POSITION PAPER

ESBG response to the EBA consultation on the report on the appropriate target level basis for resolution financing arrangements under Bank Recovery and Resolution Directive

ESBG (European Savings and Retail Banking Group)

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ESBG

Dear Sir/Madam,

Thank you for the opportunity to comment on the EBA *report on the appropriate target level basis for resolution financing arrangements under Bank Recovery and Resolution Directive*. We would like to share with you the following reflections that we hope will be appropriately taken into account by the EBA.

<u>General comments:</u>

First of all, ESBG would like to emphasise that it fully agrees with the EBA's statement (para. 7) that the overall level should remain constant, irrespective of a potential change to the basis for calculating the target level. We also agree that any change to the basis will inevitably require changes of the percentage related to that basis. As the EBA sets out, this is the case, because if the target basis was to change from covered deposits to total liabilities, keeping the target level at 1% would significantly increase contributions to the resolution financing arrangement. However, given that the transposition of the Bank Recovery and Resolution Directive (BRRD) into national law was late in some Member States, it seems premature to change the reference point for setting the target levels.

Different target level basis between BRRD and SRF

Moreover, ESBG agrees with the EBA that the latter does not have the mandate regarding the target level basis of the Single Resolution Fund (SRF), according to Regulation No 806/2014 (SRM Regulation). However, the reality is at the same time that the SRF applies to most Member States. Based on this, we would like to argue that the EBA should appropriately take into account any inconsistencies between the BRRD and SRF that would arise from the current report. Changing the BRRD basis exclusively, while potentially keeping the SRF basis would be detrimental, mainly for two reasons:

- The collection of contributions would become much more complex than necessary.
- During the build-up phase until 2023, contributions from SRF institutions are based on both the BRRD and the SRF. So, while it is correct that the overall target level can be kept constant by changing the target percentage, SRF banks could still be faced by shifts in the distribution across countries, potentially distorting competition. ESBG therefore proposes a quantitative impact study on this particular aspect.

<u>Question 1</u>: Do you think the report is missing any crucial criteria or arguments in favour or against a particular option?

An aspect that, in our view, the draft report does not adequately cover is the availability of the respective data needed for each option. According to Delegated Regulation No 2015/63, banks are obliged to report their covered deposits by 31 January to their respective resolution authorities, while the target volume has to be determined by 1 May.

In some Member States, this triggers serious difficulties: while deposit data is readily available within 1 month following the reference date, total liabilities are typically not available until later in the year, when financial statements have been finalised. Setting the target volume based on pre-pre year data would obviously create a significant time lag in these Member States.

Apart from that, the EBA's draft report correctly states that 'total liabilities' is by no means a harmonised definition. The existing differences between nGAAP and IFRS within some Member States and sometimes also across Member States are so substantial that they are capable of preventing a level-playing field when calculating the target level. The ensuing complexity of calculation would be the exact opposite of simple and transparent in some Member States.

As a consequence, and based on the two arguments above, ESBG would like to recommend maintaining covered deposits as the appropriate target level basis for resolution financing arrangements.

***Question 2*: Do you have a preference for one of the following recommended options?:**
(a) total liabilities (including own funds),
(b) total liabilities excluding own funds,
(c) total liabilities excluding own funds less covered deposits.

As mentioned in our response to Question 1, ESBG would be in favour of maintaining covered deposits as the appropriate target level basis. This is the most popular opinion with ESBG's membership.

In case the decision will be made that covered deposits are no longer an option for the target level basis, some ESBG members believe that, among the options presented, (c) "total liabilities excluding own funds less covered deposits" could be an alternative and appropriate basis for the target level of the resolution financing arrangement. It seems to be most consistent with the basis of the individual contribution methodology, where own funds and covered deposits are deducted.

However, please allow us once again to point out that an impact study would be very welcome before proceeding further with any of the three options presented above.

***Questions 3*: Is there any other option which would be preferable to those in the recommendation? Please provide the rationale supporting your view.**

We would like to emphasise the following two considerations: firstly, the EBA states that there seems to be no reliable basis for a prognosis of potential future funding needs (para. 24). Secondly, as described above, changing the target level basis would, in our view, involve more complexity and other challenges.

Thus, as also mentioned before, ESBG would be in favour of keeping covered deposits as the basis.

About ESBG (European Savings and Retail Banking Group)

ESBG brings together nearly 1000 savings and retail banks in 20 European countries that believe in a common identity for European policies. ESBG members represent one of the largest European retail banking networks, comprising one-third of the retail banking market in Europe, with 190 million customers, more than 60,000 outlets, total assets of €7.1 trillion, non-bank deposits of €3.5 trillion, and non-bank loans of €3.7 trillion. ESBG members come together to agree on and promote common positions on relevant regulatory or supervisory matters.

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