Bulletin
de la Banque de France

SEPTEMBER-OCTOBER 2024

254/3

Resolution of banking crises: where does Europe stand?

The European Union escaped the series of bank failures that shook Switzerland and the United States in the spring of 2023. While the soundness of European banks depends on regulation and active supervision, the resolution regime provides the authorities with unified instruments for managing similar crisis situations in Europe. The authorities thus have the power to get failing banks back afloat or arrange for them to be taken over by other banking institutions, calling on investors rather than taxpayers. Since its creation in 2014, the European resolution regime, which is a pillar of the Banking Union, has proved its worth. However, it is facing the challenge of achieving unity where diverse national insolvency laws and a fragmented banking sector prevail. Genuine crisis management on a European scale requires greater financial integration.

Riad Benahmed, Manon Houarner
General Secretariat of the *Autorité de contrôle prudentiel et de résolution*
Resolution Directorate

JEL Codes
G21, G28

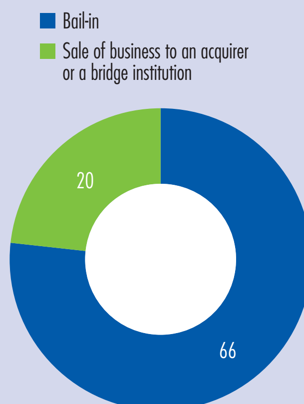
At end-2023:

2
failing banking groups (Banco Popular, Sberbank Europe) managed by the euro area's Single Resolution Mechanism since its creation in 2014

EUR 100,000
guaranteed for accounts and passbooks opened by a client in a European banking institution

65%
on average, the share of deposits of households and small and medium-sized enterprises in the six major French institutions that are protected by law in the event of resolution (funds below the deposit coverage level of EUR 100,000)

Strategies considered by the European Banking Union authorities in the event of resolution



Source: Single Resolution Board (SRB, 2024).
Scope: At the end of 2023, 86 European banking institutions within the remit of the Single Resolution Board.

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1 Since 2014, European authorities have had exceptional powers to manage bank failures

How to deal with bank failures

Public authorities impose a large number of rules on banks. They must obtain a license to operate and receive funds from the public, i.e. deposits. Under the supervision of the banking supervisor, they must manage their day-to-day activities in compliance with certain prudential rules: for example, they must hold sufficient capital to cover the risks they take. This specific regulation of banks is necessary to protect depositors, the financial system and the real economy (households and businesses), since a bank failure can set off a chain reaction.

In the event of failure, businesses file for bankruptcy and lose their capital. However, during the 2008 financial crisis, some banks were deemed "too big to fail", because their failure would have threatened the entire financial system and economic activity. The authorities therefore rushed to rescue failing institutions. When they did not (as in the case of the US bank Lehman Brothers),[1] the failure was catastrophic for the global economy.

Since the Great Depression of the 1930s, banking crisis management policy has been dominated by two problems. On the one hand, banks can be threatened with failure due to depositors' mistrust, if this leads to massive withdrawals of deposits. On the other hand, it is difficult to interrupt banking activity, as it is a service of general interest. Commercial banks create money, grant loans and manage means of payment. In so doing, they contribute to financial stability and the smooth running of the economy, which are common goods.

Faced with these two problems, the authorities have come up with two solutions. To instill confidence and protect depositors, **they cover deposits under a certain ceiling** (EUR 100,000 in the European Union – EU[2], USD 250,000 in the United States) thanks to an insurance financed by contributions from the banking sector. In the spring of 2023, the US authorities even took the exceptional step of fully guaranteeing the deposits of failing regional banks Silicon Valley Bank and Signature bank. To punish bank management errors while preserving financial stability and the continuity of banking services, a number of **G20 countries introduced so-called resolution regimes** after the 2008 financial crisis. These regimes give certain administrative authorities extraordinary powers and instruments to manage failing banks in the public interest. They also regulate the sharing of losses between investors, clients and society: **the "burden" is borne primarily by shareholders and creditors**.

Within the EU, a harmonised resolution mechanism has been in place since 2014. In the euro area, this mechanism is known as the Single Resolution Mechanism, because it is placed under the aegis of a European agency, the Single Resolution Board. The Board and national resolution authorities (in France, the *Autorité de contrôle prudentiel et de résolution*, ACPR) draw up a resolution strategy for each institution in the event of failure. An institution may be declared to be failing if it suffers losses that deplete its capital, or if it is unable to honour its debts as they fall due. The resolution strategy sets out how the authorities might then dismantle the

1 The collapse of Lehman Brothers raised the risk of a chain reaction of failures across the international financial system. This risk of contagion fuelled mistrust among banks in the United States and Europe, paralysing refinancing on interbank markets and causing instability on financial markets. The banking and financial crisis then spread to the real economy: credit rationing by banks in difficulty, falling consumption, investment and economic activity, rising unemployment, etc.

