THE SINGLE RESOLUTION FUND

Single Resolution Board

THE SINGLE RESOLUTION FUND (SRF):

- ensures uniform practice in the financing of resolutions within the Single Resolution Mechanism (SRM);
- pools contributions raised at national level from institutions within the SRB's remit in each of the 19 Member States within the Banking Union;
- is built up over eight years (2016-2023) to reach the target level of at least 1% of covered deposits of all credit institutions authorised in the participating Member States;
- was established by the SRM Regulation (EU) No 806/2014 and is owned by the Single Resolution Board (SRB).

USE OF THE FUND

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Within the resolution scheme, the SRF may be used only to the extent necessary to ensure the effective application of the resolution tools, as a last resort, inter alia:

- to guarantee the assets or liabilities of the institution under resolution;
- to make loans to, or to purchase assets of, the institution under resolution;
- to purchase assets of the institution under resolution;
- to make contributions to a bridge institution and an asset management vehicle;
- to pay compensation to shareholders or creditors who incurred greater losses than under normal insolvency proceedings and;
- 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.

The SRF shall not be used directly to absorb losses or to recapitalise an institution. In exceptional circumstances, where an eligible liability or class of liabilities is excluded or partially excluded from bail-in, a contribution from the SRF may be made to the institution under resolution under two key conditions, namely:

- Bail-in of at least 8%: a contribution to loss absorption and recapitalisation totalling not less than 8% of the total liabilities including own funds of the institution under resolution has already been made by shareholders, the holders of relevant capital instruments and other eligible liabilities through write-down, conversion or otherwise
- Contribution from the SRF of maximum 5%: the SRF contribution does not exceed 5% of the total liabilities including own funds of the institution under resolution.

CONTRIBUTIONS TO THE SINGLE RESOLUTION FUND

The SRF is funded by ex-ante contributions paid annually at individual (solo) level by all credit institutions and certain investment firms established in the 19 Member States participating in the SRM.

The SRB is responsible for the calculation of the ex-ante contributions, while National Resolution Authorities (NRAs) and Member States respectively are responsible for the collection and transfer of contributions from the institutions located in their territories to the SRF.

Where ex-ante contributions are insufficient to cover the losses or costs incurred by the use of the SRF, additional ex-post contributions should be collected.

POOLING OF CONTRIBUTIONS TO THE SRF

According to the Intergovernmental Agreement (IGA) on the transfer and mutualisation of contributions to the SRF, contributions are allocated to different compartments corresponding to each participating Member State (national compartments) during the transitional period. These compartments will progressively be merged and will cease to exist at the end of the transitional period (8 years).

CALCULATION OF CONTRIBUTIONS

The SRB is responsible for the calculation of ex-ante contributions. For this purpose, the SRB applies the methodology set out in the Commission Delegated Regulation (EU) No 2015/63 and the Council Implementing Regulation (EU) No 2015/81, which guarantees a level playing field among participating Member States.

As part of this methodology, the SRB has developed uniform data definitions, a uniform template and guidance for all institutions.

The calculation of individual contributions largely derives from the target level of at least 1% of covered deposits to be reached by the end of the initial period and from the size and the risk of each individual institution.

To allow the SRB to calculate the individual contribution, institutions are required to provide necessary data within certain timeframes. Institutions, therefore, need to report data to the NRAs by 31 January of every year at the latest. Where an institution does not submit all the required data on time, the SRB may use estimates or its own assumptions to calculate the annual contribution of the institution. In certain cases, the SRB may assign the institution concerned to the highest risk adjusting multiplier.

LOAN FACILITY AGREEMENTS

The Intergovernmental Agreement (IGA) acknowledges that, most notably during the transitional period when the SRF has not yet reached its target level, situations may exist where the means available in the SRF are not sufficient to undertake a particular resolution action, and where the ex-post contributions that should be raised to cover the necessary additional amounts are not immediately accessible.

In such cases, and where no other funding sources are available, as a bridge financing of last resort, Loan Facility Agreements (LFAs) act as bridge financing of last resort and provide credit lines from Member States to their respective compartments. The LFA credit line aims to cover the gap between the estimated final compartment size and the available financial means from contributions and borrowings. Fiscal neutrality for Member States is preserved because borrowings shall be recovered through ex-post contributions within the maturity period of the loan (24 months).

INVESTMENTS

The ex-ante contributions which have been collected are held in the SRF. The purpose of the amounts held in the SRF is to ensure the efficient application of resolution tools. To this end, the SRF has a prudent and safe investment strategy. The legal basis for this investment strategy is provided in Article 75(3) SRM Regulation and Commission Delegated Regulation (EU) No 2016/451. The investment objective is to satisfy the liquidity needs of the Fund and preserve its value. The implementation of the Investment Strategy will take place gradually in the course of 2017. In the interim period, the amounts are held with different Central Banks of the Euro area.

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