

2020 Ex-ante contributions to the Single Resolution Fund (SRF)

Questions and Answers

General information on the calculation methodology

1. Why did the calculation method applied to my institution in 2020 contribution period change compared to last year?

The calculation method may have changed due to changes in (a) institution's balance sheet size or (b) its business model. The SRB determines the calculation method as follows:

- Small institutions eligible for a lump-sum payment:

- o Total assets < € 1bn; and
- o Base, i.e. total liabilities – own funds – covered deposits ≤ € 300mn

	Contribution
base ≤ € 50m	€ 1,000
€ 50m < base ≤ € 100m	€ 2,000
€ 100m < base ≤ € 150m	€ 7,000
€ 150m < base ≤ € 200m	€ 15,000
€ 200m < base ≤ € 250m	€ 26,000
€ 250m < base ≤ € 300m	€ 50,000

- Mid-size institutions eligible for a partial lump-sum payment:

- o Total Assets < €3bn;

	Contribution
part of base < € 300m	€ 50,000
€ 300m < part of base	Risk adjusted contribution

- Larger institutions not eligible for lump-sum payment:

- o Total Assets > € 3bn;

	Contribution
Fully	Risk adjusted contribution

- Other:

- o For mortgage credit institutions financed by covered bonds and investments firms with some limited services and activities, a specific calculation methodology is applied.

2. I have received my banking licence in 2019. How will my 2020 ex-ante contribution be calculated?

In case an institution received a new banking licence in the course of 2019, pursuant to Article 12(1) of Commission Delegated Regulation (EU) 2015/63, *a partial contribution shall be determined by applying the methodology set out in [Section 2 of Commission Delegated Regulation (EU) 2015/63] to the amount of its annual contribution calculated during the subsequent contribution period by reference to the full months of the contribution period for which the institution is supervised.*

3. The information I have received from my national resolution authority (invoice/harmonised annex) shows two different amounts: (a) the base yearly calculated amount and (b) the actual final amount to be paid constituting the final result of the calculation process. What is the difference?

The final amount of ex-ante contributions to be paid for any relevant year may differ from the base yearly calculated amount where the calculation includes the **2015 deduction**. To this purpose, the SRB takes into account the contributions raised by the participating Member States in 2015 and transferred to the SRF¹, by deducting them on an institution-by-institution and linear basis². This means that in 2020, where applicable, 1/8th of the 2015 contribution is deducted from the amount due from the institutions concerned.

In addition, the following final adjustments may also be applicable:

- **Restatements and revisions:** the final amounts to be paid takes into account, where relevant, the difference between the annual contributions calculated and paid in the previous contributions periods (2015, 2016, 2017, 2018 and 2019) and the contributions that should have been paid following the adjustment of the annual contributions³.
- **Newly supervised institutions:** Please refer to question 2.

4. Can I recalculate the 2020 contributions? Can I predict the amount to be paid in 2021?

The calculation methodology is set out in the Commission Delegated Regulation (EU) 2015/63 and in the Council Implementing Regulation (EU) 2015/81, but some factors may render it difficult to fully recalculate or to predict the contributions, namely:

¹ In accordance with Articles 103 and 104 of Directive 2014/59/EU ("BRRD") and with the Intergovernmental Agreement on the transfer and mutualisation of the contributions to Single Resolution Fund of 14 May 2014.

² In accordance with Article 8(2) of Council Implementing Regulation (EU) 2015/81.

³ In accordance with Article 17(3) and (4) of Commission Delegated Regulation (EU) 2015/63.

- (a) the calculation methodology is based on **relative positions**;
- (b) the **mixed calculation base**: phasing in between BRRD and SRM (see question 8);
- (c) some **risk indicators** have not yet been introduced; and
- (d) the evolution of **covered deposits**.

Based on the calculation methodology, institutions may only partially be able to recalculate or predict their future ex-ante contribution:

- (a) small institutions eligible for a **lump-sum payment** may recalculate and predict their future ex-ante contributions by referring to the methodology described in Article 10 of the Commission Delegated Regulation (EU) 2015/63;
- (b) middle size institutions eligible for **partial lump-sum** payment in accordance with Article 8(5) of Council Implementing Regulation (EU) 2015/81 may only fully recalculate or predict the fixed €50 000 lump-sum part; and
- (c) institutions paying a **risk-adjusted** contribution may not be able to fully recalculate or predict their future contributions, due to the factors mentioned above.