2 Per depositor and per institution. This guarantee covers all types of deposits (current accounts, term accounts, bank passbooks, etc.). In France, amounts invested in regulated savings passbooks (*Livret A, Livret de développement durable et solidaire* or *Livret d'épargne populaire*) are not taken into account in this EUR 100,000 ceiling, as they are covered by an additional state guarantee.

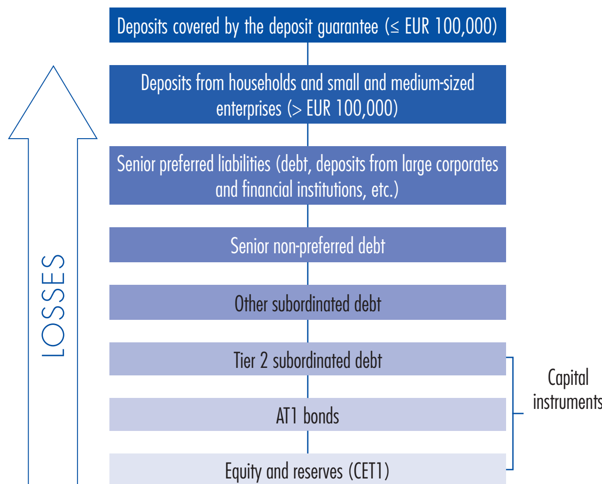
institution, using two types of resolution tool: first, a recapitalisation of the failing bank by its creditors (known as bail-in), and second, the sale of its business to an acquirer. Authorities may combine several resolution tools, for example by selling off part of the business in addition to bail-in.

Bail-in

With a bail-in, shareholders and creditors lose all or part of the sums they have invested in the bank placed in resolution, according to a predefined order: the creditor hierarchy (see Diagram 1).

The Swiss authorities departed from this hierarchy when Credit Suisse failed in March 2023, by allowing shareholders not to lose their entire investment. Such a scenario would be impossible within the EU: the European authorities first cancel all shares, then other capital instruments and, if there are still losses to be absorbed, subordinated debt. They can then convert all or part of the remaining debt, for example senior debt, into equity, in order to recapitalise the institution in accordance with the bank licensing conditions (see Diagram 2 below). To facilitate this mechanism and protect deposits (see Box 1 and Benahmed, 2024), the authorities have imposed minimum requirements for own funds and eligible liabilities (MREL) on European banks.

D1 The French hierarchy of bank creditors in the event of resolution at the end of 2023



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR), authors.
Key: In order to distribute losses among investors, authorities start from the bottom of the creditor ranking and work their way to the top. They can only impose losses on investors of a given rank if lower-ranking liability categories have been fully exhausted.
Note: AT1: Additional Tier 1 capital; CET1: Common Equity Tier 1 capital; Tier 2: Tier 2 capital.

BOX 1

Are depositors' funds protected in the event of a bail-in?

Deposits on bank accounts have a very high priority in the creditor hierarchy. In the event of a resolution, they are protected by capital and debt instruments (MREL), which primarily absorb the losses of the failing bank. If these instruments are not sufficient to absorb all losses, senior debt and deposits from financial institutions and large corporates may then be called upon, followed, as a last resort, by deposits from households and small and medium-sized enterprises above EUR 100,000. **Deposits below the EUR 100,000 ceiling cannot be mobilised for bail-in**: they are covered by the national deposit guarantee scheme (in France, the *Fonds de garantie des dépôts et de résolution*, FGDR[1]).

Under Europe's resolution regime, depositors in Poland and Denmark lost part of their funds in excess of the EUR 100,000 ceiling (see Box 2 below). However, to avoid widespread contagion, European authorities have the discretionary power to exclude all deposits from the bail-in scope, and in so doing, to protect them (Benahmed, 2023).

1 For French banks, see the FGDR website: Protection of bank accounts and banks covered, *https://www.garantiedesdepots.fr/en*

D2 Bail-in and bank balance sheets: a simplified example

Before the crisis
ASSETS: Non-performing loans 20; Loans and advances to clients 25; Financial assets 10; Cash 5
LIABILITIES: Insured deposits 20; Uninsured deposits 20; Senior preferred debt 10; Subordinated debt 3; Capital 7 (of which Tier 2: 1;AT1: 2 Common equity: 4)

Loss absorption
ASSETS: Non-performing loans ~~20~~ 10; Non-performing loan write-offs - 10; Loans and advances to clients 25; Financial assets 10; Cash 5
LIABILITIES: Insured deposits 20; Uninsured deposits 20; Senior preferred debt 10; ~~Subordinated debt~~ ~~-0~~; Capital 0 ~~(of which Tier 2: 1; AT1: 2; Common equity: 4)~~

