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WORKING DOCUMENT

From:	Presidency
To:	Working Party on Financial Services and the Banking Union (CMDI) Financial Services Attachés
Subject:	CMDI package: working party 09.10.23 Item 3: SRB follow-up analysis on CMDI funding and PIA changes

SRB ANALYSIS OF SOME CMDI PROPOSALS ON FUNDING

9 October 2023

[redacted]

SRB Board Member

Single Resolution Board

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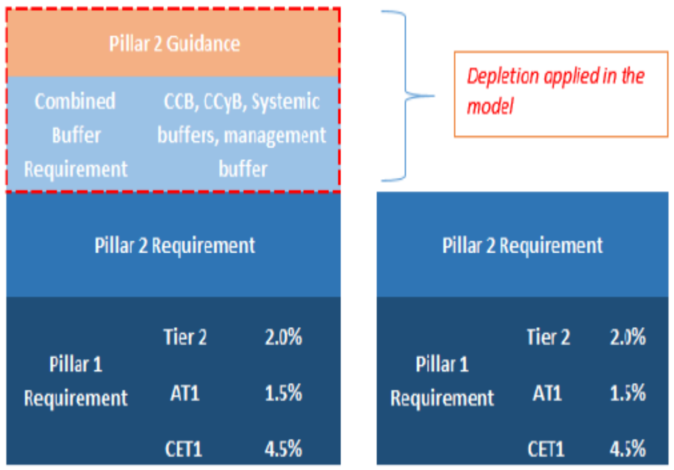
Introduction

- This presentation builds on the one given to the CWP in July 2023 and extends it to further key CMDI aspects.
- The presentation has the following goals:
  - To assess the impact of the use of the DGS (‘DGS bridge’) and of the general depositor preference on the DGS and the Single Resolution Fund (SRF) - as compared to the current creditor hierarchy and the super-preference of the DGS - both for banks already earmarked for resolution and for banks that could change strategy from liquidation to resolution;
  - To assess the effects of the general depositor preference on the DGS costs for the banks earmarked for liquidation.

Methodological elements: Assumptions and Data

- **Assumptions for all simulations**:
  - Reduction of capital to a level corresponding to Pilar 1 + Pillar 2 requirements (capital buffers depleted);
  - 85% net recovery rate for assets (same as in the EBA study and Commission Impact Assessment);
  - General depositor preference, i.e. all deposits are placed above senior unsecured claims in the insolvency hierarchy;
  - All deposits are excluded from bail-in, in order to assess the maximum funding gap;
  - For entities changing from liquidation to resolution due to the CMDI proposal, no increase of MREL considered in the analysis (therefore MREL equal to capital requirement)
  - **Data**: End-2022 data

Fig.1: Capital (pre- & post-depletion)



Note: The size of different types of capital is only illustrative

Methodological elements: Scope

- **204 Banking Union banks**: i.e. 92 SRB banks (SIs and cross-border LSIs, excluding host banks) and 112 LSIs (under NRAs remit), as per 2022 Resolution Planning Cycle;
- The sample includes BU banks earmarked for resolution (142) as well as for liquidation (62), with the exception of banks subject to Simplified Obligation (SO);
- All resolution banks are considered in the analysis, irrespective of the chosen resolution tool;
- On average the banks of the sample show total deposits as percentage of total assets around 47% for SRB Banks and 58% for LSIs. Covered deposits represent respectively 47% and 48% of total deposits.

204 BU

92 SRB banks
83 resolution
9 liquidation
Not considered in the analysis
(5 liquidation banks under SO, specific business model mostly promotional banks)

112 LSIs
59 resolution
53 liquidation
Not considered in the analysis
(1892 liquidation banks under SO, of which 78% are members of IPSs, around 90% have TA < EUR 5 bn)

Total Assets (TA)	SRB - Res	SRB - Liq	LSI - Res	LSI - Liq
<10 bn	9	2	34	44
(10-30) bn	13	1	24	8
(30-300) bn	43	6	1	1
>300 bn	18			
Total	**83**	**9**	**59**	**53**

Impact of CMDI proposal from the changes to the PIA

- CMDI is expected to expand the scope of resolution, i.e. leading to more positive PIA.
- **However, PIA remains subject to discretion of Resolution Authorities**.
- The following assumptions have been made regarding CMDI proposed changes to the PIA:
  - Banks where depositors would suffer losses in liquidation, and at the same time the cost for DGS would be lower in resolution than in liquidation, would have the resolution objective of depositor protection at risk, and thereby a positive PIA;
  - Regional banks with high share of deposits / loans in a given region (in relative terms) would have critical functions at regional level at risk, and thereby a positive PIA;
  - Banks currently subject to simplified obligations (SO) would continue to have negative PIA, therefore outside of the scope.

