Single Resolution Board

SRB – Banking Industry Dialogue Meeting

Building up the Single Resolution Fund - The 2016 contributions to the SRF

Timo Löyttyniemi, Vice Chair of the SRB

Agenda

1	The Single Resolution Fund
2	Calculation of *ex ante* contributions
3	2015 collection of *ex ante* contributions
4	2016 collection of *ex ante* contributions

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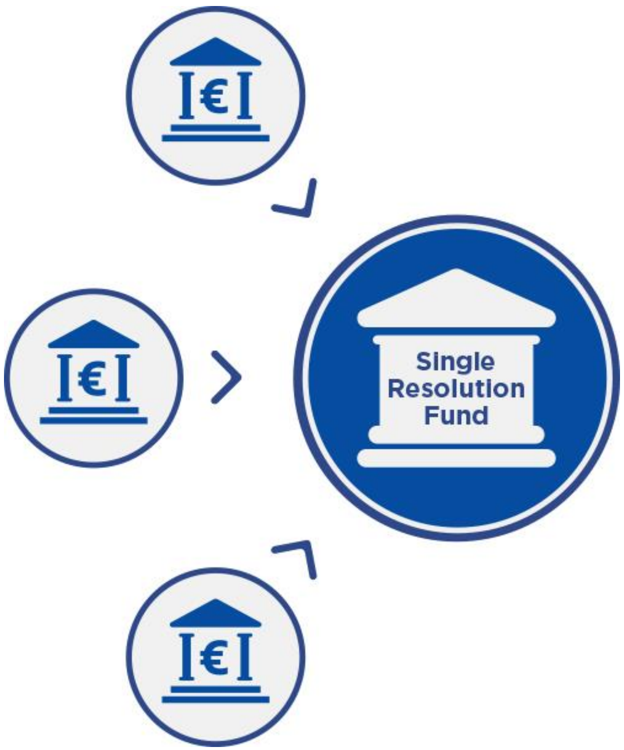
Objective of the Fund



- The Single Resolution Fund ('The Fund') is an **essential element of the Single Resolution Mechanism** (SRM) which harmonises resolution of credit institutions and certain investment firms within the 19 participating Member States.
- The Fund helps to ensure a uniform administrative practice in the financing of resolution within the SRM.
- The Fund will be built up during the first eight years (2016-2023) and shall reach at least 1% of covered deposits (approx. €55bn by the end of 2023).

Use of the Fund within the resolution scheme 1/2

Within the resolution scheme, the Fund may be used only to the extent necessary **to ensure the effective application of the resolution tools**, namely:

- To guarantee the assets or the liabilities of the institution under resolution;
- To make loans or to purchase assets to the institution under resolution;
- To make contributions to a bridge institution and an asset management vehicle;
- To pay compensation to shareholders or creditors who suffered greater losses than under normal insolvency;
- To make a contribution to the institution under resolution in lieu of the write-down or conversion of liabilities of certain creditors under specific conditions.

Use of the Fund within the resolution scheme 2/2

The Fund may be used to make a contribution to the institution under resolution in lieu of the write-down or conversion of liabilities of certain creditors only if:

- **Minimum 8% bail-in**: *losses totalling not less than 8% of the total liabilities including own funds of the institution under resolution have already been absorbed by shareholders and holders of eligible capital instruments and liabilities;*

- **Not more than 5% of liabilities**: *the contribution from the Fund does not exceed 5 % of the total liabilities including own funds of the institution under resolution under normal circumstances.*

Contributions to the Fund

- The Fund is financed from ***ex ante* contributions** paid annually at individual (solo) level by all credit institutions and some investment firms established in the 19 Member States participating to the SRM.
- The SRB is responsible for the calculation of the *ex ante* contributions. The NRAs are responsible for the collection and transfer of contributions from the entities located in their respective territories to the Fund.
- Where the available financial means are insufficient to cover the losses or costs incurred by the use of the Fund, **additional *ex post* contributions** shall be collected.

Pooling of contributions to the Fund

Intergovernmental Agreement (IGA) of 21 May 2014 between participating Member States on transfer and mutualisation of contributions to the Single Resolution Fund.

The IGA complements the SRM Regulation:

- During a transitional period, the contributions will be allocated to **different compartments** corresponding to each participating Member State (national compartments).
- Those compartments will be subject to a **progressive merger** so that they will cease to exist at the end of the transitional period.
- The Agreement determines how the Board is able to dispose of the national compartments that are progressively merged.

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Harmonised rules for all the institutions contributing to the Fund

- The SRB is empowered to calculate the individual *ex ante* contributions to the Fund annually due from credit institutions and some investment firms authorised in the 19 Member States participating to the SRM.