Debt conversion
ASSETS: Non-performing loans 10; Loans and advances to clients 25; Financial assets 10; Cash 5
LIABILITIES: Insured deposits 20; Uninsured deposits 20; Senior preferred debt ~~10~~ 3; Capital +7 (of which Common equity: 7)

After bail-in
ASSETS: Non-performing loans 10; Loans and advances to clients 25; Financial assets 10; Cash 5
LIABILITIES: Insured deposits 20; Uninsured deposits 20; Senior preferred debt 3; Capital 7 (of which Common equity: 7)

Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR), authors.
Key: An independent assessment shows that the value of a bank's portfolio of non-performing loans (20) needs to be written down by 50% (-10): the losses (10) are greater than its capital (7). The authorities thus declare the bank failing or likely to fail and put it into resolution. To absorb the losses, they first write off all capital instruments, then subordinated debt in accordance with the creditor ranking. To recapitalise the bank, they convert part of the senior debt held by investors into equity.
Note: AT1: Additional Tier 1 capital; Tier 2: Tier 2 capital.

After bail-in, the failing bank continues to meet its obligations to its clients and to contribute to the financing of the economy. Under new governance, it divests itself of its loss-making or high-risk operations, making its business model viable once again.

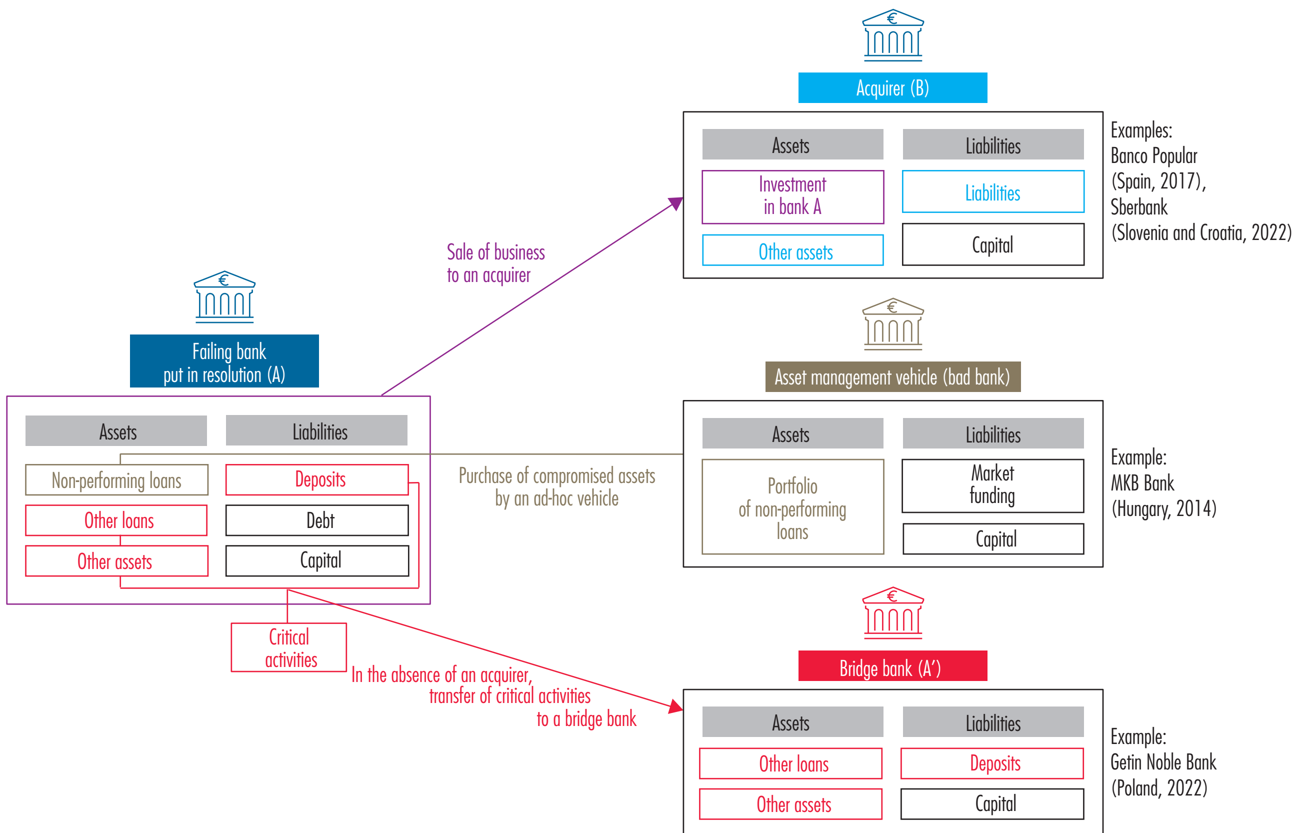
The authorities implement bail-in in just a few days, with the help of supervisors and financial market infrastructures (see appendix). In particular, most countries have a central securities depository, which keeps records of financial securities issued by businesses. The major European banks generally issue shares and bonds that are registered with the depository in their country of origin, but also with depositories located abroad, notably in Brussels (Euroclear), Luxembourg (Clearstream) and the United States. Bail-in is implemented through these depositories (ACPR, 2024): the financial securities cancelled by the authorities are removed from the registers, and new shares are recorded for claims that have been converted into equity.

