SRB – BANKING INDUSTRY DIALOGUE MEETING

SINGLE RESOLUTION FUND

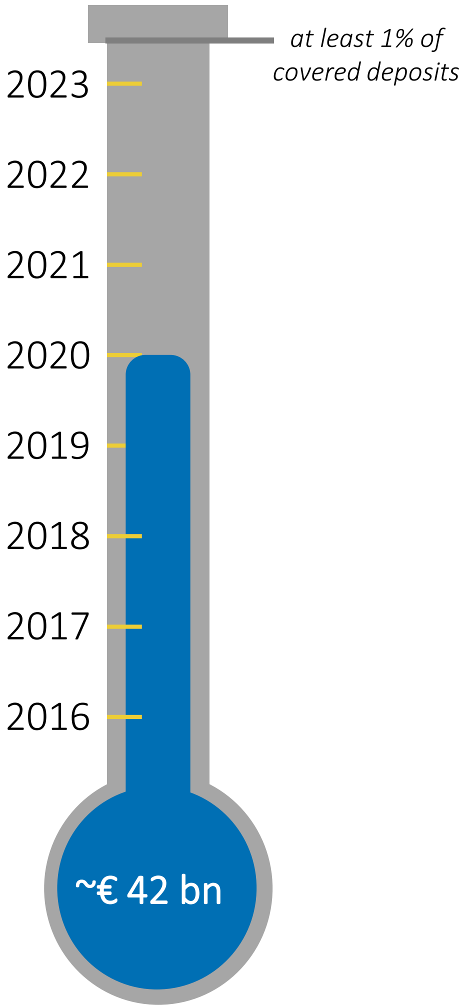
Presenter: **Jan Reinder De Carpentier**, Vice Chair
Monday, 14 December 2020

Single
Resolution Board

AGENDA

1. General Update
2. Evolution of Covered Deposits
3. General Court Ruling
4. Common Backstop
5. Q&A

1 | GENERAL UPDATE - WHERE ARE WE IN BUILDING THE FUND?



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.

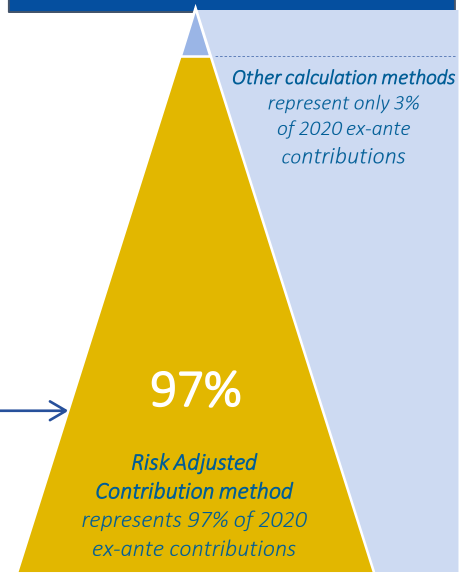
- In 2016, the National Resolution Authorities (‘NRAs‘) transferred to the Fund € **10.8bn** of **2015** and **2016 ex-ante contributions**;
- In 2017, the NRAs transferred to the Fund € **6.6bn** of **2017 ex-ante contributions** (after deductions and adjustments);
- By June 2018, the SRB received additional € **7.5bn** in **2018 ex-ante contributions** (after deductions and adjustments);
- By June 2019, the SRB received **€ 7.8bn** in **2019 ex-ante contributions** (after deductions and adjustments);
- By June 2020, the SRB received **€ 9.2bn** in **2020 ex-ante contributions** (after deductions and adjustments)

1 | GENERAL UPDATE – 2020 CYCLE

Overall in 2020 contribution period

% of institutions and calculation method applied	
48%	**Small institutions 1450** Small credit institutions, investment firms and mortgage institutions for lump-sum payment
29%	**Middle size 901** Middle-size institutions (CIR Art. 8(5))
23%	**Risk Adjusted Contribution 715** Default methodology for large credit institutions and investment firms, and risky small credit institutions

% of 2020 ex-ante contribution



Amount collected

The amount of 2020 contributions transferred to the SRF amounted to €9.2bn (after restatements and 2015 deduction).

Scope

In 2020, 3066 institutions fell within the scope of the SRF (compared to 3186 institutions in 2019).

