# Speech by François Villeroy de Galhau, Governor of the Banque de France and President of the ACPR

## ACPR conference of 22 November 2017
## Bank resolution: from regulation to implementation

Ladies and Gentlemen,

I am delighted to welcome you to this new conference organised by the *Autorité de contrôle prudentiel et de résolution*. For the first time, the morning of this conference will focus on bank resolution. This is always a somewhat paradoxical subject: if we are spending time on it today, it is in the hope that we will never have to deal with it in the future. "*Si vis pacem, para bellum*", as the Romans said... just as they prepared for war to maintain peace, we must be fully prepared for a crisis if we are to avoid it.

But I would like to start by noting an important victory: that of Paris and France, which will welcome the European Banking Authority. It represents an achievement for a highly motivated and dynamic team, as well as a threefold recognition, i.e. that of the attractiveness of France and the Paris financial centre today; the richness of a financial ecosystem that boasts one of Europe's most impressive talent pools; and lastly, I believe, the quality of the public regulators and the supervisor – the ACPR. And the European Banking Authority's decision to move from London to Paris clearly bodes well for other post-Brexit financial relocations.

There is no better time to talk about resolution, as this year, 2017, has seen the adoption of the first resolution decisions and the management of several crisis cases, which have been a baptism of fire for the Single Resolution Mechanism.

The Banking Union, which is a major step forward for the euro area, is now operational, based on a single rulebook and – already – two pillars: the Single Supervisory Mechanism (SSM) since the end of 2014; and the Single Resolution Mechanism (SRM) since the beginning of 2016. Those two pillars should be supplemented by a third pillar, Deposit Insurance, for which we will need to find practical and reasonable compromises. But today I would like to focus on two cross-cutting challenges that are less often discussed: consistency and consolidation. As you will see, both involve resolution. However, it is my goal this morning to go further and consider the completion of the Banking Union as a whole.

## I. <u>The first challenge is to achieve better consistency between regulation, supervision and resolution, at three levels:</u>

- First, consistency in the **concrete mechanisms**: finalising and simplifying the resolution pillar should be a priority. The case of the Italian bank failures has illustrated just how complex it is to combine the resolution regime laid down in the Bank Recovery and Resolution Directive (BRRD) with the State aid framework for orderly liquidation. In addition, confidence in the Single Resolution Fund (SRF) and its capacity to intervene has to be bolstered. The setting-up of a common backstop, as mentioned in the European Commission's communication of 11 October, is a promising avenue, which could take the form of a credit line granted by the ESM (the European Stability Mechanism). If it is placed within the ESM's remit, the rules for triggering this backstop could be introduced during the ESM governance review. Furthermore, this avenue could provide a partial response to the issue of the **liquidity** of newly resolved entities – mainly the "good banks" –, which has not yet been addressed with sufficient clarity: liquidity support from public sources, beyond what can legitimately be expected from the Eurosystem, should be clarified.

- Second, consistency in the **legal framework and requirements**: faced with the accumulation of new and "separate" requirements, we need to adopt a holistic and consistent approach in order to avoid a prudential overload. In particular, the Total Loss Absorbing Capacity (TLAC) requirement resulting from the new international framework requires a consistent adaptation of the European minimum requirement for own funds and eligible liabilities (MREL). Therefore, the MREL targets should be set on the basis of updated prudential requirements – pillar II and buffers – and the most up-to-date financial position of the banks concerned. It is a question of consistency. In the same vein, the consequences of the Basel III reforms package – when it is finalised – should be carefully

taken into account, as it may lead to increased risk-weighted assets, which could in turn impact the MREL. All these regulatory developments, combined with changes to pillar II capital requirement amounts, could lead to over-calibration: each individual decision may be warranted; but their somewhat disorderly accumulation is not. And naturally, in setting these requirements, we must not jeopardise the level playing field between euro area banks and their international competitors.