Transfer of business

If a failing bank is not able to stay afloat, it must either close down or be absorbed by another banking group, as was the case when Credit Suisse was taken over by UBS in 2023. To this end, the authorities carry out so-called transfer transactions, selling all or part of its business, assets or liabilities. In the event of a European resolution, these transactions are carried out using three tools (see Diagram 3 below): (i) the sale of business to an acquirer; (ii) the creation of an asset management vehicle (bad bank); (iii) a bridge bank.

In order to transfer the business of a failing bank, the authorities canvass potential acquirers a few days before

D3 Transfer transactions during a bank resolution in Europe



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR), authors.
Guide: Bank A is declared to be failing by the authorities due to losses on a portfolio of non-performing loans. If an acquirer expresses an interest, the authorities may transfer the shares issued by the failing bank to a bank B, which then takes over all its activities. Prior to the takeover, the acquirer may require Bank A to dispose of its portfolio of non-performing loans. In this case, the authorities will set up an asset management vehicle to purchase the portfolio. If the authorities cannot find an acquirer for bank A, they can set up a bridge bank (A'), which will take over its critical activities, i.e. essentially client deposits and the matching sound assets.
Note: See Box 2 for examples of resolution. A bank's critical activities may include the management of client deposits and means of payment, the distribution of loans to households and businesses, and its market activities.

the failure, and issue a confidential invitation to tender. They may decide to sell the bank's entire business, or just part of its assets and liabilities.

An acquirer may impose a condition on the purchase of a failing bank: that it first divests itself of a portfolio of compromised assets. In this case, the authorities have the power to set up an asset management vehicle, which will either purchase the non-performing loans and manage them until maturity, or gradually sell them on the markets, trying to obtain the best price for them.

After the 2008 financial crisis, Spain and Ireland used this type of structure to house their banking sector's real estate non-performing loans. At the time, they were backed by the State. In the event of resolution, they are financed by investors or a resolution fund to which the banking sector contributes.

Lastly, if the sale of the bank proves unsuccessful when it is declared to be failing, the authorities may set up a bridge bank. This bridge bank is responsible for taking over critical activities until a buyer can be found.

These three types of transfer can be carried out in just a few days, as they are neither subject to investor approval nor compliance with procedural requirements under ordinary company or securities law.

2 Ten years after its creation, where does the European bank resolution regime stand?

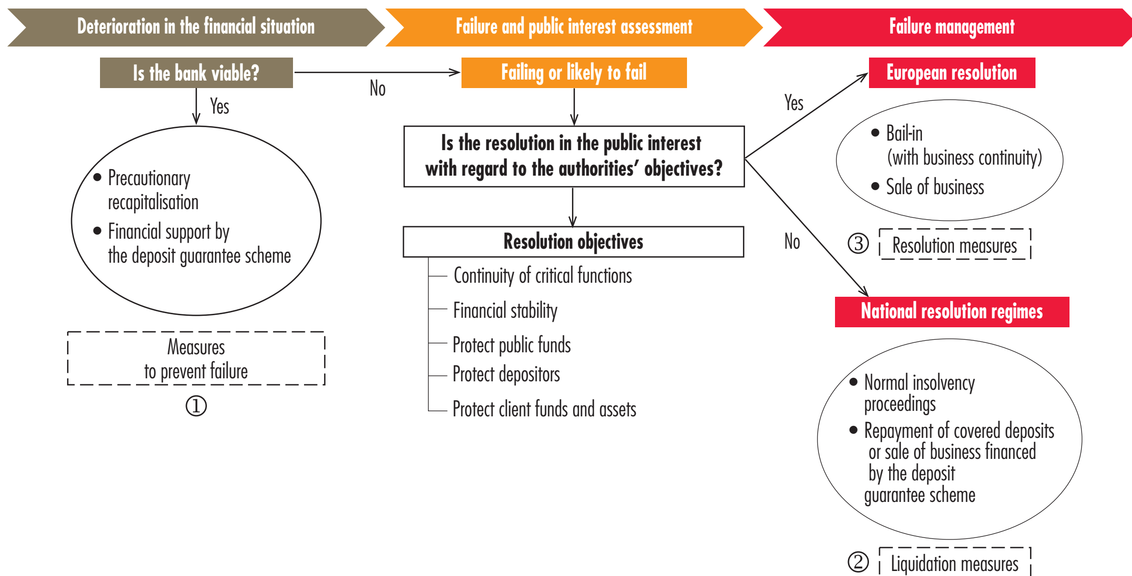
Bank resolution, a crisis management option often overlooked