Communication

SRB increased communication towards industry by means of an Industry Conference Call in March, enhanced information in the so-called ‘Harmonized Annex’ and the publication of additional statistics on the SRB Website. In addition, an extensive guidance documents on the Harmonized Annex was published on the SRB Website.

2 | EVOLUTION OF COVERED DEPOSITS – 2020 CYCLE

Annual Target Level = Total covered deposits (T-1) x coefficient(%) / 8

Target level

How to fix the coefficient considering that:

- ✓ Objective is to reach at least 1% of the total amount of covered deposits in the banking union by 31 December 2023;
- ✓ According to the data received from DGSs, covered deposits increased by 7.19% in 2019 (previous growth rates: 2.7% in 2018, 3.25% in 2017 and 2.4% in 2016, with an average annual growth rate of 3.9%).
- ✓ **Due to the annual growth of covered deposits, setting the coefficient at 1% would not be sufficient to reach the expected target by end 2023.**

SRB methodology

To ensure the 2023 objective is met, the SRB follows 3 steps:

1) **Estimation of the CD growth** till end of 2023→ Econometric model developed together with the EC Joint Research Centre → current projected CD growth of about **4%**; and
2) **Simulation of the size of the Fund** with different target level coefficients and CD growth; and
3) Analysis of the phase of the **business cycle**.

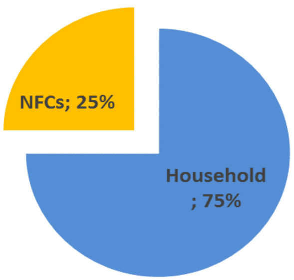
Outcome

- ✓ In 2016 and 2017, the SRB set the coefficient at 1.05%;
- ✓ In 2018 and 2019, the SRB set the coefficient at 1.15%;
- ✓ **In 2020, the SRB set the coefficient at 1.25%.**

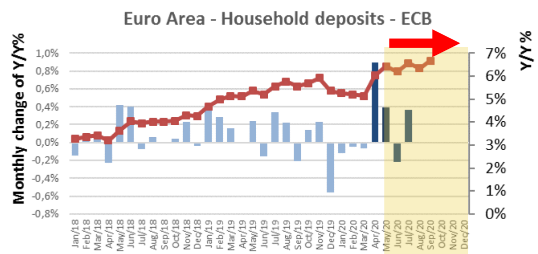
2020 Target Level = Total covered deposits in 2019 x 1.25% / 8 = € 9.7 billion

2 | EVOLUTION OF COVERED DEPOSITS – LOOKING FORWARD

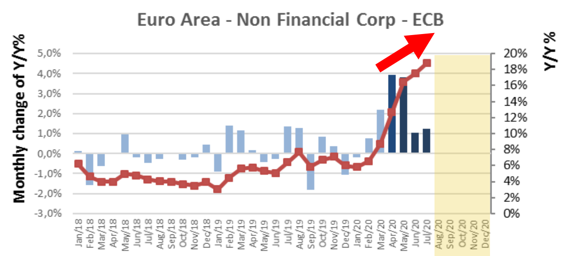
- Given the fact that no Eurozone historical time series for covered deposits exists, deposits of households and non-financial corporations (NFCs) in the Eurozone published by the ECB could be considered a good proxy.



- **Household deposits** increased by **<u>6,7 % YoY on September 2020</u>**, nevertheless there has been a slight stabilization on the YoY growth



- **NFCs deposits** continue to grow at record level, **<u>September reached almost 20% YoY rate</u>**, however, the correlation of this variable with covered deposits is lower than household deposits



- SRF Target Level is set on **real covered deposits data**, as reported by deposit guarantee schemes (DGS) to the SRB once a year. The data request for the 2021 cycle has been launched.
- SRB has contacted DGSs in H2 2020 to obtain **forecasts** where available. Based on the information received, next year, an average growth rate of covered deposits between 5.5% and 7.5% might be observed in the Banking Union..

3 | 23 SEPTEMBER 2020 – GC RULINGS (T-411/17, T-414/17 AND T-420/17)

MAIN FACTS

- The General Court (GC) annulled the SRB decision determining the 2017 ex-ante contributions of the three applicants (Landesbank Baden-Württemberg, Hypo Vorarlberg Bank and Portigon) based on procedural flaws and the inadequate reasoning of the decision. In the first case (T-411/20), GC also declared Commission Delegated Regulation (EU) 2015/63 unlawful in part, as it allegedly does not enable the SRB to state adequate reasons.
- The judgments have *inter-partes* effect – they are directly applicable only to the three institutions whose appeals were upheld by the GC.
- The contributions of those banks all together constitute **less than 1%** of the contributions collected in 2017 ex-ante cycle.