- For the purpose of calculating these contributions, the Board applies the methodology set out in the Commission Delegated Regulation (EU) 2015/63 and the Council Implementing Regulation (EU) 2015/81, which ensure **harmonised calculation rules for all the institutions in scope.**

- The calculation of *ex ante* contributions is based on the latest available reported data, *in majority of cases:* **for contributions calculated in year N (e.g. 2016) the reference date is 31 December N-2 (e.g. 2014).**

Minimum target level of *ex ante* contributions

- **By 31 December 2023**, the available financial means of the Fund shall reach at least 1 % of the amount of covered deposits of all credit institutions authorised in all of the participating Member States.
- *Ex ante* contributions to the Fund shall be spread out in time as evenly as possible until the target level is reached, taking into account the phase of the business cycle and the impact of pro-cyclical contributions.
- **In Q1 2016**, the SRB will decide on 2016 target level based on the value of covered deposits in 2015.

Calculation of *ex ante* contributions

Contributions to the Fund take into account the annual target level as well as the size and the risk profile of institutions.

Annual target level

Distribute the target among the institutions

Non-risky / small institutions

Lump-sum treatment

Risky / large institutions

Base/size of institution X Risk of institution

Total base/size and **risk** of all institutions under the SRF

Calculation of base/size of institution:

[Total Liabilities – Own funds – Covered Deposits ± Derivative adjustment – Intra-group liabilities – Institution's specific deductions] X Risk factor adjustment

see slide 15

Lump-sum reflects the fact that, in many cases, small institutions are less risky than larger institutions.

Small institutions pay lump sum amount, when:

- Total Assets < **€1bn**; and
- Base/size of an institution (i.e. Total Liabilities – Own funds – Covered Deposits) ≤ **€300m**

Base/size of institution	Lump sum amount (annual)
base/size ≤ €50m	1.000 €
€50m < base/size ≤ €100m	2.000 €
€100m < base/size ≤ €150m	7.000 €
€150m < base/size ≤ €200m	15.000 €
€200m < base/size ≤ €250m	26.000 €
€250m < base/size ≤ €300m	50.000 €

If the institution provides sufficient evidence that the lump sum amount is higher than the contribution calculated with the full risk adjustment methodology, the lower will be applied.

Weight of risk Pillars and Indicators

Risk Pillar		Weights	Risk Indicators	Weights
I	Risk Exposure	50%	MREL	25%
			Leverage Ratio	25%
			Common Equity Tier 1 Capital Ratio	25%
			Total Risk Exposure divided by Total Assets	25%
II	Stability and variety of sources of funding	20%	Net Stable Funding Ratio;	50%
			LCR	50%
III	Importance of an institution to the stability of the financial system or economy;	10%	Share of interbank loans and deposits in the European Union	100%
IV	Additional risk indicators determined by the SRB	20%	Trading activities, off-balance sheet exposures, derivatives, complexity and resolvability;	45%
			Membership in an Institutional Protection Scheme	45%
			Extent of previous extraordinary public financial support	10%
TOTAL		100%		

Note: Each year the availability of applicable supervisory reporting requirements are subject to review by the SRB.

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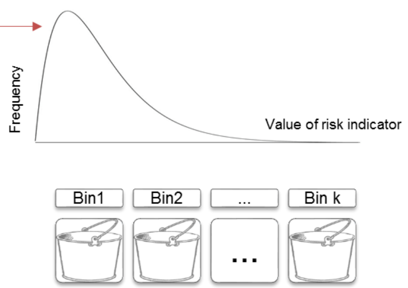
Calculation of *ex ante* contributions

Risk factor adjustment

1 Collect risk indicators

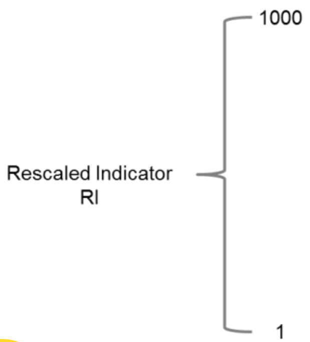
MREL	Leverage Ratio	CET1 capital ratio	TRE/TA	NSFR	LCR	Interbank	Complexity	IPS Membership	Previous financial support
RP I			RP II			RP III	RP IV		
Risk adjustment [0.8-1.5]									

2 Distribute risk indicators into bins (discretisation)



Indicator I = 1,…,k

3 Rescale risk indicators



4 Apply the sign to risk indicators

a) Establish the sign (meaning) of RIs;

b) Build a common meaning: Transformed RIs (TRI)