Within the EU, there are three ways in which authorities can manage a banking crisis (see Diagram 4). They can:

- Upstream, seek to prevent failure by obtaining financial support from the state or a national deposit insurance fund, within the limits set by the European state aid regime;
- Liquidate the failing institution, either through the courts or a special administrative procedure, with the help of the national deposit insurance fund where appropriate;
- Put the failing institution into resolution in the public interest: the authorities assess whether it is in the public interest (for example to preserve financial stability, protect depositors) to put the bank into resolution rather than liquidate it. If this is the case, they can make use of exceptional resolution powers such as bail-in or the transfer of the bank's business to an acquirer (see Section 1).

The first two solutions have often been preferred to bank resolution. On the one hand, preventive interventions by deposit guarantee schemes or the state have been effective in preventing a resolution procedure from being initiated. For example, in 2017, the Italian state provided

D4 Management of banking crises within the European Union



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR).
Note: The public interest in a resolution is assessed with regard to certain objectives, such as preserving financial stability, protecting depositors or ensuring the continuity of critical functions. These functions may include the management of client deposits and means of payment, the distribution of loans to households and businesses, and market activities.

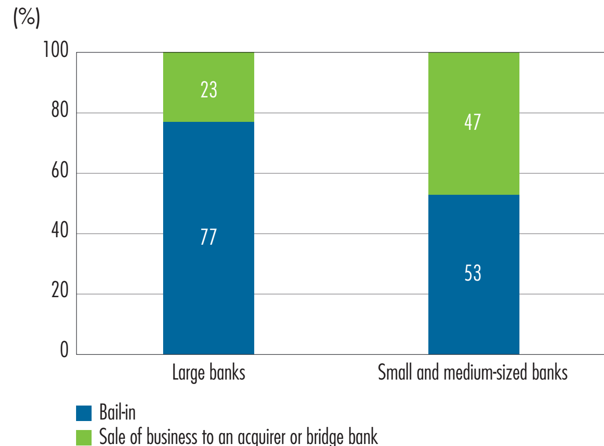
capital, as a preventive measure, to two Italian banks, Monte dei Paschi di Siena and Banca Carige. On the other hand, when failure was inevitable, authorities sometimes subscribed to a restrictive interpretation of the public interest, which led them to respond to the crisis with liquidation. Thus, in 2017, the Single Resolution Board ruled that the resolution of the two failing Italian banks Banco Popolare Di Vincenza and Veneto Banca was not in the public interest: they were managed under Italy's administrative liquidation regime and with financial support from the national deposit guarantee scheme. In addition, the authorities encountered difficulties in putting the bail-in principle into practice. The Italian banks mentioned above, for example, had sold their subordinated debt to small investors, who would then have borne the cost of the bail-in.

These decisions are not specific to the EU. The failure of Credit Suisse in March 2023 could have provided the first opportunity to test the resolution mechanisms introduced after the 2008 financial crisis, in the case of a global systemically important bank. Credit Suisse's resolution strategy, as set out by its resolution authority, was based on bail-in. In the end, however, the Swiss authorities chose to sell the bank's business to UBS, with the backing of public guarantees and outside the resolution framework. In their view, bail-in was likely to destabilise the Swiss and global financial markets (FSB, 2023).

Combining resolution tools for a more flexible approach to crisis management

European resolution is the only cross-continent crisis management approach. It has proved its worth in the euro area, in Poland and Denmark, where it was chosen over national procedures (see Box 2 below). As soon as the resolution regime was set up, it was agreed that bail-in would be the preferred resolution strategy for large banks, and the sale of business for small and medium-sized banks (see Chart 1), as it is more difficult to find acquirers for the former than for the latter.

C1 Strategies considered by the European Banking Union authorities according to bank size in the event of resolution



Source: Single Resolution Board (SRB, 2024).
Scope: At the end of 2023, 86 large banks under the remit of the SRB and 70 small and medium-sized banks under the remit of national resolution authorities.
Guide: In the event of resolution, the Banking Union authorities consider having recourse to bail-in for 77% of large European banks, compared with only 53% for small and medium-sized banks.
Note: In the Banking Union, a bank is considered large if its balance sheet exceeds EUR 30 billion, or if it carries out cross-border activities or activities that are significant for the national economies. The European Central Bank and the SRB, in liaison with national authorities, are responsible for supervising the bank and managing any failure. Of the hundred or so large banks in the Banking Union, the SRB considers that resolution is not in the public interest for 14 institutions.

