

# 2018 EX-ANTE CONTRIBUTIONS TO THE SINGLE RESOLUTION FUND (SRF)



## QUESTIONS AND ANSWERS

### General information on the calculation methodology

#### 1. Why did the calculation method applied to my institution in 2018 contribution period change compared to last year?

The calculation method may have changed due to changes in (a) institution's balance sheet size or (b) its business model. The SRB determines the calculation method as follows:

#### SMALL INSTITUTIONS ELIGIBLE FOR A LUMP-SUM PAYMENT:

Total assets < € 1bn; and

Base, i.e. total liabilities – own funds – covered deposits ≤ € 300mn

	Contribution
base ≤ € 50m	€ 1,000
€ 50m < base ≤ € 100m	€ 2,000
€ 100m < base ≤ € 150m	€ 7,000
€ 150m < base ≤ € 200m	€ 15,000
€ 200m < base ≤ € 250m	€ 26,000
€ 250m < base ≤ € 300m	€ 50,000

#### MID-SIZE INSTITUTIONS ELIGIBLE FOR A PARTIAL LUMP-SUM PAYMENT:

Total Assets < €3bn;

	Contribution
part of base < € 300m	€ 50,000
€ 300m < part of base	Risk adjusted contribution

#### LARGER INSTITUTIONS NOT ELIGIBLE FOR LUMPSUM PAYMENT:

Total Assets > € 3bn;

	Contribution
Fully	Risk adjusted contribution

#### OTHER:

For mortgage credit institutions financed by covered bonds and investments firms with some limited services and activities, a specific calculation methodology is applied.

---

## 2. I have received my banking licence in 2017. How will my 2018 ex-ante contribution be calculated?

Should an institution receive a new banking licence in 2017, their individual contribution amount for the 2018 ex-ante contribution period will also include, a partial contribution for 2017. The 2017 part will be determined by taking 2018 contribution and applying the number of full months of the supervision in 2017.

For example:

Assume that the full 2018 ex ante contribution of the institution is €2 000 and that the start date of supervision is on 5 June 2017. The institution was supervised for 6 months (July – December) in full in 2017. Therefore, the partial contribution is determined as follows:  $€2\,000 \times 6/12 = €1\,000$  and the final amount to be paid is €3 000 (€2 000 + €1 000).

---

## 3. The information I have received from my national resolution authority (invoice/harmonised annex) shows two different amounts: (a) the calculated amount and (b) the final amount to be paid. What is the difference?

The final amount to be paid may differ from the calculated amount because it includes the following adjustments:

- ▶ **2015 deduction:** the SRB takes into account the contributions raised and transferred to the SRF by the participating Member States in 2015 <sup>(1)</sup> by deducting them from the amount due from each institution, on a linear basis. This means that in 2018, 1/6th of the remaining balance (i.e. part of 2015 ex-ante contribution not yet reimbursed) is deducted from the amount of 2018 ex-ante contributions due by each institution;
- ▶ **Restatements and revisions:** the final amounts to be paid takes into account, where relevant, the difference between the annual contributions calculated and paid in the previous contributions periods (2015, 2016 and 2017) and the contributions that should have been paid following the restatement or revision <sup>(2)</sup>.
- ▶ **Newly supervised institutions:** if an institution was newly supervised in 2017, its calculated contribution needs to be adjusted taking into account the number of full months of supervision during that year (see question 2).

---

## 4. Can I recalculate the 2018 contributions? And, can I predict the amount to be paid in 2019?

The calculation methodology is set out in the Commission Delegated Regulation (EU) 2015/63 (DR) and in the Council Implementing Regulation (EU) 2015/81 (CIR), but some factors render it difficult to fully recalculate or to predict the contributions, namely:

- a the calculation methodology is based on **relative positions**;
- b the **mixed calculation base**: phasing in between BRRD and SRM (see question 7);
- c some **risk indicators** have not yet been introduced due to data unavailability; and
- d the evolution of **covered deposits**.

Based on the calculation methodology, institutions may only partially be able to recalculate or predict their future ex-ante contribution:

---

<sup>(1)</sup> In accordance with Articles 103 and 104 of Directive 2014/59/EU ("BRRD") and with the Intergovernmental Agreement on the transfer and mutualisation of the contributions to Single Resolution Fund of 14 May 2014.

