

SRB RESOLUTION AND VALUATION
FLORENCE SCHOOL OF BANKING AND FINANCE



1. SINGLE RESOLUTION BOARD & SINGLE RESOLUTION MECHANISM

1

SRB mission &
division of tasks
within the SRM

2

SRB objectives &
main tasks

1.1 | SRB MISSION & DIVISION OF TASKS WITHIN THE SRM

BOARD



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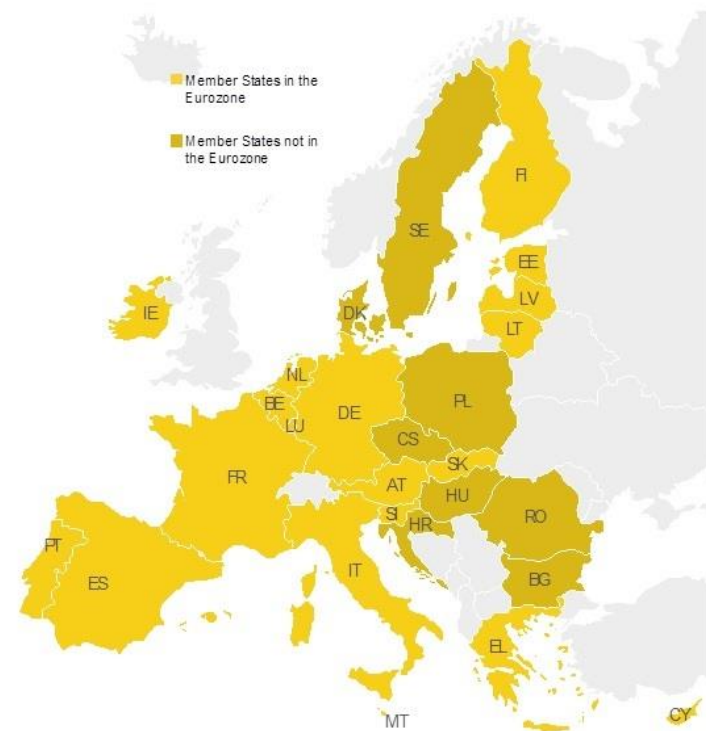
BOŠTJAN JAZBEC
Director of the Board



JESÚS SAURINA
Director of the Board

MISSION

The mission of the SRB is to ensure an orderly resolution of failing banks with minimum impact on the real economy and the public finances of the participating Member States of the Banking Union.



1.1 | SRB MISSION & DIVISION OF TASKS WITHIN THE SRM



THE SRB TOGETHER WITH THE NATIONAL RESOLUTION AUTHORITIES (NRAs) FORMS THE SRM

-
- ✓ The SRB closely cooperates with the NRAs
-
- ✓ The SRB is directly responsible for:
 - Significant banks
 - Cross-border banking groups
-
- ✓ NRAs are directly responsible for all other banks. SRB could 'take over' direct responsibility.
-

1.2 | SRB OBJECTIVES & MAIN TASKS

OBJECTIVES

- ✓ To help avoid destabilising financial markets and minimise the costs to taxpayers
- ✓ Ensure continuity of critical functions in case a bank must be resolved
- ✓ Safeguard* financial stability at Member State & prevent contagion
- ✓ Protecting public funds
- ✓ Protect depositors, investors, client funds and client assets