However, ten years of banking crisis management have shown the need to combine all instruments, including for large banks. On the one hand, European authorities have often put large institutions up for sale (Banco Popular, Sberbank's European subsidiaries), even though the latter had prepared for bail-in to maintain their activities. On the other hand, on the rare occasions when they have implemented bail-in, they have systematically combined it with transfer transactions (Benahmed and Houarner, 2023). The takeover of Credit Suisse by UBS even demonstrated the value of such transactions for systemically important banks: during a resolution, the Banking Union authorities could in theory replicate this kind of takeover by combining the cancellation of the failing bank's shares and debt with the sale of business.

BOX 2

Euro area, Poland, Denmark: the functioning of the European resolution mechanism

Euro area

In June 2017, the Single Resolution Board (SRB) reported the failure of the Spanish bank Banco Popular. Weakened by its low-quality real estate assets resulting from the financial crisis, it had experienced significant deposit withdrawals. The SRB and the Spanish resolution authority recapitalised it by cancelling its shares and Additional Tier 1 bonds, and converting its Tier 2 bonds into equity. They then sold its business to the Spanish Santander Group for a symbolic one euro.

At the end of February 2022, the Croatian and Slovenian subsidiaries of Russia's largest bank, Sberbank, were put in resolution by the SRB. The war in Ukraine and the economic sanctions imposed on Russia by the European Union (EU) had compromised the reputation of these subsidiaries, which were beginning to record significant outflows of deposits. The SRB imposed a two-day moratorium on payments to allow time to find acquirers on the Croatian and Slovenian markets.

Poland

In 2020, a Polish cooperative bank, PBS v Sanok, underwent a resolution procedure, as its own funds were running out. The Polish resolution authority set up a bridge bank, which received its critical activities, including banking services to farmers, small and medium-sized enterprises and local public administrations. At the same time, it cancelled subordinated debt and wrote down the value of uncovered deposits by around 40%. This bail-in caused a bank run and led to a flight of deposits that had been transferred to the bridge bank.

At the end of September 2022, the Polish resolution authority placed Getin Noble Bank, one of Poland's ten largest banks, into resolution. The bank was at risk of a bank run, in particular due to its portfolio of Swiss franc-denominated mortgages: the depreciation of the Polish zloty had reduced Polish households' repayment capacity. The Polish resolution authority transferred its business to a bridge bank. Shareholders and holders of subordinated bonds lost their investment.

Denmark

In 2016 and 2018, the Danish resolution authority placed two small cooperative banks (with a balance sheet below EUR 10 million) in resolution. It combined a bridge bank with bail-in. Uncovered deposits bore losses, without triggering a wave of mistrust.

New risks of failure are also emerging, and these are prompting authorities to prepare for new combinations of all the tools at their disposal: (i) **geopolitical risk**, illustrated by the failure of Sberbank's European subsidiaries at the start of the war in Ukraine (see Box 2); (ii) **climate risk** (Jamet, 2024) if assets held by banks were to suddenly lose their value as a result of a disorderly ecological transition (so-called stranded assets); or (iii) **cyber risk** linked to cyber attacks. For instance, should a bank be declared to be failing due to the depreciation of its portfolio of fossil fuel assets and poor management of climate risk, bail-in would be insufficient in the event of resolution. To restore confidence, stranded assets would also have to be removed from the balance sheet, for example by having them purchased by an asset management vehicle.

Dealing with liquidity problems: the missing piece in the European resolution mechanism

An emblematic risk and a major aspect in the history of banking crises, bank runs are taking on a new face in the digital age: viral messages on social networks and online account closures have replaced the race to bank counters and the queues of savers. The speed of deposit withdrawals in the United States and Switzerland in spring 2023 illustrates the importance of liquidity in managing banking crises. Bail-in helps overcome solvency problems, but a solvent bank may momentarily run out of liquidity to return their money to depositors.

The liquidity needs of Europe's largest banks in the event of resolution could exceed EUR 150 billion (Infelise et al., 2022), which is the amount of resources of the Single Resolution Fund (around EUR 80 billion) and its line of credit from the European Stability Mechanism (EUR 68 billion). Only the central bank could meet these needs. In the euro area, the Eurosystem is empowered to provide Emergency Liquidity Assistance (ELA) to a solvent bank in difficulty, as long as the latter can provide sufficient assets as collateral. However, a bank in resolution may not have enough securities to use as collateral. In such cases, the state may act as guarantor to enable the central bank or a resolution fund to grant extraordinary loans. By its very existence, this public liquidity backstop for resolution secures the confidence of investors and clients, until the bank is able to raise funds on the markets. Switzerland introduced such an instrument in 2023, and it played a decisive role in managing the Credit Suisse crisis. It also exists in the United Kingdom, the United States and Japan. But it is still missing in the euro area resolution regime, where, in the absence of a federal budget, the framework for the European Central Bank to provide "Eurosystem resolution liquidity" has yet to be built (Villeroy de Galhau, 2023).