<sup>(2)</sup> In accordance with Article 17(3) and (4) of Commission Delegated Regulation (EU) 2015/63.

- a small institutions eligible for a **lump-sum payment** can recalculate and predict their future ex-ante contributions by referring to the methodology described in Article 10 of the DR;
- b middle size institutions eligible for **partial lump-sum** payment in accordance with Article 8(5) of CIR can only fully recalculate or predict the fixed €50 000 lump-sum part; and
- c institutions paying a **risk-adjusted** contribution cannot fully recalculate or predict their future contributions, due to the factors mentioned above.

Finally, in the 2017 and 2018 contribution periods the SRB, together with the national resolution authorities (NRAs), developed Harmonized Annexes that provide institutions with some intermediary steps that allow recalculating parts of the calculation.

## Main drivers of the 2018 calculation of ex-ante contributions

### TARGET LEVEL

#### 5. Why has the SRB decided to change the target level of the SRF in 2018 compared to previous year(s)?

With the objective of reaching at least 1% of the total amount of covered deposits in the euro area by 31 December 2023, the SRB decided to set the 2018 target level at 1/8th of 1.15% of the average amount of covered deposits in 2017 (calculated quarterly) of all credit institutions authorised in the euro area.

The SRB took into account the growth of the covered deposits in the preceding years. The growth of covered deposits in 2017 was 3.2%, accelerating from the 2.2% growth level in 2016. With the help of the Joint Research Centre of the European Commission, the SRB has analysed different scenarios of growth of the covered deposits for the coming years, and the result of this analysis is an increase in the target level in comparison to 2017.

#### 6. What will be the target level in 2019?

As every year, when setting the annual target level for the SRF, the SRB will take into account the growth of the covered deposits in the preceding years. The SRB sets the annual target level to ensure that the progress of building-up the SRF is adequate in order to reach the required target level at the end of the initial period (i.e. 31 December 2023).

### BRRD – SRM SHARES

#### 7. What are the BRRD and SRMR <sup>(3)</sup> calculation methods? How do the weights associated to the two methods affect the individual contributions?

During the initial period (2016-2023), the ex-ante contributions are calculated in accordance with the adjusted methodology <sup>(4)</sup>. For the 2018 contribution period, institutions contribute as weighted average:

- ▶ 33.33% of their annual contributions calculated in the BRRD environment (or National Base <sup>(5)</sup>); and

<sup>(3)</sup> Single Resolution Mechanism Regulation (Regulation (EU) No 806/2014).

<sup>(4)</sup> The adjusted methodology is described in Article 8(1) of the Council Implementing Regulation (EU) 2015/81.

<sup>(5)</sup> Calculated in accordance with Article 103 of Directive 2014/59/EU and Article 4 of the Commission Delegated Regulation (EU) 2015/63.

- ▶ 66.67% of their annual contributions calculated in the SRMR environment (or euro area Base <sup>(6)</sup>).

For the calculation of the part of the annual contributions in the **BRRD environment (or National Base)**, only data from institutions that are authorised in the territory of that participating Member State are taken into account. The data from institutions that are authorised in the territories of other participating Member States, remain unconsidered. Consequently, the annual target amount is defined on a National Base. In the same way, the relative riskiness and the relative size of an institution are evaluated only in comparison with the riskiness and the size of institutions authorised in the territory of the same participating Member State.

For the calculation of the part of annual contributions in the **SRMR environment (or euro area base)**, data from all institutions authorised in the territories of all participating Member States are taken into account in the calculation. Consequently, the annual target amount, as well as institutions' relative riskiness and size, are evaluated in comparison with all institutions in all participating Member States. The methodology for calculating the contributions is the same in both calculations.

In the coming years, the weight of the euro area base (or SRMR environment) will gradually increase, ending up with 100% in 2023 contribution period.

## RELATIVE POSITION IN TERMS OF SIZE AND COVERED DEPOSITS

### 8. Why is my individual contribution higher than that of my peers that have a comparable balance sheet size and liability structure?