MAIN TASKS

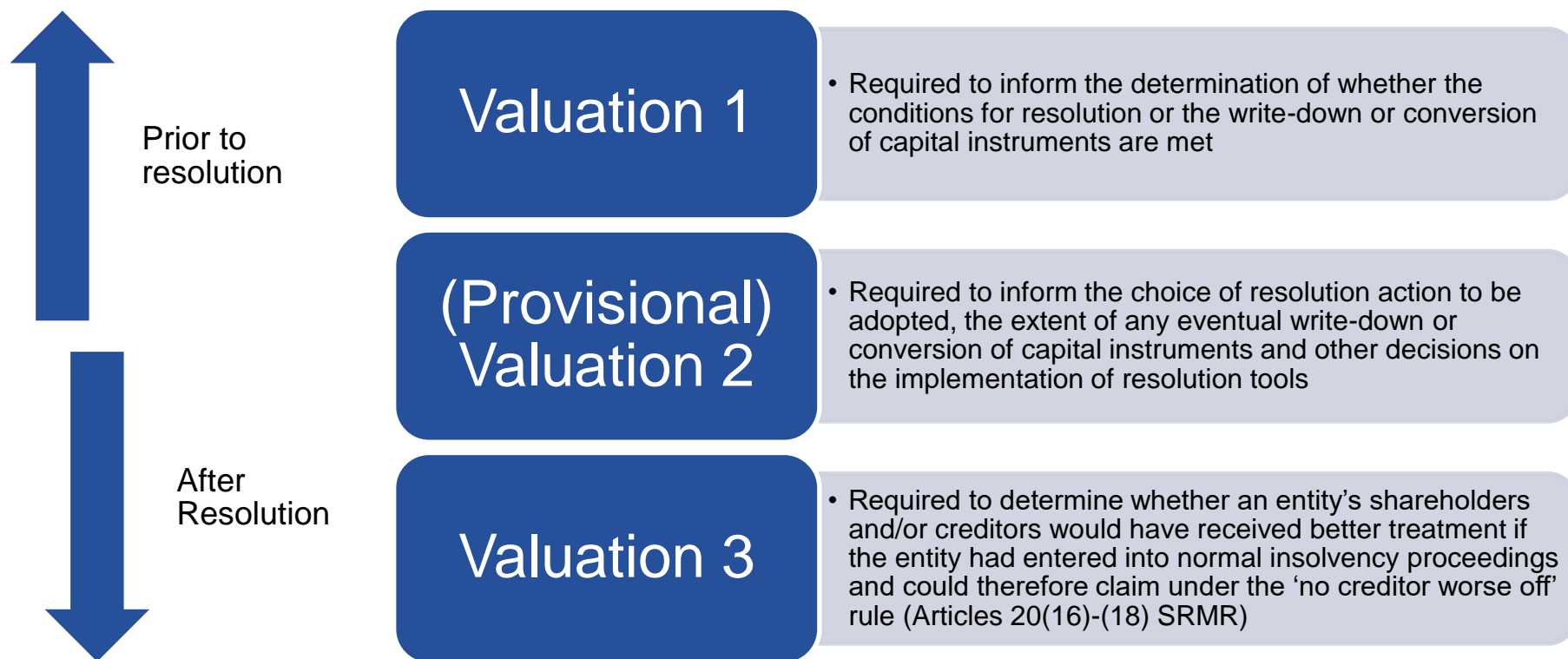
- ✓ Resolution plans
- ✓ MREL
- ✓ Assessment of resolvability and obstacle removal
- ✓ Elaborate and enact resolution schemes
- ✓ SRF

**PROTECT &
CONTROL**

* Safeguards include: *Pari passu* principle
'No Creditor Worse Off' principle

2. VALUATION IN RESOLUTION: BACKGROUND

2.1 | BACKGROUND



“Banks are expected to have adequate Management Information Systems (MIS) and the supporting technological capabilities and infrastructure in place to provide information necessary to perform a fair, prudent and realistic valuation in resolution. As part of the resolvability assessment, the BRRD requires that Resolution Authorities assess the institution's MIS readiness.”

2.1 | BACKGROUND

- ▶ The SRB has defined guidelines for valuation of banks in resolution:



» Framework for Valuation

- ▶ A key building block of this exercise is the definition of a standardised Data Set covering the minimum data needed for the valuation of a bank in resolution.
- ▶ In line with that objective, the SRB has worked on the implementation of the EBA Data Dictionary for the institutions under the SRB remit:



» SRB Data Set for valuation in resolution

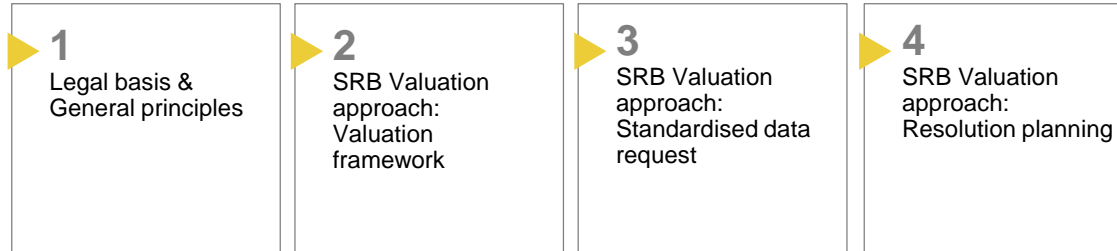
Objectives

Improve and harmonize the set of data used by the banks

Enable banks to adjust their systems in order to adhere to the short timelines of data requests in a resolution situation.

In case of a provisional valuation, help valuers to tailor their models and speed up the process.