High TRI (1000)→ low risk

Low TRI (1) → high risk

5 Generate the Final Composite Indicator (FCI)

Weighted arithmetic average of risk indicators PI_1	PI_2	PI_3	PI_4

Composite Indicator CI: weighted geometric average of pillars

Final Composite Indicator: FCI =1000-CI

6 Rescale the FCI and compute contributions €

1. Rescale FCI in the range [0.8-1.5]
2. Compute annual contributions of each institution

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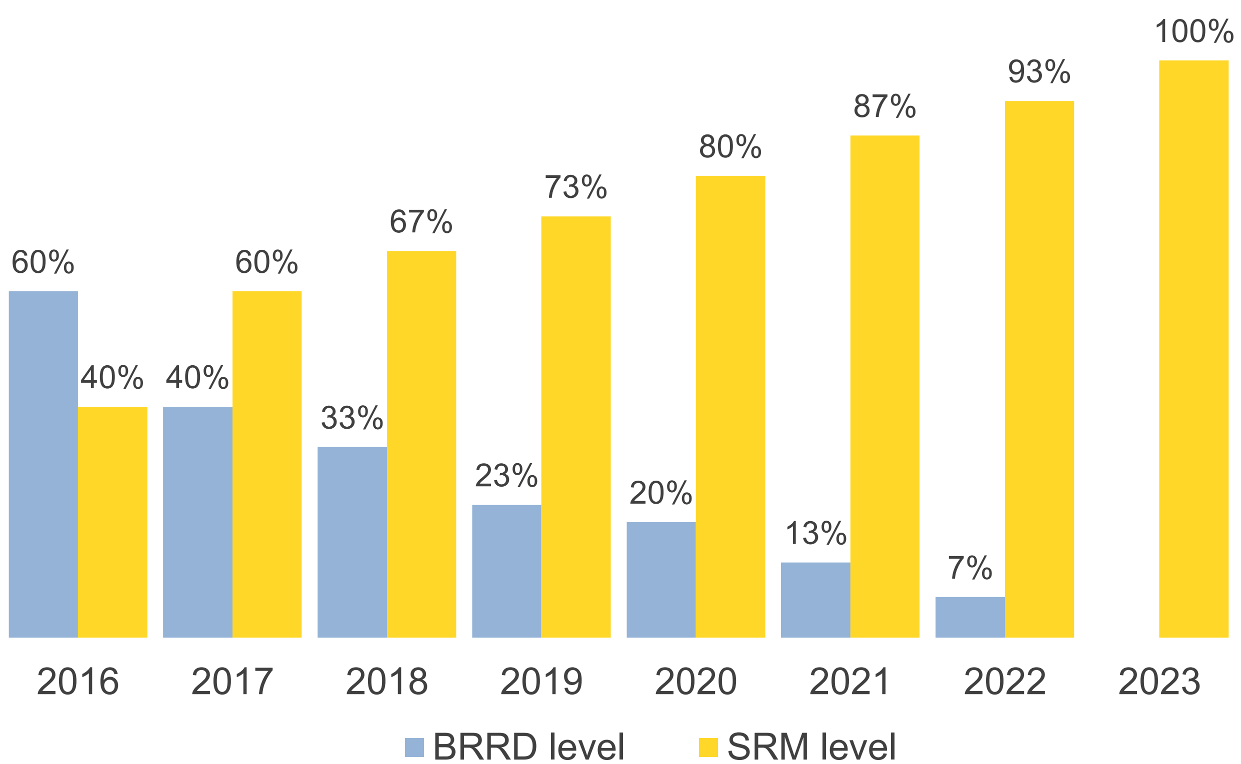
Calculation of *ex ante* contributions

Until 2023, the annual contributions are computed as the sum of BRRD and SRM contributions.



Single Resolution Mechanism level
Percentage of annual contributions computed based on the Euro Area level calculations.

Bank Recovery and Resolution Directive level
Percentage of annual contributions computed based on the national level calculations.

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Target level

The target level for each Member State is set by the National Resolution Authorities.

Collection of 2015 *ex ante* contributions

- ✓ Contributions are raised from the institutions authorised in the territory of each NRA.

Contributions collected in 2015 will be taken into account when calculating the individual contributions of each institution by deducting them from the amount due from each institution over the 8 years.