Impact of CMDI proposal from the changes to the PIA

- Based on the above assumptions, **26 additional banks** (out of 62 earmarked for liquidation) could have their PIA changed from negative to positive (1 SI & 25 LSIs);
- These banks are located in 12 Banking Union countries;
- On average, total deposits as percentage of total assets represent around 68%, while covered deposits represents 55% of the total deposits.

Total Assets	PIA change Banks
< 10 bn	21
(10-30) bn	3
(30-100) bn	2
Total	**26**

Funding gap for resolution banks

- For current resolution banks:
  - **47 resolution banks** (out of 142 in the 2022 cycle), i.e. 17 SIs + 30 LSIs, **would not reach 8% of Total Liabilities and Own Funds (TLOF) without bailing in deposits**;
  - These 47 banks are in 13 MS of the Banking Union;
  - **The median gap to reach 8% TLOF is 2.4%**. For the 17 SIs and 30 LSIs the median gap is respectively 1.7% and 3.1 % TLOF.
- For the additional banks assumed to change PIA:
  - **19 resolution banks** (out of the 26 additional resolution banks, based on SRB calculations), i.e. 1 SI + 18 LSIs, **would not reach the 8% TLOF without bailing in deposits**;
  - These banks are in 12 MS of the Banking Union;
  - **The median gap to reach 8% TLOF for these banks is 2.2%**.

Estimates of DGS use

- For <u>current</u> resolution banks:
  - **36 out 47 banks** (17 SRB banks + 19 LSIs) **would have a positive LCT with a general depositor preference**, which would enable the use of DGS funds in resolution up to an amount that, together with the MREL requirement, would be equal to 8% TLOF;
  - **The median DGS contribution would correspond to 15% of DGS Available Financial Means (AFM)** as of 31/12/2022.

DGS bridge (36 banks)

	All	SRB banks	LSIs
quartile 1	9%	11%	6%
median	15%	18%	13%
average	40%	48%	32%
quartile 3	31%	40%	26%

Note: DGS contribution expressed as % of AFM.

- For the <u>additional banks</u> assumed to have a positive PIA test:
  - All 19 banks needing funding would have a positive LCT with a general depositor preference;
  - **The median DGS contribution would be 3.7% of DGS AFM** (lower than the banks currently earmarked for resolution, given the overall lower size).

DGS bridge (36 and 19 banks)

	All	current resol.banks	addit. resol.banks
quartile 1	3%	9%	2%
median	9%	15%	4%
average	25%	40%	7%
quartile 3	24%	31%	7%

Note: DGS contribution expressed as % of AFM.

Estimates of SRF use

- The SRF can only be accessed after 8% TLOF, for the banks earmarked for resolution;
- For the 36 banks currently having a resolution strategy and positive LCT (as per previous slide):
  - the maximum contribution required from the SRF* for the median bank would be 1.6% of the current SRF capacity;
- For the additional 19 banks assumed to have a positive PIA test and a positive LCT:
  - the maximum contribution required from the SRF* for the median bank would be 0.1%.

SRF use (36 and 19 banks)

	All	current resol.banks	addit. resol.banks
quartile 1	0,1%	0,5%	0,1%
median	0,8%	1,6%	0,1%
average	1,5%	2,0%	0,5%
quartile 3	2,3%	3,2%	0,5%

Note: SRF contribution expressed as % of SRF capacity

assuming maximum contribution of 5% TLOF (coming after the 8% TLOF)

Estimates of impact on DGS costs in liquidation

- Following the removal of the DGS' super priority & introduction of a general depositor preference, the average costs to be borne by the DGS of the banks in the sample which will remain in liquidation (36, i.e. 8 SIs and 28 LSIs) would be well below the DGS available financial means (AFM).
- In comparison to the current situation, the removal of the DGS' super priority & introduction of a general depositor preference is expected to lead, on average, to only marginal increases in the costs for the DGSs of the banks that would remain in liquidation.
  - For the set of liquidation entities in the sample, the additional costs for the DGS to liquidate a bank would be 4,7% of AFM on average
- For banks under SO, the costs for the DGS should be similar or lower, given also the presence of IPSs in most cases.

THANK YOU

QUESTIONS?

Single Resolution Board

https://srb.europa.eu

Banks under Simplified Obligation (*Art.4(1) BRRD*)

- Eligibility for SO based on the consideration of no significant negative effect of the failure of the institution & its liquidation under NIP, on financial markets, other institutions, wider economy
    - E.g. due to the nature of its business, its risk profile, interconnectedness, scope and complexity of activities, its membership in an IPS
- RAs can determine reduced contents of resolution plan, lower frequency for its updating (e.g. every 2 years); reduced reporting requirements, reduced resolvability assessment...
- Two-stage SOs eligibility assessment (as per Delegated Regulation 2019/348): Quantitative assessment (Stage 1, following OSII methodology) + Qualitative assessment (Stage 2)