



Council of the European Union  
General Secretariat

Brussels, 27 February 2024

---

---

**Interinstitutional files:**

2023/0112 (COD)

2023/0115 (COD)

---

---

WK 3112/2024 INIT

**REDACTED DOCUMENT ACCESSIBLE TO THE PUBLIC  
(18.03.2026)  
ONLY MARGINAL PERSONAL DATA HAVE BEEN  
REDACTED**

**LIMITE**

**EF**

**ECOFIN**

**CODEC**

*This is a paper intended for a specific community of recipients. Handling and further distribution are under the sole responsibility of community members.*

**WORKING DOCUMENT**

---

From: General Secretariat of the Council  
To: Working Party on Financial Services and the Banking Union (CMDI)  
Financial Services Attachés

---

Subject: Working Party on Financial Services and the Banking Union Crisis Management  
and Deposit Insurance (CMDI) on 27 February 2024  
- Item 3: SRB simulations on creditors hierarchy

---

---

WK 3112/2024 INIT

**LIMITE**

**EN**

PUBLIC

# SRB SIMULATIONS ON CREDITORS HIERARCHY

CWP meeting of 27 February 2023 - [REDACTED]

*\*This document presents main findings of a quantitative analysis carried out with data at SRB disposal. It is addressed solely to the attendants of the 27/02 CWP meeting, not for onward sharing.*

# Table of contents

PUBLIC

**1** Introduction and methodology

**2** Funding gap

**3** Tiering scenarios and their funding impact

**4** Recoveries in liquidation

# Introduction

- The presentation has the following goals:
  - To continue to assist Member States' scrutiny of the CMDI proposals through the provision of an impact assessment at the request of the Presidency on the matter of 'creditor hierarchy';
  - To provide updates and expand the quantitative study presented to the CWG and published by the SRB through a joint seminar with the ECB in October 2023;
- The slides update and expand the studies presented to the CWG on 20/07/2023 and 09/10/2023:
  - Sample is made of the SIs and LSIs in the Banking Union (resolution and liquidation strategy), except those where no data available (simplified obligations);
  - Inclusion of tiering scenarios based on previous discussions in CWG and EP rapporteur reports.

# Methodological elements: assumptions and data

- **Assumptions for all simulations:**

- Reduction of capital to minimum capital requirements (capital buffers depleted);
- 85% recovery rate for assets (same as in the EBA study and Commission Impact Assessment);
- General depositor preference, i.e. all deposits rank above senior preferred liabilities in insolvency;
- All deposits are excluded from loss absorption, in order to assess the maximum funding gap;
- Reference date: end-2022;
- MREL levels as at end-2022 and no increase of MREL considered for banks entities changing the strategy or preferred resolution tool. *NB: this most likely leads to an overestimation of the funding gap (where MREL is met with other instruments than bail-inable deposits), as MREL could have increased in 2023 and would increase for banks moving from negative to positive PIA;*
- Banks switching from liquidation to resolution as per previous SRB study (25 LSIs, 1 SIs);
- All banks considered in the analysis, irrespective of the preferred resolution tool in their plans.

# Funding gap (recap)

- If we assume buffers depletion at FOLTF, **47 banks currently earmarked for resolution (18 SRB + 29 LSIs) would not reach the 8% TLOF without bailing in eligible deposits.**
- If all liquidation banks are considered too, the number of banks unable to reach 8% TLOF increases by **further 34 banks (4 SRB + 30 LSIs)**. Within these 34 banks, the previous SRB study identified 19 banks with a funding gap (1 SRB + 18 LSIs) which are likely to change their preferred resolution strategy.

