



# Consultation Paper on the Draft RTS on Simplified Obligations under the BRRD

Public Hearing | Slavka Eley

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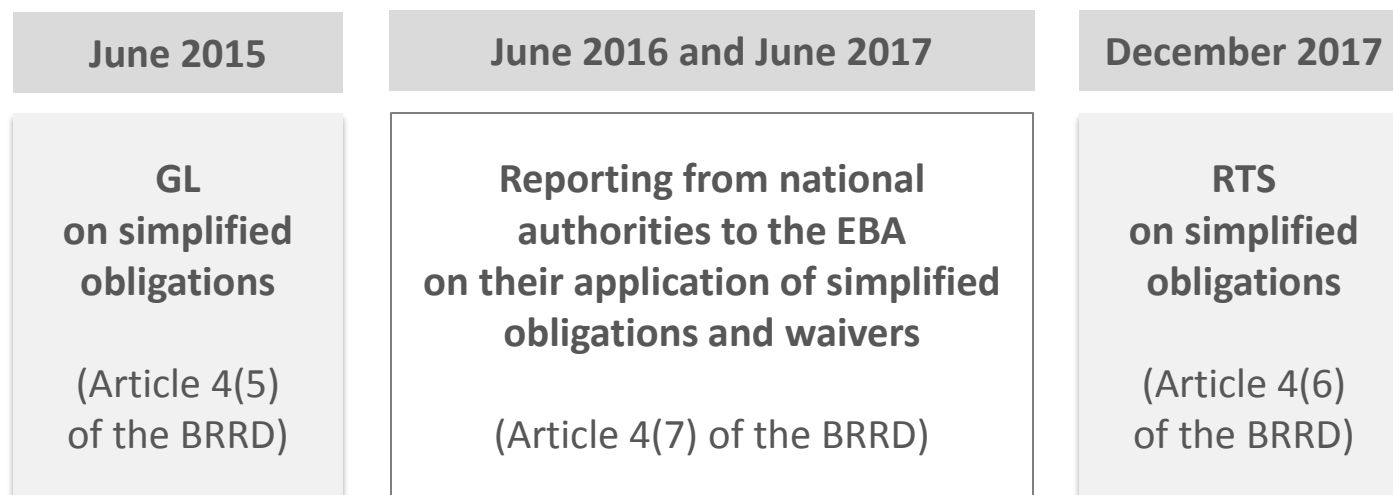
**1) Introduction**

**2) Draft RTS on simplified obligations**

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## 1.1. Draft RTS on simplified obligations - Legal mandate

- The draft Regulatory Technical Standards (RTS) specifying the criteria for simplified obligations for recovery and resolution planning have been developed according to Article 4(6) of the BRRD, taking into account experience acquired in the application of the EBA Guidelines issued on the same topic in June 2015.



**Increasing convergence based on experience in the GL's application**

## 1.2. Simplified obligations under the BRRD

According to Article 4(1) of the BRRD, having regard to the eligibility criteria for simplified obligations, Member States shall ensure that competent and resolution authorities determine:

- contents and details of recovery and resolution plans;
- date by which the first recovery and resolution plans are to be drawn up and the frequency for updating recovery and resolution plans;
- contents and details of the information required from institutions for the purpose of recovery and resolution planning;
- level of detail for the assessment of resolvability.

### **Competent authorities**

(simplified obligations  
for recovery planning)

### **Resolution authorities**

(simplified obligations  
for resolution planning)

## 1.3. Specification of eligibility criteria

### Draft RTS on simplified obligations

– overview of the approach proposed in the Consultation Paper

- **Two-stage eligibility assessment:**
  - Stage 1: Quantitative assessment (mandatory indicators, for credit institutions also a calculation methodology for a total quantitative score and threshold)
  - Stage 2: Qualitative assessment (a minimum list of qualitative considerations)
- **Limited exemptions possible from Stage 1**
- **Different approach to assessment of investment firms**

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## 2.1. Two-stage eligibility assessment

### Stage 1: Quantitative criteria

**Credit institutions:** size, interconnectedness, scope and complexity of activities, and nature of business

**Investment firms:** size



### Stage 2: Qualitative criteria

**Credit institutions:** shareholding structure, legal form, legal status, risk profile, membership in an IPS or other cooperative solidarity systems, and exercise of investment services or activities