- Third, consistency in the **interaction between authorities**, which should be improved: the case of Banco Popular in Spain, although it was resolved satisfactorily, also demonstrated the importance of swift and close cooperation between supervisory and resolution authorities, both at European and national levels. There is no denying that there is still a need to better coordinate the roles of the different European authorities – the SSM and ECB, the SRM, the Commission, and the European Banking Authority – in order to have a more clearly established "pilot in the plane" for crisis management. We still need to define the roles in order to decompartmentalise the different pillars and guarantee a continuum, which is vital to the smooth running of operations. But we must give our unequivocal support to these authorities in the performance of their duties: when the SSM, chaired by Danièle Nouy, and the ECB propose standards for the provisioning of new non-performing loans, they are operating fully within their remit to prevent future crises and ensure the convergence within the euro area that is at the heart of the Banking Union. We will see what the precise outcome of the present dialogue will be, but already I would like to say that I find some of the resistance shown by banks generally, and even more so, the controversy that has arisen in Italy in particular, inappropriate and unfounded. For non-performing loans, we have to plan ahead if we are to stop picking up the pieces afterwards. If we ever needed proof of the necessity for independent European supervision, this controversy has provided it.

## II. The second challenge is to encourage consolidation within the Banking Union

Consolidation must be the result of consistency, and consistency is considering the Banking Union as a unique jurisdiction.

- **We must therefore stop hindering cross-border bank consolidations in the euro area.**

We need to ensure that the implementation of new regulations does not give rise to new barriers. The development of cross-border banking activities is essential to reinforcing the single market, facilitating the allocation of savings and financing investment. We still lag far behind the American market in this respect: the market share in the United States of the top five banks is more than 40% whereas the market share in the euro area of the top five banks is less than 20%. Sound and safe cross-border consolidations would make banks better able to diversify their risks across the euro area, and channel savings more effectively towards productive investment. This is what I called a "Financing Union for Investment and Innovation", notably to shore up equity, which is the key to an innovation economy. The aim is crystal clear: within a Monetary and Banking Union, a cross-border merger must not be more difficult and cumbersome than a “domestic” merger.

Several levers must be pulled if the obstacles to these activities are to be removed. From a supervisory point of view, this involves promoting a consolidated approach by granting more waivers on liquidity and capital so as to allow more flexible capital allocation and limit ring-fencing. From a resolution point of view, internal MREL requirements should be a tool to facilitate the resolution of institutions, but they would become meaningless if calculated on a national basis. They must be calculated at the level of the Banking Union, considered as a unique jurisdiction. Indeed, compartmentalising an internal MREL within national borders would be an obstacle to the single market and European banking cross-border mergers. As a first concrete step, I suggest that the European Banking Authority publish a comprehensive stock-taking of all the regulatory and supervisory obstacles to cross-border activities and mergers.

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**Conclusion:**

Banks must be prepared for these extreme situations because:

- There is no such thing as zero risk, despite the improvements to prudential regulations and the reinforcement of banks' financial capacity.
- The failure of a single participant, even one considered to be secondary, can have systemic effects, as even the largest groups are now no longer immune. Since 2011 and the end of the "too-big-to-fail" doctrine, these groups have become increasingly aware of this, and have drawn up their recovery plans and worked closely with the authorities to ready themselves for crisis situations.

The role played by the authorities in these continued efforts is crucial. Accordingly, the ACPR in France, and the ECB and the SRB at Banking Union level, guide and support these efforts, while also preparing for failure scenarios.

To this end, as of 2015, the ACPR has provided a decisive boost that has led to the drafting of the first resolution plans by France's leading institutions. Today, all institutions under the authority of the Single Resolution Board have a resolution plan in place. As for the institutions under the direct responsibility of the ACPR, a first wave of plans has been completed and plans will be finalised for all the 142 institutions concerned at the end of 2018.

These combined efforts to pre-empt and to manage crisis situations must therefore be maintained in order to ensure the continuity of banking operations that are essential to the functioning of the economy, to avoid harming financial stability, to protect the resources of the Member States and to strengthen protection for depositors and investors.