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Summary of internal rules of the Croatian National Bank as the resolution authority

**regarding the independence of the resolution function, professional secrecy and
confidential information exchanges within the Croatian National Bank**

March 2024

HRVATSKA NARODNA BANKA

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Table of contents

I	Legal basis for the publication of this document	3
II	Requirements for resolution authorities.....	3
III	Fulfilment of requirements by the Croatian National Bank	4
1	Operational and functional independence and separation of employees	4
2	Protection of confidential information	5
3	Exchange of information and cooperation in drafting, planning and enforcement of decisions	6
IV	Conclusion	7

I Legal basis for the publication of this document

Having regard to the obligation referred to in Article 8, paragraph (9) of the Act on the Resolution of Credit Institutions and Investment Firms (Official Gazette 146/2020, 21/2022 and 27/2024; **Resolution Act**), the Croatian National Bank (**CNB**), as the national resolution authority for credit institutions in the Republic of Croatia, hereby publishes this summary of internal rules applicable when carrying out the activities pursuant to the Resolution Act and the Single Resolution Mechanism Regulation (**SRMR**)¹, especially regarding professional secrecy and confidential information exchanges between the different organisational areas of the CNB as the central bank.

II Requirements for resolution authorities

With the aim of establishing a common European Union framework for the recovery and resolution of credit institutions and investment firms (**institutions**), the European Parliament and the Council adopted the Bank Recovery and Resolution Directive (**BRRD**)² on 15 May 2014, which was transposed into the Croatian legislation by the Resolution Act.

The purpose of the resolution framework established by the BRRD is to provide the competent and resolution authorities of Member States a set of tools to intervene sufficiently early and quickly in an institution that is failing or likely to fail so as to ensure the continuity of the institution's critical functions, while minimising the impact of an institution's failure on the economy and financial system.

In view of the fact that the framework governs situations which might have severe consequences not only for the Member States, but also for shareholders and creditors of the failing institutions, the BRRD sets out requirements for the resolution authorities with the aim of avoiding conflicts of interest when taking resolution decisions. First, it is necessary to ensure independence of the resolution authority and its employees from other functions that the same authority carries out, while ensuring cooperation between the resolution authority and the competent authority when required by the BRRD.

¹ Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (OJ L 225, 30.7.2014)

² Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (OJ L 173, 12.6.2014)

The requirements for national resolution authorities in the Republic of Croatia are laid down by the Resolution Act, as follows:

- the resolution authority shall ensure operational and functional independence to avoid conflicts of interest between the resolution powers exercised by the resolution authority in accordance with the provisions of the SRMR and the Resolution Act and supervisory or oversight functions exercised in accordance with the provisions of the Capital Requirements Regulation (CRR)³ and regulations governing the operation of credit institutions, and other functions exercised in accordance with the provisions of other regulations (Article 8, paragraph (5)).
- the resolution authority shall ensure that the employees carrying out resolution activities are structurally and functionally separated from the employees exercising supervision or employees exercising other functions of this authority and are subject to separate reporting lines (Article 8, paragraph (6)); and
- employees carrying out the resolution activities and employees carrying out supervision shall cooperate closely in drafting, planning and enforcement of resolution decisions (Article 8, paragraph (7)).

With regard to meeting these requirements, pursuant to Article 8, paragraph (9) of the Resolution Act, the national resolution authority shall publish on its website a summary of internal rules applicable when carrying out resolution activities, especially regarding professional secrecy and information exchanges between its different organisational areas.

III Fulfilment of requirements by the Croatian National Bank

1 Operational and functional independence and separation of employees

The CNB acts as the national resolution authority pursuant to the Resolution Act, but also as the national competent authority under the Single Supervisory Mechanism (SSM)⁴.

In view of the necessary operational and functional independence of the resolution authority and structural and functional separation of employees carrying out resolution activities from the employees exercising supervision, for the purpose of exercising resolution powers, on 1 January 2015 the CNB established the Credit Institutions Resolvability Assessment Department within its International Relations and Resolvability Assessment Area. On 1 August 2018, the Department was transformed into a stand-alone Credit Institutions Resolvability Assessment

³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013)

⁴ Pursuant to Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013; *Single Supervisory Mechanism Regulation; SSM Regulation*), the European Central Bank supervises "significant" credit institutions, while the CNB supervises "less significant" credit institutions.

Office. Its name was changed to Credit Institutions Resolution Office on 1 January 2021, in light of the statutory changes concerning the division of resolution powers in the Republic of Croatia, pursuant to which the CNB became the sole national resolution authority for credit institutions.

On the other hand, the activities of the CNB in its capacity as the competent authority are carried out by separate organisational units, as follows: the Prudential Regulation and Methodology Area, the Prudential Supervision Area and the Expert Supervision and Oversight Area.

The roles and competences of all the CNB's organisational units are defined in the internal bylaw on the organisational structure of the CNB.