Finally, in the 2017, 2018, 2019 and 2020 contribution periods, the SRB, together with the national resolution authorities (NRAs), developed Harmonized Annexes that provide institutions with further information in relation to the calculation of ex-ante contributions.

Main drivers of the 2020 calculation of ex-ante contributions

TARGET LEVEL

5. How the SRB decided to set the target level of the SRF in 2020?

With the objective of reaching at least 1% of the total amount of covered deposits in the euro area by 31 December 2023, the SRB decided to set the 2020 target level at 1/8th of 1.25% of the average amount of covered deposits in 2019 (calculated quarterly) of all credit institutions authorised in the euro area.

When setting the target level for 2020, the SRB took into account, as every year, all factors stemming from the regulation, i.e. (expected) growth of covered deposits, business cycle, impact on institutions, the obligation to spread evenly the contributions throughout the initial period and the obligation to reach the final target level at the end of the initial period (31/12/2023) (Article 69(2) SRM Regulation).

The growth of covered deposits in 2019 was 7.18%, indicating that the growth rate of covered deposits has accelerated considerably compared to the previous year. In 2018, the yearly growth rate was 2.7%, while in 2017, the growth rate (versus 2016) was 3.2% and in 2016 the growth rate (versus 2015) was 2.2%. The average growth rate of covered deposits between 2015 and 2019 is 3.8%.



Given that, the coefficient used for setting the 2020 target level increased as compared to the previous year, from 1.15% to 1.25%. This coefficient implies a level of ex-ante contributions of **€ 9,195m** for 2020 (compared to €7.8bn in 2019). The amount of **€ 9,195m** includes the deduction of the 2015 ex-ante contributions (€ 528m per year) and the effect of restatements and revisions.

6. Did the SRB take into account the impact of the COVID-19 Pandemic when setting the target level of the SRF in 2020?

Yes, the SRB has also taken into due account the currently deteriorating economic situation driven by the COVID-19 pandemic and its potential consequences. The current shock is largely unprecedented and predictions on its impact released so far differ widely. It is also noted that, even though it is foreseen that the COVID-19 pandemic will have a major impact on the economic developments, on the basis of the available data that informed the SRB's Decision on the determination of contributions (2020/SRB/ES/24), it is not possible to determine how the shock would affect the evolution of covered deposits in the Banking Union going forward. This evolution is a key element in setting the annual target level.

In addition to the above, the SRB examined all possibilities under the applicable Regulation that governs the ex-ante contributions to the SRF (SRMR, IGA, Delegated and Implementing Regulations) to waive or postpone the determination or the raising of ex-ante contributions. However, the legal framework provides very limited flexibility in this regard. Additionally, waiving or postponing the collection of contributions to the few remaining years of the initial period, without an extension of the current deadline for reaching the target level, would entail risks for the successful constitution of the Fund within the timeframe set. At the same time, it would substantially increase the contributions to be paid in the years 2021 to 2023.

Such course of actions would not address the concerns raised on the overall impact of ex-ante contributions on the financial sector; to the contrary, it would aggravate the situation not least for 2021 contributions.

7. What will be the target level in 2021?

As every year, when setting the annual target level for the SRF, the SRB will take into account the growth of the covered deposits in the preceding years, the phase of the business cycle and the potential pro-cyclical impact contributions may have on the financial position of the contributing institutions. Also, it will aim to spread the ex-ante contributions as evenly as possible during the initial period. The SRB sets the annual target level to ensure that the progress of building-up the SRF is adequate in order to reach the required target level at the end of the initial period (i.e. 31 December 2023).

BRRD – SRM SHARES

8. What are the BRRD and SRMR⁴ calculation methods? How do the weights associated to the two methods affect the individual contributions?

During the initial period (2016-2023), the ex-ante contributions will be calculated in accordance with the adjusted methodology⁵. For the 2020 contribution period, institutions contribute as weighted average:

- 20.0% of their annual contributions calculated in the BRRD environment (or National Base⁶); and
- 80.0% of their annual contributions calculated in the SRMR environment (or euro area Base⁷).