Thus, successful crisis management may, as a last resort, rely on public support. During the banking crises of spring 2023, the US and Swiss authorities offered guarantees to the acquirers of failing banks (for example to JP Morgan Chase for the purchase of First Republic) in order to facilitate transfer transactions. In the European Union, public authorities may only make contributions after investors have contributed up to 8% of the failing bank's total liabilities and own funds, and these contributions are governed by the European state aid regime.

3 Completing the Banking Union and Capital Markets Union would facilitate European resolution of banking crises

A resolution mechanism thwarted by the incompletion of the Banking Union

Resolution was conceived as a unified mechanism within the Banking Union. However, this single mechanism is still held back by fragmented banking and financial markets.

The completion of the Banking Union (see Box 3 below) would facilitate transfer transactions during a resolution. A failing bank's business can only be sold if the authorities are able to find acquirers rapidly. In a single banking market, cross-border mergers would be as likely as domestic mergers and acquisitions: the list of potential acquirers of a failing bank would then be considerably extended.

A resolution mechanism hampered by fragmented financial markets

The Capital Markets Union aims to set up a unified European financial area to enable Europeans to invest their savings across the Union, with a better risk/return ratio. This requires harmonising insolvency and securities laws (Noyer, 2024), which would facilitate the implementation of resolution.

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BOX 3

Why has the Banking Union not been completed?

In the wake of the 2008 financial crisis, state bailouts of banks worsened public finances in a number of European countries (Ireland, Spain or Portugal). The euro area then entered a negative spiral, with the public debt crisis leading investors to question banks' soundness. To break out of this vicious circle, EU Member States created the Banking Union, based on three pillars: the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM), introduced in 2014, and the European Deposit Insurance Scheme (EDIS).

The SSM reinforces banks' soundness by providing a harmonised European system for monitoring the risks they take. In this way, the European Central Bank, in conjunction with national supervisors (the *Autorité de contrôle prudentiel et de résolution* – ACPR in France), monitors significant institutions in the euro area. When a crisis is unavoidable, the SRM steps in to safeguard the public interest. Through bail-in and the Single Resolution Fund, it protects public resources against bank failures.

Conversely, to prevent a country's public finances from threatening banks' soundness, the latter need to be less exposed to sovereign debt and less withdrawn into their domestic markets. To this end, the Banking Union was to set up a European Deposit Insurance Scheme, paving the way for pan-European banking groups and a single banking market. This third pillar has yet to be implemented.

Banks may now open subsidiaries throughout the European Union to collect the savings of European depositors, but the protection of these funds currently remains the responsibility of each individual country. Countries hosting subsidiaries of large banking groups have sought to protect themselves against the risk of their parent company abandoning them in the event of difficulties. To protect their depositors, they require these subsidiaries to hold sufficient capital, subordinated debt and liquid assets. This confinement of banking groups' resources within national borders makes cross-border mergers less likely.

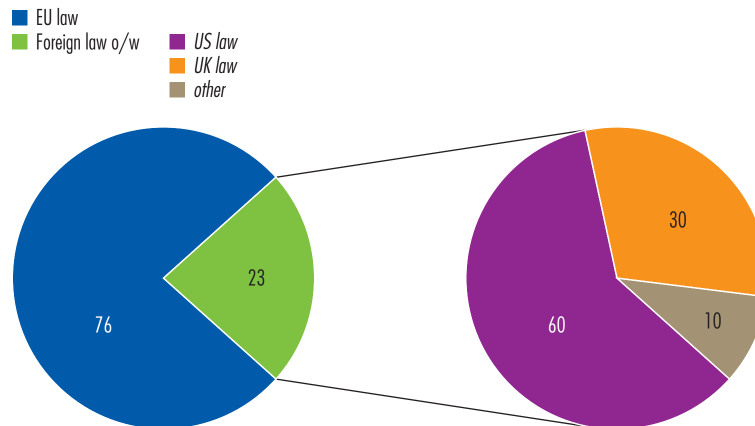
If deposit insurance, now at the European level, was no longer the responsibility of individual countries, the geographical confinement of banking resources would be less necessary. This could foster consolidation in Europe. As it stands, the Banking Union is stalled by the opposition between home countries, where the head offices of the major European banking groups are established, and the countries hosting their subsidiaries.

The resolution procedure is governed by a framework for safeguarding creditors' rights: no investor should incur greater losses than he/she would have in the event of liquidation. It is currently difficult to check that this condition is met for all creditors of a cross-border banking group, due to the multitude of national insolvency laws.[3]

3 A cross-border banking group has operations and subsidiaries in several European countries. Let us suppose that the resolution measures affect the head office of a banking group, based in France, and subsidiaries located elsewhere in Europe, for example in Italy and Spain. It would then be necessary to assess the losses incurred by the creditors of the head office under French bank insolvency law, the creditors of the Spanish subsidiary under Spanish bank insolvency law, and the creditors of the Italian subsidiary under Italian bank insolvency law.