The following factors affects ex-ante contributions:

- ▶ ex-ante contributions are the weighted average of the **BRRD** contribution and the **SRMR** contribution (see question 7);
- ▶ ex-ante contributions of risk adjusted institutions are driven by:
  - **the size**, determined as total liabilities (TL) minus own funds (OF) minus covered deposits (CD) less the specific adjustments <sup>(7)</sup>;
  - **the riskiness** (provided the risk-adjusted approach has to be used).

Hence:

- two identical institutions in the same Member State, will pay the same ex-ante contribution (because their BRRD and, therefore, their SRMR components will be the same);
- two institutions of the same Member State that differ in terms of size and/or riskiness will pay a different ex-ante contribution (because their BRRD and SRMR contributions will be different); and
- two identical institutions that operate in different Member States will have the same SRMR contribution, but their BRRD contribution can be different. This can be due to (i) different BRRD target levels in the Member States and/or (ii) different relative positions of the institutions (in terms of size and/or riskiness) in their home countries.

<sup>(6)</sup> Calculated in accordance with Articles 69 and 70 of Regulation (EU) No 806/2014 (SRMR) and Article 4 of Council Implementing Regulation (EU) 2015/81.

<sup>(7)</sup> Specific adjustments have been defined in Article 5 of the Commission Delegated Regulation (EU) 2015/63.

---

## 9. My 2016 balance sheet has decreased, yet I am paying more than last year. Why?

As pointed out in the answer to question 8, the 2018 ex-ante contributions are the weighted average of the calculations calculated in the BRRD and the SRMR environments and are mainly driven by:

- a the (respective) **target level(s)**;
- b the relative position, in terms of **size and riskiness**, versus the rest of the institutions in the specific Member State or in the euro area.

Any decrease in size and/or an improvement in the riskiness will lead to a lower ex-ante contribution, provided, that there is no change in any of the other factors that may cancel this improvement.

For instance, in the BRRD environment, if the target level remains constant and none of the national peers see any change in their size or riskiness, a significant decrease of an institution's total liabilities or risk position will result in a significant decrease in individual contribution. However, if, simultaneously, the target level increases substantially and/or the size/riskiness of most of the national peers decreases, the individual contribution may increase (despite of the decreased size/risk position of the institution).

Hence, in order to assess whether a decrease of the size/risk position will lead to a decrease in the ex-ante contributions, the **relative** changes in size/riskiness of all other institutions in the Member State in which the institution operates (for the BRRD environment) and in the euro area (for the SRMR environment) should be analysed.

## RISK ADJUSTMENT FACTOR

---

### 10. In comparison to last year, my risk indicators did not change considerably and I reported a liquidity coverage ratio (LCR) of 100%, which was compliant with the minimum requirement in 2016 (i.e. 70%). Nevertheless, my risk adjustment factor has increased significantly vis-à-vis 2017. What could be the reason for the increase?

The risk adjustment factor of each individual institution should be evaluated in relative terms to all other institutions (at national and euro area levels separately). Therefore, if, for example, all other institutions in the same Member State reported an LCR higher than 200%, in the BRRD environment, an LCR of 100% will be unfavourable and, consequently, the institution will be placed in the bin corresponding to the highest risk. A similar logic applies to the SRMR environment (taking into account all institutions of the euro area).

In addition, because in the 2018 contribution period, the LCR is the only indicator in Risk Pillar II, its weight is 100%. In the future, when the Net Stable Funding Ratio (NSRF) will be introduced, both risk indicators will have an equal weight (50%) and the relative impact of the LCR will decrease.

Finally, note that a potential negative impact of the LCR cannot be compensated by a better score on one of the other risk indicators. The aggregation of Risk Pillars, as described in Step V of Annex I of the DR, does not allow for compensation effects. This means that if the institution has a low score for Risk Pillar II (i.e. relatively low LCR indicator), then the calculation methodology does not compensate its potentially better position in other risk indicators.

