify the process and decide on EI without updating the SREP assessment

Application of EI measures

- Early intervention measures are specified in Art. 27 BRRD
- Upon breaching the trigger and positive decision on the application of EI measure, the competent authorities should choose the most appropriate measure to address particular situation
 - However, when the Overall SREP score of “4” is assigned competent authorities should specifically consider gathering information for the valuation of institution’s assets and liabilities
- Competent authorities can apply both supervisory measures (Art. 104 – 105 CRD) and early intervention measures (Art. 27 BRRD)

The triggers described in the GL do not prevent competent authorities from applying EI measures when triggers are not breached, but competent authorities see a clear need for early intervention

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Conditions for resolution

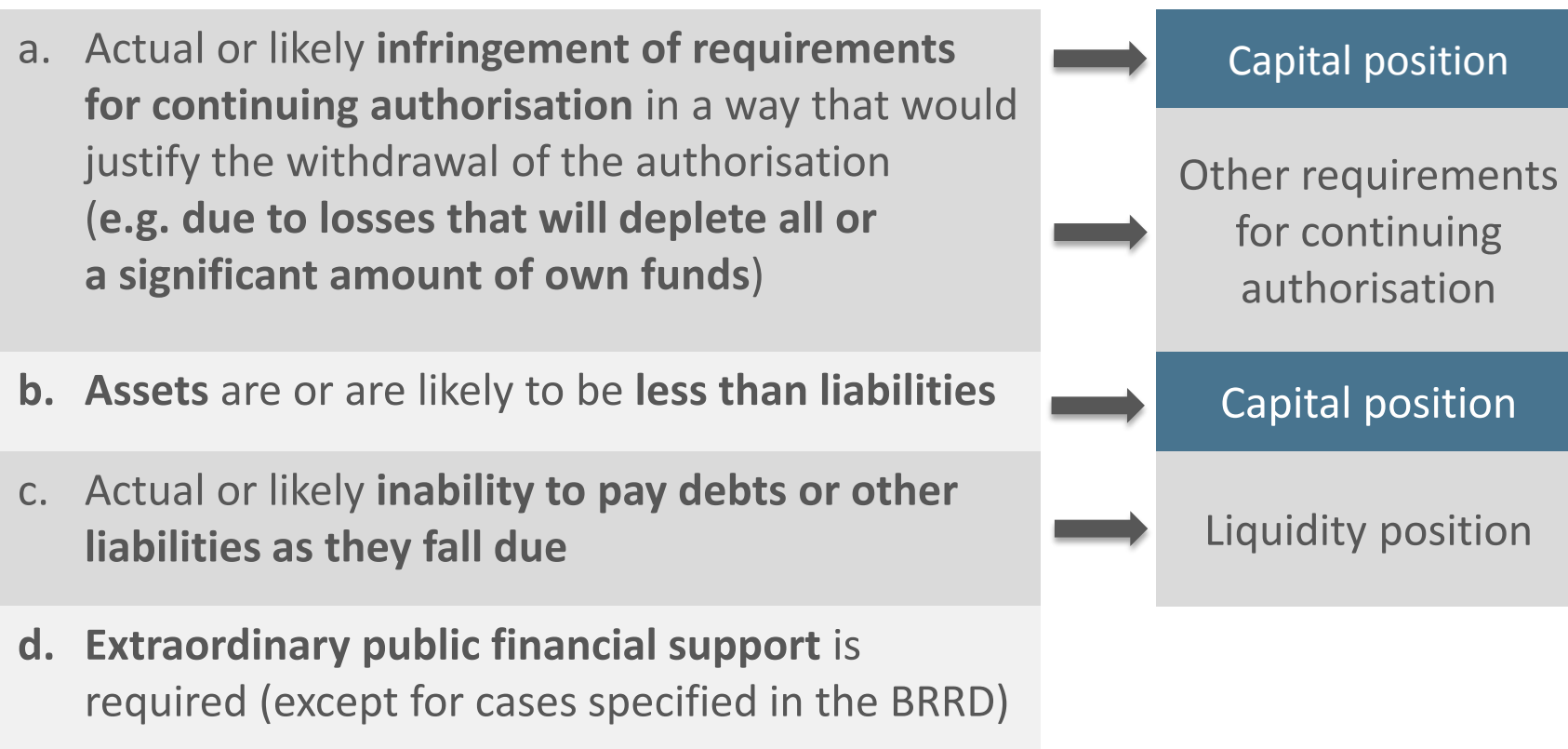
Art. 32(1) BRRD – conditions for resolution

1. Determination that an institution is failing or likely to fail
2. No reasonable prospects that alternative private sector or supervisory action would prevent failure
3. Resolution action is necessary in the public interest

A determination that an institution is failing or likely to fail does not automatically imply that a resolution action should be taken