**Investment firms:** interconnectedness, scope and complexity of activities, nature of business, shareholding structure, legal form, legal status, risk profile, membership in an IPS or other cooperative solidarity systems, and exercise of investment services or activities

## 2.2. Stage 1 - Quantitative assessment for credit institutions

- Weighted indicators per each quantitative criterion

Criterion	Indicators for credit institutions	Weight
Size	Total assets	25%
Interconnectedness	Intra-financial system liabilities	8.33%
	Intra-financial system assets	8.33%
	Debt securities outstanding	8.33%
Scope and complexity of activities	Value of OTC derivatives (notional)	8.33%
	Cross-jurisdictional liabilities	8.33%
	Cross-jurisdictional claims	8.33%
Nature of business	Private sector deposits from depositors in the EU	8.33%
	Private sector loans to recipients in the EU	8.33%
	Value of domestic payments	8.33%

**Indicators and weights fully aligned with O-SIIs identification methodology!**



## 2.2. Stage 1 - Quantitative assessment for credit institutions

### Methodology for calculating a total quantitative score:

1. The indicator value of each credit institution shall be divided by the aggregate amount of the respective indicator values summed across all credit institutions authorised in the Member State concerned;
2. The resulting ratios shall be multiplied by 10 000 to express the indicator scores in basis points;
3. Each of the indicator scores (expressed in basis points) shall be multiplied by the weight assigned to each indicator;
4. The total quantitative score shall be a sum of all of the weighted indicator scores.

## 2.2. Stage 1 - Quantitative assessment for credit institutions

Standard approach: **A threshold of 25 basis points** for a total quantitative score applies to credit institutions

- If the total quantitative score is higher than or equal to 25 bps



Institution ineligible for SO

- If the total quantitative score is lower than 25 bps



Authorities should move on to Stage 2

Flexibility: authorities may set the threshold for the total quantitative score within the range of 0-105 bps

## 2.3. Stage 1 - Quantitative assessment for investment firms

- Indicators for the criterion of size
- Authorities should set the weights for indicators and establish the threshold for a total quantitative score

Criterion	Indicators for investment firms
Size	Total assets
	Total liabilities
	Total fees and commission income
	Assets under management

## 2.4. Stage 1 - Exemptions

Authorities may automatically exempt from SO G-SIIs, O-SIIs and other SREP Category 1 institutions

For credit institutions whose total assets do not exceed 0.015% of the aggregated amount of total assets in the Member State, authorities may move straight to Stage 2

For promotional banks and credit institutions in an orderly wind-down, the threshold is not applicable but they are still subject to Stage 1 assessment

## 2.5. Stage 2 - Qualitative considerations for credit institutions

To assess **qualitative criteria for credit institutions** the draft RTS on simplified obligations contain a minimum list of considerations that authorities should take into account:

- Critical functions
- Coverage of deposits by DGS funds
- Shareholding structure
- Central body in the Institutional Protection Scheme (IPS)
- Membership in a mutual solidarity system where the mutualisation of losses would constitute a substantive impediment to normal insolvency proceedings
- Different objectives pursued by the recovery and the resolution planning


## 2.6. Stage 2 - Qualitative considerations for investment firms

To assess **qualitative criteria for investment firms** the draft RTS on simplified obligations contain a minimum list of considerations that authorities should take into account:

- Critical functions
- Shareholding structure
- Central body in the Institutional Protection Scheme (IPS)
- Membership in a mutual solidarity system where the mutualisation of losses would constitute a substantive impediment to normal insolvency proceedings
- Complexity of the business model and scale of investment activities
- Retail or institutional clients
- Coverage of money and financial instruments held on clients' behalf by an investor compensation scheme
- Different objectives pursued by the recovery and the resolution planning

