BANCA NAȚIONALĂ A ROMÂNIEI

Preferred Resolution Strategy

-general considerations-

Vienna, 5 February 2019

Identification of the preferred resolution strategy

- ‘Preferred Resolution Strategy’ - a resolution strategy capable of best achieving the resolution objectives set out in Article 31 of Directive 2014/59/EU given the structure and the business model of the institution or group, and the resolution regimes applicable to legal entities in a group;

- An institution/group is resolvable if it is feasible and credible to apply the resolution tools (the bail-in, the sale of business, the bridge institution or the asset separation) and powers, with a view to preserve and continue the critical functions carried out by that institution/group entities, while avoiding significant adverse effects and system -wide events;

- The assessment of resolvability is possible only on the basis of an identified preferred resolution strategy by the Resolution Authority.

Identification of the preferred resolution strategy

Minimum criteria (art. 25 of Delegated Regulation 2016/1075):

1. resolution tools to be used and whether those resolution tools are available for the legal entity under resolution
2. the amount of MREL eligible liabilities, the risk of not contributing to loss absorption or recapitalization, and the legal entities issuing those qualifying eligible liabilities
3. the contractual or other arrangements in place for losses to be transferred between legal entities in a group
4. the operational structure and business model of the group
5. the enforceability of resolution tools – applicable in case of third countries
6. the resolution strategy requires supporting action by other authorities - applicable in case of third countries.

Identification of the preferred resolution strategy

Group-/ ownership- & governance-Structure	• The entities member of the group. The group organization and structure. No difference between BU/non BU members.
Business model/ core business lines/ critical functions	• The core business lines and the critical functions identified by each entity within the group.
Key financial figures	• The main financial figures of each of the group entities and at consolidated level.
Internal and external Interconnectedness	• The internal and external interconnectedness that can interfere with the implementation of the resolution tools.
Critical systems and Infrastructures	• The IT systems / FMI accesses critical for the continuity of critical functions.
Loss-absorbing capacity	• The size of losses that can be material for each of the group entities and at consolidated level
Separability	• The business activities that should be treated as one resolution unit due to their interconnectedness.

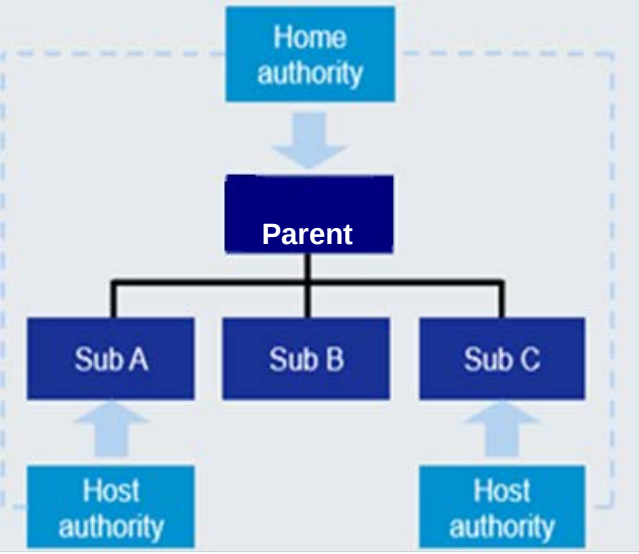
Source : Single Resolution Board - Resolution planning in the context of the Banking Union

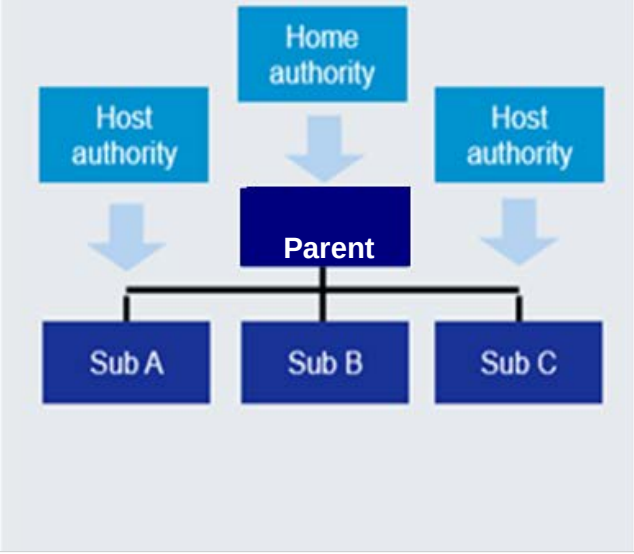
Identification of the preferred resolution strategy

