



Mailing list Supervision/Accounting/Money laundering

Brussels, 30 October 2014

Delegated regulation regarding ex ante contributions to resolution financing arrangements and Draft Proposal for a Council implementing regulation regarding ex ante contributions to the Single Resolution Fund

Dear Madam or Sir,

On 21 October 2014, the European Commission has published a delegated regulation supplementing directive 2014/59/EU of the European Parliament and the Council of 15 May 2014 regarding ex ante contributions to resolution financing arrangements and a Draft Proposal for a Council implementing regulation supplementing regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 regarding ex ante contributions to the Single Resolution Fund.

1) Delegated regulation regarding ex ante contributions to resolution financing arrangements

The directive establishing a framework for the recovery and resolution of credit institutions and investment firms provides in its article 100 (1) that national resolution financing arrangements shall be established in the each member state. Until 31 December 2024 its financial resources shall reach a target level of least 1 % of the amount of covered deposits of all the institutions authorised in the territory (article 102 of the directive). All credit institutions which are covered by the scope shall pay on a yearly basis an ex ante contribution (article 2 of the delegated regulation, article 103 (1), article 2 (1) (23) of the directive). This refers to all credit institutions in the EU.

The contribution shall consist of a basic annual contribution which would reflect the size of the institution. The contribution shall be determined pro rata to the amount of the institution's liabilities (excluding own funds) less covered deposits, with respect to the aggregate liabilities (excluding own funds) less covered deposits of all the institutions authorised in the territory of the member state. Pursuant to article 5 the intragroup liabilities shall be excluded from the calculation as well as liabilities between credit institutions which are members of the same institutional protection scheme.

Afterwards, the contribution is adapted for each credit institution according to its proper risk profile and in consideration of the risk indicators which are mentioned in article 103 (7) of the directive. The risk profile of each credit institution shall be tested on its risk exposure (50% weight), stability and variety of sources of funding (20% weight), its importance to the stability of the financial system or economy (10% weight) and additional risk indicators to be determined by the resolution authority on national level (weight 20%) (article 6 of the delegated regulation). Own funds (25%), the Leverage Ratio (25%) and the Common Equity Tier 1 Capital Ratio (25%) shall be inter alia determining for the risk exposure analysis. In the context of the review of the stability and variety of sources of funding, the Net Stable Funding Ratio (50 %) and the liquidity coverage ratio (50 %) shall be of importance. Among the additional risk indicators the national resolution authority may consider the membership in an institutional protection scheme with 45 % weight. From this derives that, as it had become already apparent during the previous negotiations, a membership in an institutional protection scheme would be accorded a weight of 9 % in the total risk profile of a credit institution. According to annex 1 of the delegated regulation the higher percentage indicates a lower risk.

Pursuant to article 9 (3), a risk adjusting multiplier between 0.8 and 1.5 shall apply to the basic annual contribution. Further details on the calculation are contained in annex 1 of the delegated regulation.

The text provides for small institutions only annual lump sums (article 10). By this means the Commission wants to respect that their failure will stay without systemic consequences and no resolution measures will apply to them which are financed by the resolution financing arrangement. These small institutions shall have only total liabilities (less own funds and covered deposits) arising to a maximum of 300 million euros and total assets below 1 billion euros. Yet, the intra-group liabilities or the liabilities between credit institutions of the same institutional protection scheme cannot be excluded from the calculation pursuant to article 5 (1) (article 10 (9)).

This means in detail (x = total liabilities less own funds less covered deposits):

x </= 50 million Euro →	Lump sum of 1,000 Euro.
x </= 100 million Euro →	Lump sum of 2,000 Euro.
x </= 150 million Euro →	Lump sum of 7,000 Euro.
x </= 200 million Euro →	Lump sum of 15,000 Euro.
x </= 250 million Euro →	Lump sum of 26,000 Euro.
x </= 300 million Euro →	Lump sum of 50,000 Euro.

However, a small credit institution with a high risk profile can be exempted from the possibility to pay only a lump sum by the national resolution authority and be asked to pay a contribution which is calculated according to the regular procedure.

For the initial period of the establishment of the single resolution fund (starting with the 1 January 2016 for eight years) the delegated regulation provides in its article 20 (5) special conditions for credit institutions with total assets of at most 3 billion euros: The member states shall have the right to grant to these credit institutions the possibility to pay a lump sum of 50,000 Euros for the first 300 million euros. Yet, above this sum the regular calculation of a yearly contribution shall apply.

Furthermore, the delegated regulation contains provisions on the process for raising the annual contributions, the reporting obligations of the credit institutions and administrative penalties. Annex 2 of the delegated regulation lists the data which will need to be reported by the institutions.

During an official period of three months, the European Parliament and the Council have now the right to object to the delegated regulation. Or else, 20 days after its publication in the Official Journal of the EU it will enter into force. It will then be directly applicable and binding in the member states from 1 January 2015 onwards (article 21, 22).

2) Draft Proposal for a Council implementing regulation regarding ex ante contributions to the Single Resolution Fund

From 1 January 2016 onwards, the national resolution financing arrangements shall be replaced for all member states which take part in the single resolution mechanism by a single resolution fund. The resolution board shall then determine the contributions of the credit institutions (article 67 (2) of the regulation establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund). For this purpose the above mentioned delegated regulation shall be the foundation. However, the future Council implementing regulation shall adapt the described

methodology of the risk adjustment and the risk adjusting multiplier accordingly in order to allow an application by the resolution board. The proposal foresees also during the initial period of the single resolution fund a step by step transformation of the purpose of the payment of contributions to the national resolution financing arrangements (according to the directive) into the payment of contributions to the single resolution fund (pursuant to article 69, 70).

According to the proposal, the implementing regulation shall apply by 1 January 2016 or at least after the delegated regulation. It shall be directly applicable and binding in the member states.

Please find enclosed the delegated regulation with its annexes and working papers as well as a decision of the Commission publishing the proposal of the implementing regulation in its annex.

If you have further questions, please contact us at any time.

Yours sincerely,



Andreas J. Zehnder
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European Federation of Building Societies

Annexes:

- *Delegated regulation regarding ex ante contributions to resolution financing arrangements*
- Decision of the European Commission on the approval of the content of a draft proposal for a Council implementing regulation with the *Draft Proposal for a Council implementing regulation regarding ex ante contributions to the Single Resolution Fund* in its annex