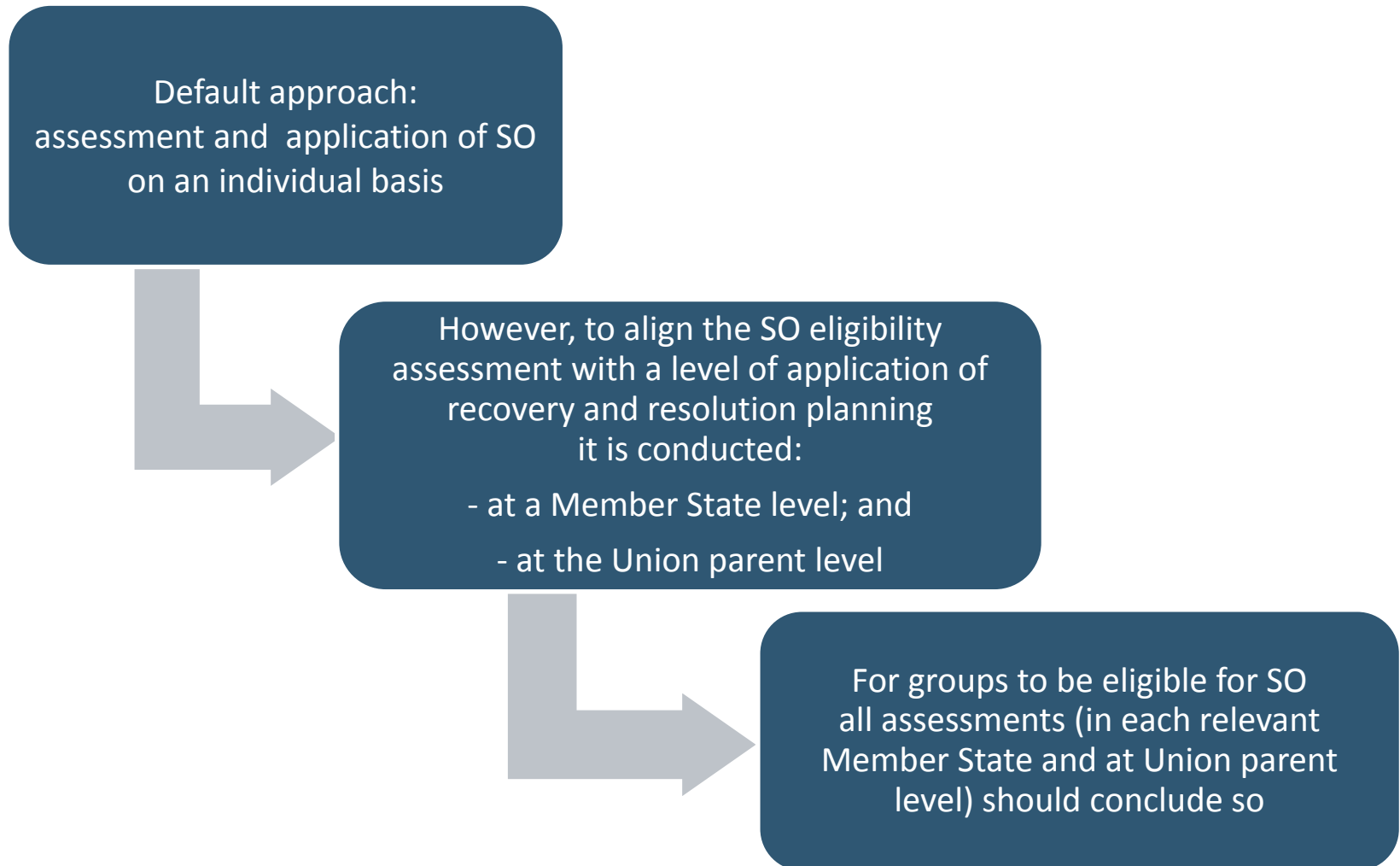
## 2.7. Decision on eligibility assessment

- If an institution passes both Stage 1 and Stage 2 assessments

 it is eligible for simplified obligations

- Frequency of assessment:
  - ✓ Eligibility assessment to be conducted by authorities on a regular basis and at least every 2 years.

## 2.8. Application of eligibility assessment to groups





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### 3. Next steps

<b>Draft RTS on simplified obligations</b>	Public consultation: <b>8 May - 8 August 2017</b> <hr/> Finalisation and submission to the European Commission for endorsement expected by the end of 2017
<b>Report on simplified obligations and waivers</b>	Expected to be submitted to the European Parliament, Council and Commission by the end of 2017

# Questions



## **EUROPEAN BANKING AUTHORITY**

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Floor 46, One Canada Square, London E14 5AA

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Tel: +44 207 382 1776

Fax: +44 207 382 1771

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E-mail: [info@eba.europa.eu](mailto:info@eba.europa.eu)

<http://www.eba.europa.eu>