## 11. Is the calculation methodology complete for the calculation of risk-adjusted contributions?

The procedure for the calculation of the annual contributions of institutions is laid down in Annex I:

Annex I Delegated Regulation			
Pillar	Indicator	Weights of indicators in Pillar	Weight of the Pillar
PILLAR I: Risk exposure	Own funds and eligible liabilities held by the institution in excess of MREL	25%	50%
	Leverage ratio	25%	
	Common Equity Tier 1 (CET1) Capital Ratio	25%	
	Total Risk Exposure divided by Total Assets	25%	
PILLAR II: Stability and variety of source of funding	Net Stable Funding Ratio	50%	20%
	Liquidity Coverage Ratio	50%	
PILLAR III: Importance of an institution to the stability of the financial system or economy	Share of interbank loans and deposits in the European Union	100%	10%
PILLAR IV: Additional risk indicators to be determined by the resolution authority	Risk weighted assets for market risk divided by Total Assets	4.5%	20%
	Risk weighted assets for market risk divided by CET1	4.5%	
	Risk weighted assets for market risk divided by total risk exposure	4.5%	
	Off-balance sheet nominal amount divided by Total Assets	4.5%	
	Off-balance sheet nominal amount divided by CET1	4.5%	
	Off-balance sheet nominal amount divided by total risk exposure	4.5%	
	Derivatives exposure divided by Total Assets	4.5%	
	Derivatives exposure divided by CET1	4.5%	
	Derivatives exposure divided by total risk exposure	4.5%	
	Complexity and resolvability	4.5%	
	Membership in an Institutional Protection Scheme	45%	
	Extent of previous extraordinary public financial support	10%	

However, the procedure is still not complete for the indicators highlighted in red. Due to the **unavailability of harmonised data**, the SRB did not so far require the institutions to provide information on:

- ▶ Risk Pillar I: Own funds and eligible liabilities held by the institution in excess of **MREL** (minimum requirement for own funds and eligible liabilities);
- ▶ Risk Pillar II: Net Stable Funding Ratio (**NSFR**);
- ▶ Risk Pillar III: **interbank** loans and deposits;
- ▶ Risk Pillar IV: **complexity and resolvability**.

Considering these, the SRB established the following weights (the weights that have changed as consequence of not using all indicators highlighted in orange):

2018 contribution period			
Pillar	Indicator	Weights of indicators in Pillar	Weight of the Pillar
PILLAR I: Risk exposure	Leverage ratio	33%	55,56% (or 5/9)
	Common Equity Tier 1 (CET1) Capital Ratio	33%	
	Total Risk Exposure divided by Total Assets	33%	
PILLAR II: Stability and variety of source of funding	Liquidity Coverage Ratio	33%	22,22% (or 2/9)
PILLAR IV: Additional risk indicators to be determined by the resolution authority	Risk weighted assets for market risk divided by Total Assets	5%	22,22% (or 2/9)
	Risk weighted assets for market risk divided by CET1	5%	
	Risk weighted assets for market risk divided by total risk exposure	5%	
	Off-balance sheet nominal amount divided by Total Assets	5%	
	Off-balance sheet nominal amount divided by CET1	5%	
	Off-balance sheet nominal amount divided by total risk exposure	5%	
	Derivatives exposure divided by Total Assets	5%	
	Derivatives exposure divided by CET1	5%	
	Derivatives exposure divided by total risk exposure	5%	
	Membership in an Institutional Protection Scheme	45%	
Extent of previous extraordinary public financial support	10%		

## General information on the invoicing/information shared

### 12. What is/can be shared with institutions?

The NRAs of each Member State are responsible for the notification of ex-ante contributions due by the institutions in their remit (deadline May 1).

In order to harmonise the practices, the SRB, in cooperation with NRAs since 2017, has been preparing the following documents (to be shared with institutions):

- ▶ **Master Decision:** This document summarises the regulation on ex-ante contributions, including the scope of application, the data used for the calculation, the calculation methodology and the way the SRB communicates the results to NRAs. This document is the same for every institution.
- ▶ **Harmonised Annex:** This document provides details on the steps of the calculation used to determine the ex-ante contribution. This document is institution specific.

Additionally, in line with last year, the SRB will publish some key summarising facts on the 2018 ex-ante contribution cycle, as well as aggregated statistical information on the calculation results, on the SRB's website.

 For more information about the SRF, see <https://srb.europa.eu/>