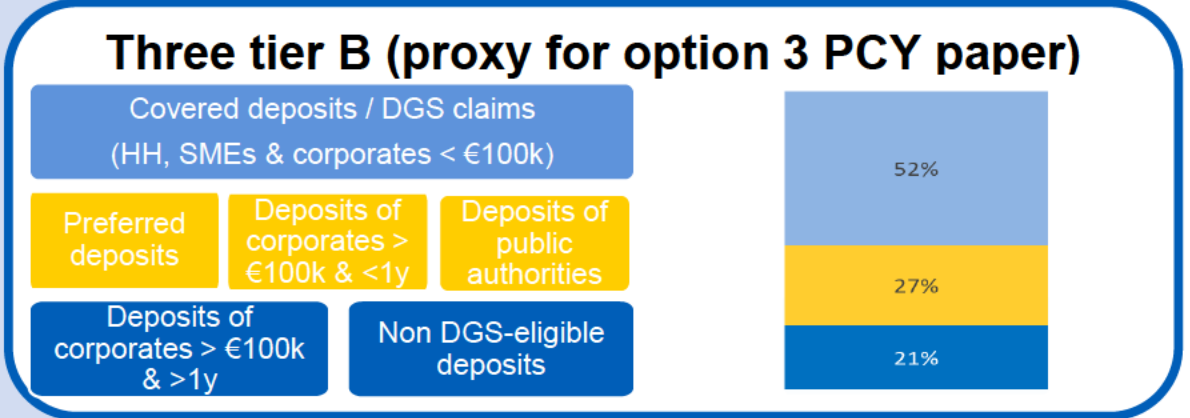
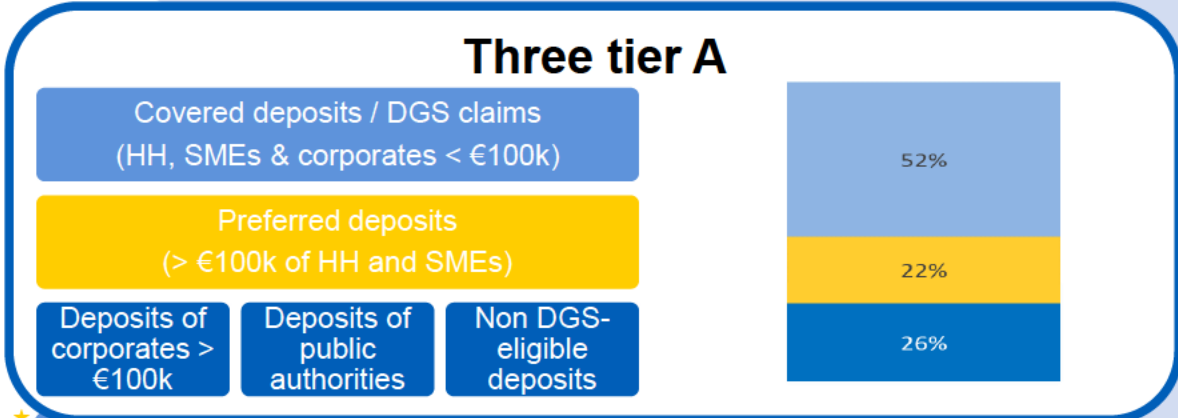
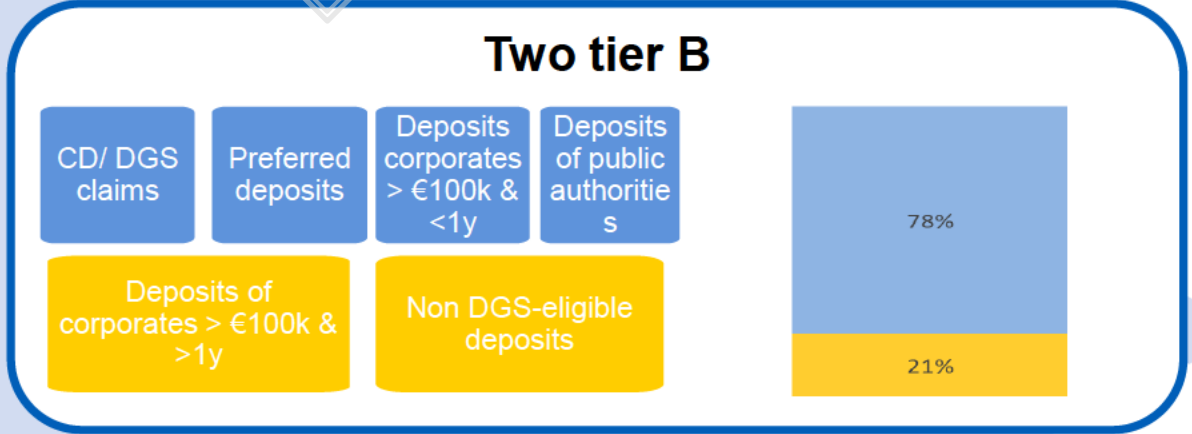
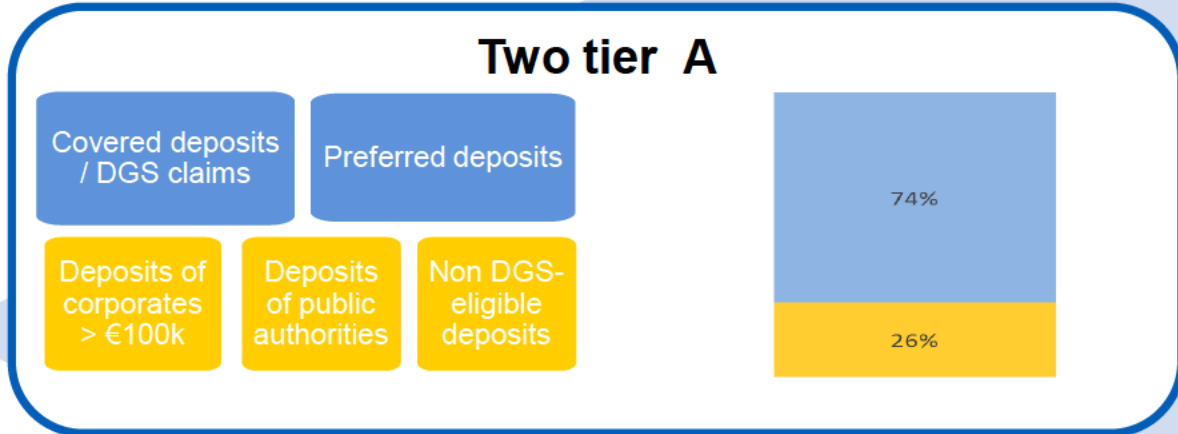
type of bank	LSI		SRB		Total
	LIQ	RES	LIQ	RES	
Number of banks in the sample	53	59	14	83	209
ofw: need funding without bailing in bail-inable deposits	30	29	4	18	81