There are two* main types of resolution strategies:

- **SPE** - means a resolution strategy involving the application of resolution powers by a single resolution authority at the level of a single parent undertaking or of a single institution subject to consolidated supervision.
- **MPE** - means a resolution strategy involving the application of resolution powers by two or more resolution authorities to regional or functional subgroups or entities of a group.

***)** There could also be a hybrid strategy that combine aspects of both resolution strategies.





Single Point of Entry Strategy

- Only the parent is subject to resolution, irrespective of where the losses occur, while the subsidiaries are able to remain open and operate during the resolution, thus avoiding hasty closures and interruption of business.

Within the group, losses are up-streamed and absorbed at the parent level and the parent down-streams capital and liquidity to support subsidiaries.

  - Internal MREL instruments issued by subsidiaries to the parent of the group;
  - External MREL issued by the parent to external parties;
  - The group operates in a highly integrated manner, including by having centralized liquidity management, risk management, treasury functions, or IT and other critical shared services;

- Post resolution, the group structure remain unaffected.

Multiple Points of Entry Strategy

- The resolution strategy involves the application of resolution powers by two or more resolution authorities to regional or functional subgroups or entities of a group.

- Instruments eligible for MREL recapitalization components are issued to third parties. Eligible MREL liabilities are expected to contribute to loss absorption and recapitalization at the level of the each subsidiary under resolution.

- MPE strategies require actions to be coordinated across jurisdictions so as to avoid conflicts or inconsistencies that undermine the effectiveness of the separate resolution actions, disorderly run or contagion.

- As a consequence of the capital dilution the subsidiary will break from the group.

Suitability of SPE strategy

- SPE strategy is more appropriate when:
  - the group structure and operations highly integrated: example, shared services are provided by a common and unique company located below the top-tier holding company for the whole group, centralized liquidity, trading, hedging and risk management;
  - high dependencies of material entities and core business lines on infrastructure, information technology, treasury or finance functions, employees or other critical shared services;
  - sufficient MREL eligible instruments available at the top parent entity capable to absorb potential losses sustained within operational subsidiaries or other affiliates of the group that are intended to be maintained in resolution;
  - in line with the logic behind the authorization of cross-border groups of the Romanian subsidiaries, namely the capacity and willingness of the parent to provide the necessary support in case of the difficulty of the subsidiaries.

Suitability of MPE strategy

- MPE strategy is more appropriate when:
  - the group has decentralized structure and financial, legal and operational separation along national or regional lines, with sub-groups of relatively independent, capitalized and separately funded subsidiaries, which operate on a standalone basis;
  - there is capacity to separate, disentangle and eventually sell the subsidiary without having any interconnections with the (former) group;
  - decentralized material entities and core business lines on infrastructure, information technology, treasury or finance functions, employees or other critical shared services;
  - each legal entity in the group has sufficient external MREL eligible instruments to cover its potential losses in resolution.

Challenges. Market circumstances (1)

- In Europe, the PRS for most of the cross-border groups is SPE strategy, except some groups with full decentralized business model, which apply a hybrid strategy (SPE within the clusters and MPE between clusters).

- Operational interdependence would be a strong indicator and reason why an SPE strategy would be more feasible (shared service centers, group policies and procedures, centralized IT system)

- Lack of MREL instruments at subsidiary level. Low appetite of investors. Narrow local market for debt instruments. Therefore, the logical approach is that the subsidiaries will rely only on debt instruments issued towards parent entity, making the SPE as the only suitable strategy for cross-border groups

Challenges. Market circumstances (2)

- A pure MPE strategy would imply issuing debt instruments with higher premiums, as the subsidiary`s rating is lower than the parent’s rating.

- Deposit based banks - grounding MREL on the local market deposits is not realistic.

THANK YOU!