3. SRB VALUATION APPROACH



LEGISLATIVE FRAMEWORK



- ▶ Directive 2014/59/EU (BRRD) and Regulation (EU) No 806/2014 (SRMR) provide the framework of powers of resolution authorities to intervene and resolve failing or likely to fail banks.
- ▶ To support and inform the decisions of the resolution authorities regarding resolution actions, the framework relies on valuations for a number of purposes, inter alia: (i) informing the determination of whether the conditions for resolution or the write-down or conversion of capital instruments are met (“Valuation 1”); (ii) where the resolution authorities determine that an entity meets the conditions for resolution, informing the decision about the implementation of resolution tools (“Valuation 2”), (iii) determining if shareholders and creditors of an institution would have received a better treatment if the entity under resolution had entered into normal insolvency proceedings (“Valuation 3”).
- ▶ It considers the methodological options in relation to the use of a specific resolution tool, always taking as a starting point the definitions of ‘hold value’ and ‘disposal value’ and the methodological approaches established in the CDR 2018/345 . It also takes into account the principles established in CDR 2018/344 .

3.2 | SRB VALUATION APPROACH: VALUATION FRAMEWORK

RESOLUTION FRAMEWORK

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- The purpose of the valuation framework is to provide a unified guidance to the independent valuers when performing valuation exercises for the SRB.
- The draft valuation framework has been discussed in a workshop with valuers.
- The Valuation Framework has been edited to incorporate input from the SRB team and Independent valuer.

3.2 | SRB VALUATION APPROACH: VALUATION FRAMEWORK

KEY CHARACTERISTICS OF VALUATION 2 AND 3

The table below summarizes the key characteristics of Valuation 2 and Valuation 3, based on information from the CDR 2018/344 and CDR 2018/345:

	Valuation 2: Resolution valuation	Valuation 3: Insolvency valuation
Purpose	"Inform the choice resolution action to be adopted, the extent of any eventual write-down or conversion of capital instruments and other decisions on the implementation of resolution tools"	"Determine whether an entity's shareholders and/or creditors would have received better treatment if the entity had entered into normal insolvency proceedings"
Timing	Ex-ante	Ex-post
Basis	<ul style="list-style-type: none"> Economic value which fully recognises all losses and is fair, prudent and realistic The measurement basis (the hold or disposal value) is made as appropriate for the resolution tools considered Based on expected bank structure after the resolution, reflecting impact of chosen resolution tools 	<ul style="list-style-type: none"> Gone concern basis Based on counterfactual normal insolvency proceedings
Valuation date	<ul style="list-style-type: none"> Expected date of resolution 	<ul style="list-style-type: none"> Resolution decision date
Approach	<ul style="list-style-type: none"> Valuation should leverage assumptions around future business projections, that are in line with the resolution tool employed and the entity's post-resolution business/restructuring plan Discounted cash flows, market prices for same or similar assets, information from comparable transactions and expert judgement can be used in the valuation exercise Valuation should reflect the effects of the resolution tool employed Sale of business tool Bridge institution tool Asset separation tool Bail-in tool 	<p>Two separate calculations are performed in order to compare the treatment of creditors and shareholders under the actual resolution scenario versus under normal insolvency proceedings:</p> <ul style="list-style-type: none"> (1) Normal insolvency proceedings <ul style="list-style-type: none"> Discounted expected cash flows reflecting: Insolvency law/practice in the jurisdiction Costs associated with the insolvency process Similar cases from recent past (2) Actual treatment of creditors and shareholders If equity compensation is provided, market price of equity transferred or issued should be estimated If debt compensation is provided, change in contractual cash flows of the debt security should be considered For both types of compensation, observed market prices for same or highly similar instruments may be used

3.2 | SRB VALUATION APPROACH: VALUATION FRAMEWORK

RESOLUTION TOOLS

The table below provides a comparison of the resolution tools and its reference to RTS:

Resolution tool	Valuation objective	Reference to RTS
Bail-in	Assets, liabilities and post-conversion equity value	<ul style="list-style-type: none"> A post conversion value of the equity must be given (RTS Chapter III Article 10 (5)) Hold value shall be used as the measurement basis (RTS Chapter III Article 11 (4))
Sale of business	<ol style="list-style-type: none"> For sale of the business: value of equity For sale of a portfolio of assets and liabilities: value of assets minus net present value of liabilities 	<ul style="list-style-type: none"> Hold value shall not be used as the measurement basis (RTS Chapter III Article 11 (4)) Expected cash flows shall correspond to foreseen disposal values if the sale of assets is envisaged (RTS Chapter III Article 11 (5) and Article 12 (4)) Disposal value should be determined based on cash flows and any discount from an accelerated sale as appropriately (RTS Chapter III Article 12 (5)) Specific factors affecting disposal value should be taken into account (RTS Chapter III Article 12 (6)) Reasonable expectations for franchise value may be taken into account (RTS Chapter III Article 12 (7))
Bridge institution	<ul style="list-style-type: none"> Value of equity (net present value of assets minus net present value of liabilities in two years) Initially, the value of assets and liabilities to be transferred 	<ul style="list-style-type: none"> Hold value shall not be used as the measurement basis (RTS Chapter III Article 11 (4)) Expected cash flows shall correspond to foreseen disposal values if the sale of assets is envisaged (RTS Chapter III Article 11 (5) and Article 12 (4)) Disposal value should be determined based on cash flows and any discount from an accelerated sale as appropriately (RTS Chapter III Article 12 (5)) Specific factors affecting disposal value should be taken into account (RTS Chapter III Article 12 (6)) Reasonable expectations for franchise value may be taken into account (RTS Chapter III Article 12 (7)) Should consider set up and running costs
Asset separation	Disposal value minus net present value of liabilities	<ul style="list-style-type: none"> RTS Chapter III Article 11 (3) Hold value shall not be used as the measurement basis (RTS Chapter III Article 11 (4)) Workout costs and benefits should be taken into account (RTS Chapter III Article 12 (3))

3.2 | SRB VALUATION APPROACH: VALUATION FRAMEWORK

Content: provision of a best estimate and a valuation range

The independent valuer shall provide a **best estimate** of the institution's value under each of the resolution scenarios considered.

As valuation estimates are subject to significant uncertainty, the valuer may choose to provide a valuation range around the best estimate.

Normally, an overall tolerable valuation range is considered to be a band of **± 5-10% around the best estimate**, in order for the valuation to be sufficiently informative to support the decision-making process of the resolution authority.

In circumstances where such a range cannot be adhered to the valuer **must explain in detail the drivers of the augmented uncertainty.**

3.2 | SRB VALUATION APPROACH: VALUATION FRAMEWORK

Content: WDCCI and Bail in

Discounted cash flow methodology: Projection period

*When applying the DCF methodology to value the entity as a whole the valuer should consider a **5 year time horizon** for the valuation exercise.*

In case the valuer considers that a different time frame would be most appropriate for the valuation exercise, it should be communicated to the resolution authority as soon as possible during the early stages of the valuation exercise, clearly explaining the underlying reasons and assumptions behind the proposal. The underlying reasons and assumptions taken should be included in the final valuation report.

Discounted cash flow methodology: Estimate of discount rate

*When applying the DCF methodology the valuer should clearly explain, in the valuation report, the **underlying assumptions and the choices** made when calculating the discount rates used in the valuation exercise.*

*When considering **risk factors and uncertainty** the valuer should modify accordingly either the cash flows or the discount rates, not both, and clearly explain and justify choices made in the valuation report.*

3.3 | SRB VALUATION APPROACH: STANDARDISED DATA REQUEST

STANDARDISED DATA REQUEST

The standardised data request consist of five templates, i.e. the Loan book template, the Financial assets template, the Intangibles template, the Portfolio level template and the Other information template.

The data request is structured in three main parts:

Loan book template

Counterparty modules	Facility modules	Collateral modules
Corporates	Loan tape	Office buildings
SME		Land plots
Private individuals		Shipping
Central banks, public sector and credit institutions		Aircraft
		Automotive
		Retail (e.g. malls)
		Factories/Warehouses
		Residential Real Estate
		Hotels / entertainment
		Equipment/machinery
		Infrastructure projects
		Financial instruments
		Guarantees
Cash		

Other asset templates

Financial assets
Derivatives
Non-derivative securities
Other assets
DTAs
Goodwill
Template for assets that are not covered in the specific asset templates

Other templates

Portfolio level info
Covers different splits of the loan portfolios to help the valuer get an overview of the loan book
Historic performance
Information on the historic performance of the facilities / debtors split by portfolios and risk differentiators
Other information
Information on contingent risks, banks' internal models and asset quality assessments

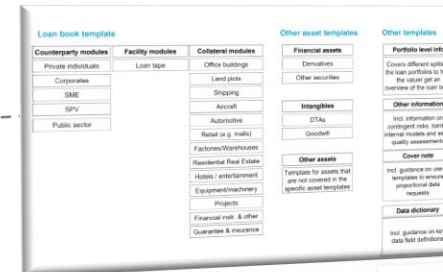
Goal:

- Develop minimum data requirements needed to perform a valuation.