The establishment of the Credit Institutions Resolution Office pursuant to the internal bylaw on the organisational structure of the CNB as a stand-alone organisational unit within the CNB, with clearly defined competences and responsibilities and a separate reporting line, made it possible to ensure operational and functional independence of the organisational unit exercising resolution function from the organisational units performing supervisory or oversight functions and other functions exercised by the CNB in accordance with the provisions of other regulations.

2 Protection of confidential information

Given that the Credit Institutions Resolution Office handles a large amount of confidential information, including information received from the CNB's organisational units in charge of supervision (primarily from the Prudential Regulation and Methodology Area and the Prudential Supervision Area), information received from the Single Resolution Board (SRB)⁵, as well as information received from credit institutions, with regard to the confidentiality of information, it is important to note that the CNB forms an integral part of the European System of Central Banks and that Article 53 of the Act on the Croatian National Bank (Official Gazette 75/2008, 54/2013 and 47/2020) lays down that the members of the Council of the Croatian National Bank and employees of the Croatian National Bank shall be bound by the obligation of confidentiality, within the meaning of the Statute of the European System of Central Banks and the European Central Bank, with regard to any documents and data of which they become aware in the course of carrying out their duties and tasks.

⁵ The SRB exercises resolution powers in respect of credit institutions in the Republic of Croatia for which the SRB is directly responsible pursuant to Article 7, paragraph (2) of the SRMR. This concerns (i) significant credit institutions directly supervised by the European Central Bank; and (ii) less significant credit institutions that are members of "other cross-border groups" (groups whose parent undertaking and at least one subsidiary are located in two different participating Member States).

Also, in accordance with Article 115 of the Resolution Act, all employees of the CNB are obligated to protect all information of which they have become aware in the course of their work within the framework of the Resolution Act as confidential. This obligation covers the period before, during and after the employment, while disclosure of confidential information is only allowed in the cases laid down in the Resolution Act (e.g. to employees of resolution and competent authorities of other Member States and deposit insurance schemes). In disclosing confidential information received in the course of exercising resolution powers to any other person or authority, the CNB shall act in full compliance with the Ordinance on the manner of disclosing confidential information in summary or collective form (Official Gazette 28/2022), which has been aligned with the following European Banking Authority guidelines: Guidelines on the provision of information in summary or collective form for the purposes of Article 84(3) of Directive 2014/59/EU of 19 July 2016 (EBA/GL/2016/03).

In addition, in order to further clarify the obligation to protect the confidentiality of information and effective handling of such information, the CNB has laid down rules for handling of confidential information by its employees in the Code of Conduct of the Croatian National Bank and dedicated internal bylaw.

Regarding the cooperation between the CNB and the SRB, as the central resolution authority for all credit institutions within the Banking Union, the SRB's framework with practical measures for the implementation of the SRMR is applicable. In the framework concerned, the SRB regulated in more detail the cooperation with national resolution authorities in order to ensure the efficient functioning of the Single Resolution Mechanism, with a particular emphasis on the need to protect confidential information in accordance with the SRMR and the national legislation transposing the BRRD.

3 Exchange of information and cooperation in drafting, planning and enforcement of decisions

Notwithstanding the operational and functional independence of supervisory or oversight functions of the CNB from its resolution function (paragraph III.1 of this summary) and irrespective of the obligation to protect confidential information (paragraph III.2 of this summary), pursuant to Article 8, paragraph (7) of the Resolution Act, this should in no way limit the cooperation between employees carrying out resolution activities and employees exercising supervision or oversight and should in no way affect their exchange of information necessary for drafting, planning and enforcement of resolution decisions.

With the aim of ensuring uniform cooperation and timely exchange of information in accordance with the Resolution Act, the CNB adopted internal bylaw governing the cooperation between the Prudential Regulation and Methodology Area and Prudential Supervision Area, on the one hand, and the Credit Institutions Resolution Office on the other

hand. The bylaw concerned governs, *inter alia*, the cooperation in collecting information necessary for the drafting and implementation of resolution plans, the cooperation in drafting resolution plans and determining the minimum requirement for own funds and eligible liabilities, and the cooperation in assessing and monitoring the implementation of business reorganisation plans.

IV Conclusion

The organisational structure of the CNB ensures that there is an operational and functional independence in order to avoid conflicts of interest between the resolution powers exercised by the CNB in accordance with the provisions of the SRMR and the Resolution Act and supervisory or oversight functions exercised by the CNB in accordance with the provisions of the CRR and regulations governing the operation of credit institutions.

Furthermore, the current organisation of the CNB's work ensures that the employees carrying out resolution activities are structurally and functionally separated from the employees exercising supervision and who are subject to separate reporting lines.

All employees of the CNB, including those employees carrying out resolution activities, are legally obligated to protect confidential information, while the CNB also adopted internal bylaws in order to secure the confidentiality of information.

The fact that the CNB acts as both the resolution authority and the competent authority with respect to credit institutions further reinforces the cooperation between these two functions, while the CNB has put in place clear procedures for mutual exchange of information.

In accordance with Article 8, paragraph (10) of the Resolution Act, this document will be regularly updated in view of any important changes of the internal rules of the CNB in its capacity as the resolution authority.