



**AEB's response to:  
Consultation on Report on the appropriate target  
level basis for resolution financing arrangements  
under BRRD (EBA-CP-2016-08 CP).**

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

The AEB shares the European Banking Federation's opinion on the target level for resolution financing arrangements in total should not increase as well as that EBA's Report should include a quantitative impact analysis and the timing measures should be considered.

However, the AEB supports the EBA's recommendation with regard to changing the base for the target level of the resolution financing arrangement.

The AEB shares the aims of increasing alignment between the basis for the target level and potential expected resolution financing needs in case of failure, consistency with the methodology for institutions' individual contributions, and their complementarity to the basis of the contributions to the deposit guarantee fund.

We believe that the changes proposed will help to improve the dynamic and smoothness of contributions, as well as the simplicity, transparency and predictability of contributions.

Nevertheless, we would like to mention certain procedural aspects that we consider important.

Though we are aware that the EBA's mandate refers only to the BRRD, the fact is that a very significant number of the EU's Member states and banks are covered by the SRM. This circumstance cannot be ignored when the formula for calculating the target level of the resolution mechanisms is modified in the BRRD, as this change affects both the national funds and the SRF.

The SRM Regulation not only provides that the Commission will revise the formula in December 2018, as explained in point 1.8 of the Report, but also that it may do so at any previous moment in time, as laid down in article 94.3 of Regulation EU 806/2014 (*"When reviewing Directive 2014/59/EU, the Commission is invited also to review this Regulation, as appropriate."*)

We believe it to be extremely important that any change in the target level calculation formula is implemented consistently and simultaneously in both legislative frameworks. Given its importance, this provision should be included as a recommendation in the Report to be submitted by the EBA to the European Commission by 31 October 2016 (similarly as the EBA recommends that the European Commission considers and, where appropriate, changes the ratio of the target level in accordance with the basis chosen.)

Likewise, we would like to emphasise that it is desirable that the change in the target level calculation formula should not result in any increase in the contributions of financial institutions. The report is very much focused on the basis for the target level for the resolution financing arrangement. However, it is important to take into consideration apart from the basis, the percentage that is established which is also key in determining the target

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level. Hence, we totally support what is said at the beginning of the report, that the *overall level of the resolution financing arrangement is assumed to be constant irrespective of a change to the basis for calculating the target level.*

Although our understanding is that the EBA does not support the “total risk exposure amount”, we are quite concerned with EBA’s assessment: *This measure captures the riskiness of an institution. The higher the riskiness of the balance sheet of an institution, the higher the probability of failure, and in turn, the higher the potential draw on the resolution financing arrangement if used in the context of its failure. Furthermore, it is in line with the denominator of the own funds requirements.*

In this sense, the Commission Delegated Regulation (EU) 2015/63<sup>[1]</sup> established that, to these effects, the risk profile of institutions must be determined on the basis of four risk pillars (Risk exposure; Stability and variety of sources of funding; Importance of an institution to the stability of the financial system or economy; and Additional risk indicators to be determined by the resolution authority) and its correspondent indicators; pillars and indicators that, in our opinion, better reflect *the probability of failure, and in turn, the higher the potential draw on the resolution financing arrangement if used in the context of its failure. As there is already a risk factor incorporated in the formula to calculate banks’ individual contributions, there is no need to also set the reference in terms of risk exposure.*

***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.***

While the current reference to calculate the target level (covered deposits) is simple and is the same as the one used for the reference of national DGS, we agree that it has several shortcomings, the main one being that it is counterintuitive to set the reference basis of a resolution fund based on covered deposits. Thus, we fully support all three proposed options as a better measure for the basis of the target level compared to the current one, as long as the effect on the minimum level of resolution funds is neutral. Either of the recommended alternatives capture all the entities under the scope of the BRRD, are easier to compute, are less volatile, are a better measure of build-up of risk in the system and are better aligned to the potential needs of an entity in resolution.

**However, we have a preference for the total liabilities (excluding own funds) minus covered deposits** reference because it would also be fully aligned with the formula to calculate banks’ individual contributions and because it also captures the remaining outstanding liabilities in scope of a possible intervention of the fund.

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

No, we do not consider other option that could be preferable to those in the recommendation.

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<sup>[1]</sup> COMMISSION DELEGATED REGULATION (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to *ex ante* contributions to resolution financing arrangements