Objectives:

- Harmonize and improve the quality of valuations.
- Accelerate the valuation process through clear ex ante expectations.
- Enable banks to adjust their MIS to provide data of higher quality in shorter timeframes.

3.3 | SRB VALUATION APPROACH: STANDARDISED DATA REQUEST



Loan book template			Other asset templates	
Counterparty modules	Facility modules	Collateral modules	Financial assets	Other templates
Private individuals	Loan type	Office buildings	Derivatives	Portfolio level info
Corporates		Land plots	Other securities	Covers different parts of the loan portfolio to help the valuer get a full overview of the loan book
SME		Shipping		Other information
SPV		Aircraft	Intangibles	incl. information on contingent risks, banks internal models and asset quality assessments
Public sector		Automotive	OTAs	Cover note
		Retail (e.g. multi)	Goodwill	incl. guidance on use of templates to ensure proportional data requests
		Factories/Warehouses	Other assets	Data dictionary
		Residential Real Estate	Templates for assets that are not covered in the specific asset templates	incl. guidance on key data field definitions
		Hotels / entertainment		
		Equipment/machinery		
		Projects		
		Financial inst. & other		
		Guarantees & insurance		

1

Applicability

- All banks under SSM/SRM supervision;
- all resolution scenarios and tools as well as
- any valuation timeline.

2

Overlap with regulatory requests

As the SRB committed not to impose unnecessary regulatory burden on supervised entities, the request is aligned as much as possible to regulatory requests, cross-referencing all common data fields.

3

EBA's work

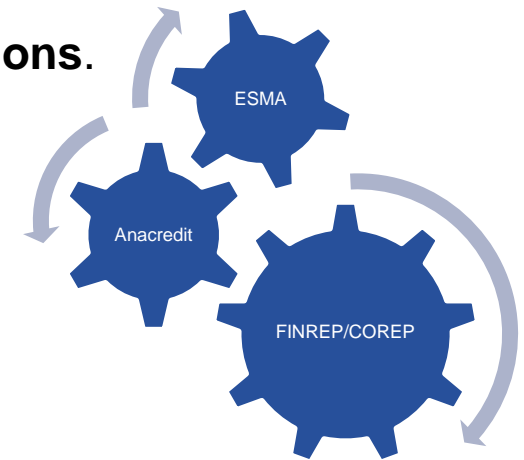
SRB and the EBA have been collaborating closely in their respective work on a standardised data sets for valuation in resolution.

EBA MIS Chapter
EBA Data Dictionary

SRB Data Set

3.3 | SRB VALUATION APPROACH: STANDARDISED DATA REQUEST

- ▶ The standardised Data Set aims at requesting the minimum set of information which a valuer / authorities would ideally have available prior to resolving a bank.
- ▶ The SRB Data Set does **not impose reporting obligations**.
- ▶ In order to reflect proportionality requirements and avoid imposing excessive costs on institutions, the Data Set is built, to the extent possible, upon **existing common EU definitions as envisaged in the EU regulatory, supervisory and reporting framework**.



✓ The data and information included in the Data Set are neither exclusive nor exhaustive.

✓ Potential list of additional fields.

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3.4 | SRB VALUATION APPROACH: RESOLUTION PLANNING

- ▶ The SRB Data Set is a tool to guide banks regarding the SRB's expectations about the information necessary to perform an independent valuation.

First phase 2020

- The SRB Data Set serves as a starting point to launch a dialogue between the IRTs and the banks regarding preparedness for valuation and MIS capabilities.
- The banks will need to self-assess how long it would take their MIS (timeliness) to deliver quality information (gap analysis) using the SRB Data Set as guidance and reference.
- Banks and IRTs will discuss the main results and lessons learnt from the self-assessment.

Self-assessment to determining data availability (gap analysis), and how long it would take your MIS (timeliness) to deliver quality information

Second phase 2020

- Based on the results of the previous self-assessment and the follow up discussions with the IRTs, the banks will propose to the IRTs a working programme addressing the main shortcomings of their MIS.
- In general, the banks will propose remedial actions regarding the quality, accuracy, completeness and timely delivery of the information.
- The SRB expects this working programme to be a multi-year project allowing the banks to increase the efficiency of their MIS capabilities progressively.
- Institutions and IRTs will agree on the content of the working programme and will follow up its implementation and progress periodically through monitoring.
- The monitoring of the working programme might include the performance of dry-runs (or repetitions of the self-assessment by the institutions).

multi-year work programme addressing the main shortcomings of your MIS. This work programme should enable the banks to increase the efficiency of your MIS capabilities progressively

THANK YOU!

For more information, please contact:
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