- These 81 banks with a funding gap are located in **17 MS of the Banking Union.**

COUNTRY	MS1	MS2	MS3	MS4	MS5	MS6	MS7	MS8	MS9	MS10	MS11	MS12	MS13	MS14	MS15	MS16	MS17
Number of banks theoretically needing funding without bailing in bail-inable deposits	4	9	5	5	3	11	2	5	1	8	14	4	6	1	1	1	1

- *NB: PIA remains a case-by-case assessment by RAs.*

# Tiering scenarios (composition & average thickness)



Note: Average thickness calculated for the sample banks with a gap (Slide 5).

# Funding impact: positive LCT

- **Between 56 and 3 banks (out of 81 banks with a funding gap)** would have a positive LCT, which would enable the use of DGS funds in resolution, to reach the threshold allowing to access the SRF (8% TLOF).
- The availability of DGS funding in resolution reduces with the increased number and higher thickness of more junior deposit layers.
- *NB: 1) reminder that MREL levels assumed as per end-2022; 2) PIA switches are 1 SI + 25 LSIs.*

type of bank	LSI		SRB		Total	Ofw: PIA switch
	LIQ	RES	LIQ	RES		
Number of banks in the sample	53	59	14	83	209	26
ofw: theoretically need funding without bailing in bail-inable deposits	30	29	4	18	81	19
ofw: positive LCT with a <u>single tier</u> deposit system	18	19	1	18	56	19
ofw: positive LCT with a <u>three tier A</u> deposit system	3	0	0	0	3	3
ofw: positive LCT with a <u>three tier B</u> deposit system	3	0	0	0	3	3
ofw: positive LCT with a <u>two tier A</u> deposit system	7	6	0	3	16	7
ofw: positive LCT with a <u>two tier B</u> deposit system	10	10	0	13	33	10

# Recoveries in liquidation

- If we assume buffers depletion at FOLTF & 85% recovery rate for assets and consider 34 liquidation banks in the sample (4 SRB + 30 LSIs) which would have a funding gap in resolution:
  - DGS would recover almost always 100% under creditor hierarchies with more layers
  - Non-covered preferred depositors would also have a high recovery rate under single tier and two-tier scenarios

Recoveries	Sample (# banks*)	DGS recoveries	Non-Covered Preferred recoveries (> €100k households & SMEs)
		Average recovery (%)	Average recovery (%)
with a <u>single tier</u> deposit system	34	90,8%	90,8%
with a <u>three tier A</u> deposit system	34	99,6%	81,7%
with a <u>three tier B</u> deposit system	34	99,6%	80,0%
with a <u>two tier A</u> deposit system	34	97,8%	97,8%
with a <u>two tier B</u> deposit system	34	97,0%	97,0%

\*Note: In the sample of 34 banks, one bank has reported no covered deposits and two banks have reported no non-covered preferred deposits.



**THANK YOU**

---

**QUESTIONS?**

***\*This document presents main findings of a quantitative analysis carried out with data at SRB disposal. It is addressed solely to the attendants of the 27/02 CWP meeting, not for onward sharing.***