For the calculation of the part of the annual contributions in the **BRRD environment (or National Base)**, only data from institutions that are authorised in the territory of that participating Member State are taken into account. The data from institutions that are authorised in the territories of other participating Member States, remain unconsidered. Consequently, the annual target amount is defined on a National Base. In the same way, the relative riskiness and the relative size of an institution are evaluated only in comparison with the riskiness and the size of institutions authorised in the territory of the same participating Member State.

For the calculation of the part of annual contributions in the **SRMR environment (or euro area base)**, data from all institutions authorised in the territories of all participating Member States are taken into account in the calculation. Consequently, the annual target amount, as well as institutions' relative riskiness and size, are evaluated in comparison with all institutions in all participating Member States. The methodology for calculating the contributions is the same in both calculations.

In the coming years, the weight of the euro area base (or SRMR environment) will gradually increase, ending up with 100% in 2023 contribution period.

RELATIVE POSITION IN TERMS OF SIZE AND RISKINESS

9. Why is my individual contribution higher than that of my peers that have a comparable balance sheet size and liability structure?

As indicated in the answer to question 8, ex-ante contributions are the weighted average of the **BRRD** contribution and the **SRMR** contribution. In particular, ex-ante contributions are driven by:

⁴ Single Resolution Mechanism Regulation (Regulation (EU) No 806/2014).

⁵ The adjusted methodology is described in Article 8(1) of Council Implementing Regulation (EU) 2015/81.

⁶ Calculated in accordance with Article 103 of Directive 2014/59/EU and Article 4 of Commission Delegated Regulation (EU) 2015/63.

⁷ Calculated in accordance with Articles 69 and 70 of Regulation (EU) No 806/2014 (SRMR) and Article 4 of Council Implementing Regulation (EU) 2015/81.

- the **size**, determined as total liabilities (TL) minus own funds (OF) minus covered deposits (CD) less the specific adjustments⁸;
- the application of the **risk adjustment factor** calculated on the base of the indicators listed in the legal framework (provided the risk-adjusted approach has to be used).

Hence:

- (a) two identical institutions in the same Member State, will pay the same ex-ante contribution (because their BRRD and, therefore, their SRMR components will be the same);
- (b) two institutions of the same Member State that differ in terms of size and/or riskiness will pay a different ex-ante contribution (because their BRRD and SRMR contributions will be different); and
- (c) two identical institutions that operate in different Member States will have the same SRMR contribution, but their BRRD contribution can be different. This can be due to (i) different BRRD target levels in the Member States and/or (ii) different relative positions of the institutions (in terms of size and/or riskiness) in their home countries.

10. My 2018 balance sheet has decreased, yet I am paying more than last year. Why?

As indicated in the answer to question 9, the 2020 ex-ante contributions are the weighted average of the calculations calculated in the BRRD and the SRMR environments and are mainly driven by:

- (a) the (respective) **target level(s)**;
- (b) the relative position, in terms of **size and riskiness**, versus the rest of the institutions in the specific Member State or in the euro area.

Any decrease in size and/or an improvement in the riskiness will lead to a lower ex-ante contribution, provided, that there is no change in any of the other factors that may cancel this improvement.

For instance, in the BRRD environment, if the target level remains constant and none of the national peers sees any change in their size or riskiness, a significant decrease of an institution's total liabilities or risk position will result in a significant decrease in individual contribution. However, if, simultaneously, the target level increases substantially and/or the size/riskiness of most of the national peers decreases, the individual contribution may increase (despite of the decreased size/risk position of the institution).

Hence, in order to assess whether a decrease of the size/risk position will lead to a decrease in the ex-ante contributions, the **relative** changes in size/riskiness of all other institutions in the Member State in which the institution operates (for the BRRD environment) and in the euro area (for the SRMR environment) should be analysed.

⁸ Specific adjustments have been defined in Article 5 of Commission Delegated Regulation (EU) 2015/63.