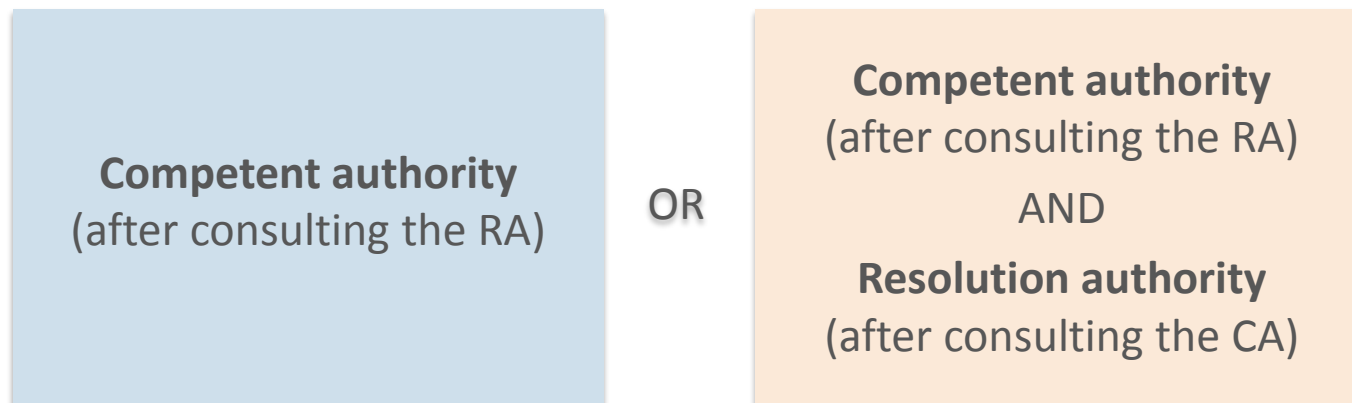
Failing or likely to fail circumstances

Art. 32(4) BRRD - circumstances when an institution shall be deemed as failing or likely to fail



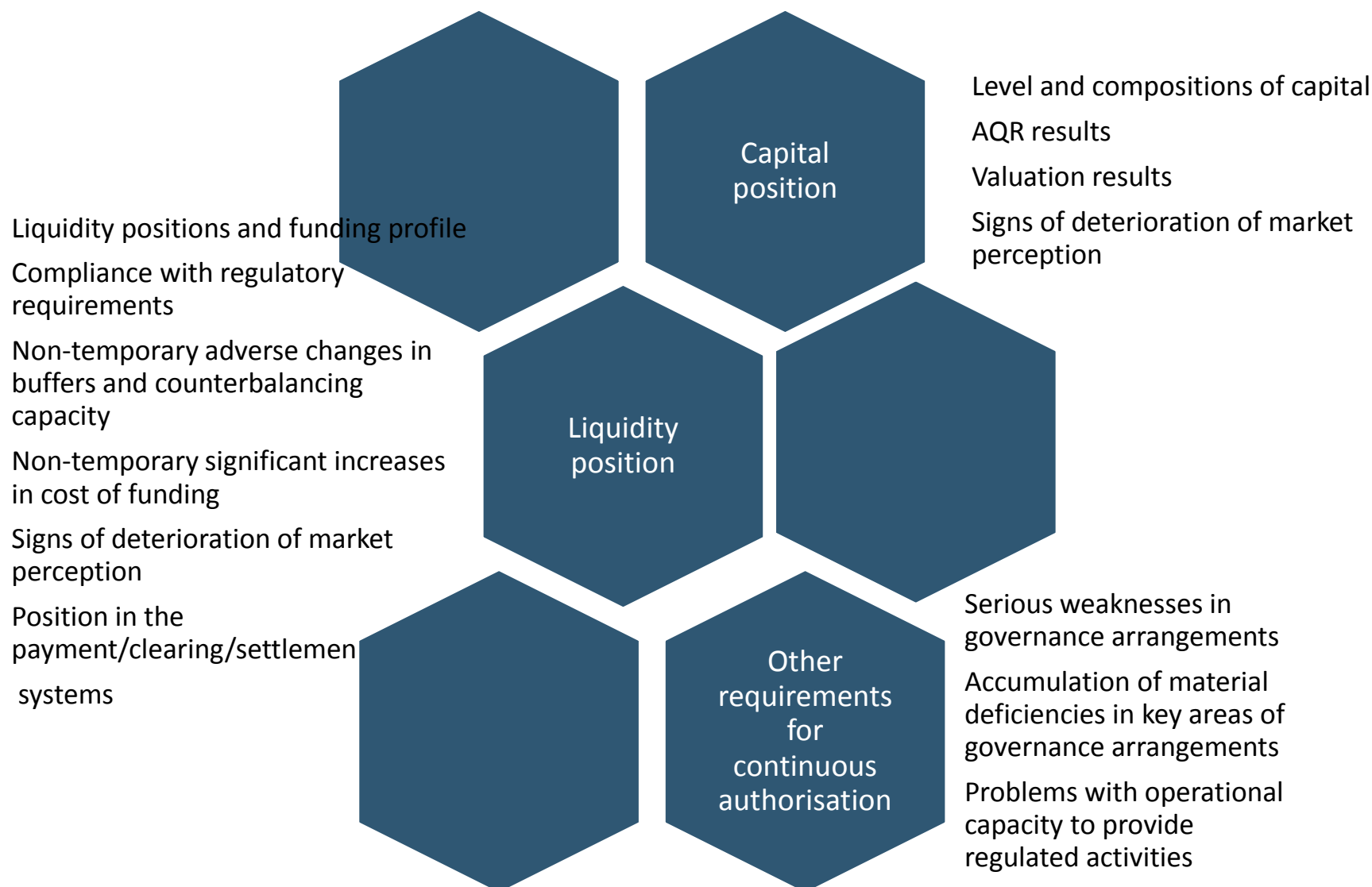
Role of the CA and RA

- Failing or likely to fail determination can be made by:



- **Different access to information** and interplay with institutions
- Guidance on **consultation and exchange of information** between CAs and RAs
On a continuous basis the CAs provide:
 - ✓ For all institutions: information on taking supervisory measures (Art. 104 CRD) and crisis prevention measures
 - ✓ For institutions with Overall SREP score of “4” or “F”: also additional information

Objective elements to be considered by authorities



Determination made by competent authority

Assessment of the objective elements by competent authority is done under SREP:

Overall SREP score of 'F'	Overall SREP score '4' <u>and</u>
	<ul style="list-style-type: none">• Failure to comply with supervisory or early intervention measures

Having made its own determination, the competent authority should consult on its findings with the resolution authority → conclusions on whether institution is 'failing or likely to fail' and next steps



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