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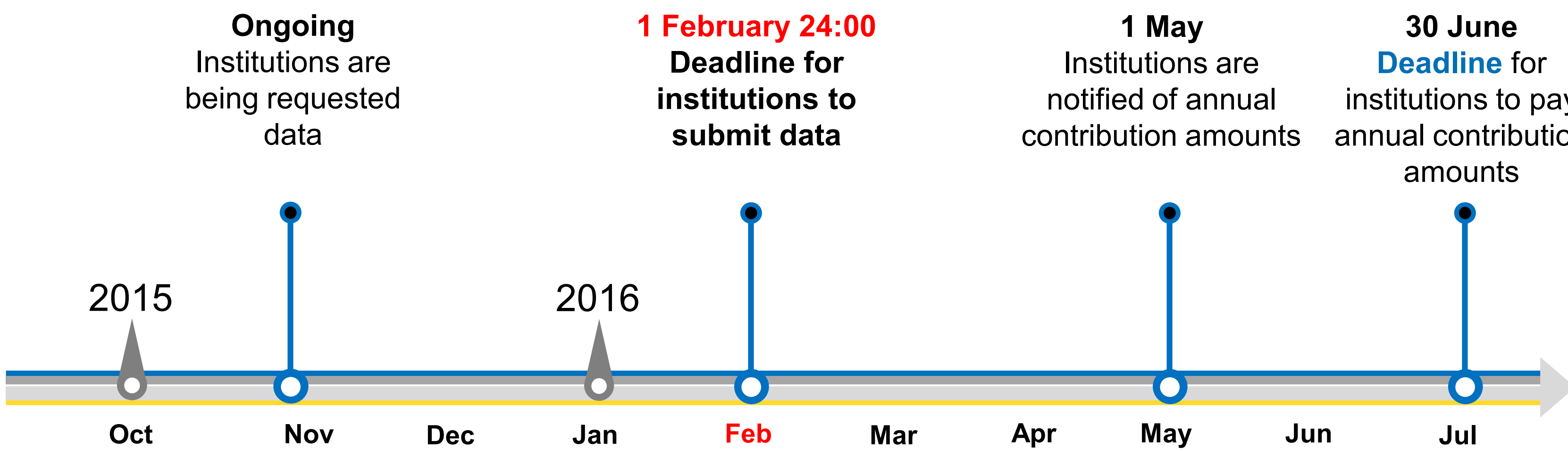
2016 collection of *ex ante* contributions

Timeline for 2016 contributions



National Resolution Authorities are:

- ✓ First contact point for institutions in case of any questions or need of clarification
- ✓ Collecting the data and contributions for the SRF

Single Resolution Board is:

- ✓ Applying harmonised rules
- ✓ Giving guidance for data collection and calculations to the NRAs

What happens if (some) data are not submitted by 1 February 2016

- Where an institution does not submit the data by 1 February 2016:
  - the Board will **use estimates or its own assumptions** in order to calculate the annual contribution of the institution.
  - the Board may assign the institution concerned to the **highest risk adjusting multiplier, i.e. 1.5**
- Institutions shall submit all the data required by the National Resolution Authorities by 1 February 2016 24:00 at the latest.

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Data necessary for calculation *(summarized view)*

	Source
1. Basic Annual Contribution:	
Total Liabilities (= Total Balance Sheet)	Annual financial statements
– Own Funds	EU COREP (Capital)
– Covered Deposits	DGSs / Institution
– Accounting on-balance sheet derivative liabilities	Annual financial statements
+ Derivative liabilities (leverage methodology) after floor	Institution
– Deductions (if any)	Institution
2. Risk adjustment:	
i. Risk Exposure:	
a) MREL	*Not reported in all MS for 2014*
b) Leverage Ratio	EU COREP (Leverage)
c) Common Equity Tier 1 Capital (CET1) Ratio	EU COREP (Capital)
d) Total Risk Exposure (TRE)	EU COREP (RWAs)
e) Total Assets (TA)	Annual financial statements
ii. NSFR & LCR	*Not reported in all MS for 2014*
iii. Interbank loans and deposits	*Not reported in all MS for 2014*
iv. a) Risk exposure on traded debt and equity (out of TRE, CET1, TA)	EU COREP (manual if IRB)
Off-balance sheet nominal (out of TRE, CET1, TA)	EU COREP (Leverage)
Derivative exposure (out of TRE, CET1, TA)	EU COREP (Leverage)
Of which: CCP exposure (risk reducing)	Institution
Complexity of business model (Y/N)	*Not reported in all MS for 2014*
b) IPS membership and authorisation (Y/N)	Institution
c) Extent of previous extraordinary public financial support (Y/N)	Institution

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Summary

The Single Resolution Fund and the Single Resolution Board are established pursuant to the SRM Regulation.

- The Fund ensures that resolution decisions are taken effectively and quickly *enhancing the financial stability* in the Banking Union.
- The Fund pools *significant resources from all institutions* and therefore *protects taxpayers* more effectively than national funds.
- The Fund is only to be used to cover losses or purchase instruments of ownership, *exceptionally*, when investors and creditors representing at least 8% of a bank's total liabilities including own funds have been bailed-in.

Thank you!