WHAT'S NEXT

- The SRB and the European Commission appealed the judgment rendered in case T-411/20 before to the European Court of Justice (ECJ). The two appeals were registered under case numbers C-584/20 P and C-621/20 P.
- Both the European Commission and the SRB requested their appeals to be assessed by the ECJ within an expedited procedure, which should afford the appellants fast track proceedings. By submitting such request, the Board seeks to obtain clarity on the legality of the legal framework without delays and with a minimal impact on its operational procedures.
- The SRB submitted an appeal also against the other two judgments.
- Pending the ECJ judgments, for the time being the Board deems appropriate to continue the preparatory works for the 2021 ex-ante cycle, including the data collection from the banking industry.

4 COMMON BACKSTOP TO THE SRF - GENERAL TIMELINE AND WAY FORWARD

The ESM has been identified as common backstop provider on behalf of the euro area. The Euro Group announced on Monday 30th November the agreement for an early introduction of the Backstop (January 2022) .

2013	Eurogroup/ ECOFIN Ministers' statement on the common backstop
2015	ECOFIN Ministers' statement on national bridge financing for the Transitional Period
2016	Start of technical work on common backstop (TFCA)
2018	Political agreement on terms of reference with key features of the common backstop
2019 + 2020	Negotiations on finalisation of the common backstop agreement with the ESM and related ESM legal documentation
November 2020	*Favourable assessment of progress on risk reduction and political* ***decision on early introduction*** *of the common backstop for beginning of 2022*
2022	**Early introduction of the Common Backstop** - Mutualisation of ex-post contributions brought forward (amended IGA) - National bridge financing (LFA) cease to exist
2024	1 January 2024: End of the transitional period/beginning of steady state: - SRF fully mutualised - SRF expected to reach its Target Level

4 COMMON BACKSTOP TO THE SRF - BACKGROUND

The common backstop with an **adequate size** for the SRF, and covering all its possible uses (capital and liquidity support), will enhance the credibility of the resolution framework and the SRB

Background …

In December 2013, the Eurogroup/ECOFIN Ministers acknowledged that *"situations may arise, when the SRF is not sufficiently funded by the banking sector". For this reason, bilateral bridge financing arrangements for the national compartments were agreed for the* ***transition period*** (so called "Loan Facility Agreements" or "LFAs")

In December 2015, the Eurogroup/ECOFIN Ministers further agreed that a *"common backstop will be developed during the transition period".* Member States confirmed in 2015 and 2016 that the common backstop shall be fully operational, at the latest, by the end of the transition period (i.e. 2023).

In October 2017, Commission's communication urges Member States to finalise political negotiations on the common backstop by 2018, suggesting a credit line from the **ESM as the most effective option**.

In December 2018, the Eurogroup/ECOFIN Ministers agreed that the common backstop should be **provided by the ESM**. The size is aligned with the target level of the SRF at the end of the transitional period (end-2023).

In November 2020, the Eurogroup agreed on an **early introduction** of the common backstop in the beginning of 2022.

4 COMMON BACKSTOP TO THE SRF - PRINCIPLES

Agreed principles constituting the basis for the common backstop:

I) Available as a last resort

i. the financial means of the SRF available not already committed to resolution actions are depleted or insufficient for a resolution action;

ii. ex-post contributions are not sufficient or not immediately available; and

iii. the SRB is not able to borrow on terms and conditions considered acceptable

II) Fiscal neutrality over the medium term

Through ex-post levies from the financial industry within the maturity set out

SRB's **repayment capacity assessment** (by SRB and ESM) as main element of this criteria

III) Equivalent treatment across all Banking Union Member States

IV) No costs for Member States that do not participate in the Banking Union

Financial resources available **beyond the immediate capacity of the SRF**, to cover capital and liquidity needs;

Repayment spread out over time, easing the pressure on the financial sector;

Potential **early introduction** of the common backstop

Enhanced financial stability

THANK YOU!

Single
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