C2 Laws governing the capital and debt instruments (MREL) of the five largest French banks at the end of 2023

(%)



Sources: MREL/TLAC reports, authors' calculations.
Scope: BNP Paribas, Confédération Nationale du Crédit Mutuel, BPCE Group, Crédit Agricole Group and Société Générale.
Guide: Non-European Union (EU) laws govern 23% of MREL-eligible capital and debt instruments on the balance sheets of the five largest French banks. US law accounts for 60%.

Harmonisation would also pave the way for pan-European financial market infrastructures. Because the latter are currently fragmented along national lines, authorities are required to mobilise several central securities depositories (of which the EU has 28, compared with 1 in the United States) for the bail-in of a single institution with cross-border activities in the euro area.

Finally, the EU's fragmented capital markets are not deep enough to absorb all the subordinated debt (MREL) issued by the major European banks. The latter are therefore turning to foreign financial markets, in particular US institutional investors (see Chart 2). This dependence vis-à-vis US capital markets could make the authorities' task more difficult in the event of a bail-in, as US securities law could come into competition with European resolution law.

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For the past ten years, Europe has been preparing for banking crises. Its resolution regime provides it with the instruments necessary to manage them, as well as sources of financing. Europe is preparing to extend the use of these instruments to small and medium-sized banks, with its proposed reform[4] of the crisis management and deposit insurance framework (CMDI). However, it has yet to set up an exceptional mechanism for providing liquidity to large banks in resolution, which could for example take the form of "a single system common to all Eurosystem central banks" (Beau, 2024). In the face of change, the authorities must also be prepared for new combinations of all the tools at their disposal. Finally, European crisis management policy would benefit from being conducted in a unified financial area by completing the Banking Union and the Capital Markets Union.

4 European Commission proposal of 18 April 2023. Negotiations between the Council of the EU and the European Parliament are ongoing.

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Appendix
How would the *Autorité de contrôle prudentiel et de résolution* implement bail-in in France?

In the Banking Union, the Single Resolution Board (SRB) takes the decision to implement bail-in should a major institution fail. To this end, it determines the extent of the losses to be absorbed and draws up a list of the financial instruments issued by the institution to be cancelled, written down or converted into equity. It is then up to the national resolution authority, the *Autorité de contrôle prudentiel et de résolution* (ACPR) in the case of a French banking group, to carry out this decision. France currently has six major banking institutions that could be put in resolution in the event of difficulties: BNP Paribas, BPCE, Crédit Agricole Group, La Banque Postale, Crédit Mutuel Group and Société Générale.

In a public document (ACPR, 2024), the ACPR sets out how it could mobilise players in the French financial market to implement bail-in in France. It would rely on existing mechanisms that organise trading in financial securities on the markets ("post-market"). When a company wishes to issue shares or bonds, it registers them with a market infrastructure known as a central securities depository. Like a solicitor, the central securities depository keeps a register of all the financial securities issued. These are then subscribed by investors, who entrust their custody to banks specialised in this field. In this way, a holding chain is formed: these banks have accounts with the central depository, either in their own name or on behalf of their clients. After a transaction on the financial markets, the central depository transfers the financial securities from account to account in its books. The securities are credited to the account of the buyer's bank, and debited from that of the seller's bank, in exchange for a transfer of funds from the buyer to the seller: this is the so-called "settlement-delivery" system. The distribution of financial income to investors is also facilitated by the centralised management of the depository accounts. To this end, the issuer of financial securities generally appoints a specialised bank, known as a "paying agent", to make payments (dividends, interest, capital repayments, etc.) on its behalf through the central depository.

The implementation of bail-in is marked by a number of decisive steps: (i) suspending the listing and trading of financial instruments issued by the failing bank; then (ii) blocking settlement-delivery of the financial instruments and payments (interest, dividends, repayment of capital); and finally (iii) requesting that the central depository cancel, reduce or convert these instruments into capital. We assume here that the SRB decides to convert into shares the bonds issued by a French banking institution, registered with the French central depository Euroclear France and listed on the Paris stock exchange (Euronext Paris). At the ACPR's request, Euroclear France blocks all payments and settlement instructions in the European TARGET2-Securities system, developed by the euro area central banks. At the same time, the ACPR requests that Euronext Paris, via the *Autorité des marchés financiers*, suspend trading in these bonds. The paying agent of the failing bank then instructs Euroclear France to cancel the bonds in its books, and to distribute shares to member banks in return. These banks hold the new shares in the name of the holders of the cancelled bonds, who are now shareholders of the bank in resolution. The resolution authority does not need to know all the holders of the cancelled bonds. All it has to do is identify the financial instruments to be used for bail-in: the effects of its decision are passed down the holding chain, from the central depository to investors.

Published by
Banque de France

Managing Editor
Claude Piot

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Technical production
Studio Creation
Press and Communication

ISSN 1952-4382

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