RISK ADJUSTMENT FACTOR

11. Is the calculation methodology complete for the calculation of risk-adjusted contributions?

The procedure for the calculation of the annual contributions of institutions is laid down in Annex I of Commission Delegated Regulation (EU) 2015/63:

Annex I Commission Delegated Regulation (EU) 2015/63			
Pillar	Indicator	Weights of indicators in Pillar	Weight of the Pillar
PILLAR I: Risk exposure	<i>Own funds and eligible liabilities held by the institution in excess of MREL</i>	25%	50%
	Leverage ratio	25%	
	Common Equity Tier 1 (CET1) Capital Ratio	25%	
	Total Risk Exposure divided by Total Assets	25%	
PILLAR II: Stability and variety of source of funding	<i>Net Stable Funding Ratio</i>	50%	20%
	Liquidity Coverage Ratio	50%	
PILLAR III: Importance of an institution to the stability of the financial system or economy	Share of interbank loans and deposits in the European Union	100%	10%
PILLAR IV: Additional risk indicators to be determined by the resolution authority	Risk weighted assets for market risk divided by Total Assets	4.5%	20%
	Risk weighted assets for market risk divided by CET1	4.5%	
	Risk weighted assets for market risk divided by total risk exposure	4.5%	
	Off-balance sheet nominal amount divided by Total Assets	4.5%	
	Off-balance sheet nominal amount divided by CET1	4.5%	
	Off-balance sheet nominal amount divided by total risk exposure	4.5%	
	Derivatives exposure divided by Total Assets	4.5%	
	Derivatives exposure divided by CET1	4.5%	
	Derivatives exposure divided by total risk exposure	4.5%	
	<i>Complexity and resolvability</i>	4.5%	
	Membership in an Institutional Protection Scheme	45%	
	Extent of previous extraordinary public financial support	10%	

However, the procedure is still not complete for the indicators highlighted in red. Due to

- the unavailability of harmonised data deriving from supervisory reporting requirements and,

- the fact that the minimum requirement for own funds and eligible liabilities (MREL) is not yet determined for all institutions in the participating Member States,
- the fact that sub-indicators “complexity” and “resolvability” were not available for all institutions in the participating Member States,

the SRB did not so far require the institutions to provide information on:

- Risk Pillar I: Own funds and eligible liabilities held by the institution in excess of **MREL**;
- Risk Pillar II: Net Stable Funding Ratio (**NSFR**);
- Risk Pillar IV: **complexity and resolvability**.

Considering these, the SRB established the following weights (the weights that have changed as consequence of not using all indicators highlighted in red below):

2020 contribution period			
Pillar	Indicator	Weights of indicators in Pillar	Weight of the Pillar
PILLAR I: Risk exposure	Leverage ratio	33%	50%
	Common Equity Tier 1 (CET1) Capital Ratio	33%	
	Total Risk Exposure divided by Total Assets	33%	
PILLAR II: Stability and variety of source of funding	Liquidity Coverage Ratio	100%	20%
PILLAR III: Importance of an institution to the stability of the financial system or economy	Share of interbank loans and deposits in the European Union	100%	10%
PILLAR IV: Additional risk indicators to be determined by the resolution authority	Risk weighted assets for market risk divided by Total Assets	5%	20%
	Risk weighted assets for market risk divided by CET1	5%	
	Risk weighted assets for market risk divided by total risk exposure	5%	
	Off-balance sheet nominal amount divided by Total Assets	5%	
	Off-balance sheet nominal amount divided by CET1	5%	
	Off-balance sheet nominal amount divided by total risk exposure	5%	
	Derivatives exposure divided by Total Assets	5%	
	Derivatives exposure divided by CET1	5%	
	Derivatives exposure divided by total risk exposure	5%	
	Membership in an Institutional Protection Scheme	45%	
Extent of previous extraordinary public financial support	10%		

General information on the invoicing/information shared

12. What is/can be shared with institutions?



The NRAs of each Member State are responsible for the notification of the SRB's decision on the ex-ante contributions due by the institutions in their remit (deadline May 1).

The extract of the general decision that is notified to each institution comprises:

- The **Main body of the decision**, with the relevant explanations concerning the calculation and the application of the applicable regulations on ex-ante contributions, including the scope of application of the decision, the data used for the calculation, the calculation methodology and the way the SRB communicates the results to NRAs.
- A **Statistical Annex**, common for all institutions, with additional statistics on the calculations that are provided in order to allow for a better understanding of how each institution compares to all other institutions, in particular with respect to the application of the binning process (where applicable).
- An institution specific **Harmonised Annex**, with the details of the calculation used to determine the ex-ante contribution of the specific institution concerned.

Additional general information can also be found on the SRB's website.