



Consultation paper on the draft report on the appropriate target level basis for national resolution financing arrangements

Public hearing – presentation 16/08/2016

Introduction & timeline



Introduction

- The public hearing on the consultation paper (CP) on the report on the appropriate target level basis for national resolution financing arrangements is an opportunity for:
 - the EBA to share with the participants an update on the current status of the report, its methodology, content and the associated process and next steps, and
 - the participants to share with the EBA their comments and suggestions on the report, and to ask questions.

Timeline

2 September 2016 - deadline for written comments on the consultation paper on the report

31 October 2016 – EBA to submit the report to the European Commission

31 December 2016 – The European Commission to potentially issue a legislative proposal taking the report into account

Report on the target level basis - introduction



- Bank Recovery and Resolution Directive (BRRD) sets out a Union-wide framework for crisis prevention, crisis management and resolution of institutions. This framework aims to ensure that, in case of an institution's failure, the losses are first borne by the shareholders and creditors of that institution.
- BRRD requires Member States to have ex-ante funded resolution financing arrangements. The target level is at least 1% of the amount of covered deposits of all the institutions in a given Member State.
- BRRD requires the EBA to draft and submit to the European Commission **a report with recommendations** on the appropriate reference point for setting the target level for resolution financing arrangements, and in particular, whether total liabilities constitute a more appropriate basis than covered deposits.
- The report **does not**, however, assess the appropriate:
 - **level** of resolution funds – only the most appropriate basis for that target level, or
 - target level basis for the **Single Resolution Fund** – this should be revisited by the European Commission in 2018.

Report on the target level basis - criteria



- Criteria used in the report to assess options for the appropriate target level basis:
 - alignment between the basis for the target level and potential expected resolution financing needs in case of failure,
 - consistency with the methodology for institution's individual contributions,
 - consistency with the BRRD and wider regulatory framework,
 - dynamic and smoothness of contributions,
 - practicality and the impact of the process on the authorities and institutions,
 - simplicity and transparency.

- Criteria are not weighted.

Report on the target level basis - options

- Options assessed in the draft report include two explicitly prescribed by the BRRD:
 - covered deposits
 - total liabilities

and, additionally assessed:

- total liabilities (excluding own funds),
- total liabilities (excluding own funds) less covered deposits,
- total liabilities excluding MREL-eligible instruments,
- total liabilities excluding MREL set by the resolution authorities,
- total risk exposure amount,
- available own funds.

Report on the target level basis – assessment of options

- All the options in the report are assessed against the criteria.
- The report includes a mix of **quantitative and qualitative assessment**:
 - **quantitative** analysis focusses on the criterion of adequacy of the target level basis in relation to resolution financing needs using state aid data as a proxy,
 - **qualitative** assessment used for all the other criteria.
- Given the challenges and shortcomings the quantitative analysis poses, even though the adequacy of the target level basis in relation to financing needs criterion is particularly relevant, the weight assigned to all the criteria is the same.

Report on the target level basis – recommendations

- The CP on the draft report recommends changing the base for the target level to one of the options:
 - total liabilities (excluding own funds) less covered deposits, or
 - total liabilities (including own funds), or
 - total liabilities (excluding own funds).
- These three options received the highest scores overall, and the most consistently positive scores across a range of criteria.
- The key arguments in favour of these options are their:
 - consistency with the regulatory framework (in particular, capturing the whole population of institutions in the scope of the BRRD),
 - consistency with the contributions methodology, and
 - simplicity and transparency.
- The CP on the draft report further recommends that the European Commission considers and, where appropriate, changes the ratio of the target level in accordance with the chosen basis.



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