EU resolution framework

Bank and investment firm resolution
The BRRD (Directive 2014/59/EU) entered into force in July 2014
- Provides authorities with powers and tools to address firm failure
- Transposed into Irish law through the Bank Recovery and Resolution Regulations 2015 (BRR Regs)

**Resolution planning process**
- Form of regulatory engagement designed to enhance institutions' resolvability under a multi-year process
- Involves setting the Minimum Requirement for Own Funds and Eligible Liabilities (MREL)
- Identification and removal of impediments to resolvability

**Established to ensure the effective application of resolution tools and powers**
- Bank and Investment Firm Resolution (BIFR) Fund
- Single Resolution Fund (SRF)

Under BRR Regs, the Central Bank of Ireland has been designated as Ireland’s NRA
- The NRA is responsible for preparing resolution plans, managing resolution funds and levies, and taking resolution action (if required)
- Remit differs by institution type
The scope of the BRRD includes credit institutions and investment firms.

Resolution Planning

- Investment Firm
- Less Significant Institution
- Significant Institution
- Cross-Border Group
- Subsidiary EU Parent SI
- Subsidiary UK Parent
- Branch Third Country

SRF

BIFR

Resolution Fund
EU resolution framework

Single Resolution Mechanism
Resolution is the second pillar of the EU Banking Union

BRRD establishes national resolution frameworks, the SRM establishes the Banking Union resolution framework

- **Bank Supervision**
  - Capital Requirements Directive & Regulation (CRD IV & CRR)
    - January 2014
  - Single Supervisory Mechanism (SSM)
    - November 2014

- **Bank Resolution**
  - Bank Recovery and Resolution Directive (BRRD)
    - July 2015
  - Single Resolution Mechanism (SRM)
    - January 2016

- **Deposit Guarantees**
  - Deposit Guarantee Scheme Directive (DGS)
    - 2015
  - European Deposit Insurance Scheme (EDIS)
    - Not finalised at EU level
Single Resolution Board
The SRM Regulation establishes the SRB which is the resolution authority for the Banking Union

- January 2015 - SRB was established, based in Brussels
- January 2016 - became fully operational and is now responsible for 119 significant institutions and 15 cross-border groups
- Centralised decision making process for resolution planning and actions
- Together with NRAs it forms the SRM – resolution planning undertaken within internal resolution teams (IRTs)*

Timeline

2015
- SRMR established

2016
- Establishment of SRB
- Full resolution powers for SRB

2017
- Drafting of resolution plans
- Development of SRB policy

2018
- Determination of MREL
- Resolvability assessments

* Resolution equivalent of joint supervisory teams within the SSM
Role of the NRA within the SRM

- Resolution Planning
- Crisis Preparedness & Execution
- Collection of Resolution Fund levies (BIFR & SRF)
- Data Collection
- Policy Development
- Governance – SRB Plenary and Extended Executive
Regulatory developments
Single rulebook update
Single Rulebook

Bank Supervision

- Single Supervisory Mechanism (SSM) November 2014

Bank Resolution

- Single Resolution Mechanism (SRM) January 2016

Deposit Guarantees

- Deposit Guarantee Scheme Directive (DGS) 2015
- European Deposit Insurance Scheme (EDIS) Not finalised at EU level

Single Rulebook

Centralised responsibility

BRRD (BRR Regs)

EBA Guidelines

Delegated Regulations

EBA Q&A

Implementing Regulations
**Level 2 and 3 Measures**

- BRRD contains mandates for the EBA to draft:
  - Regulatory Technical Standards (RTS) (level 2)
  - Implementing Technical Standards (ITS) (level 2)
  - Guidelines (level 3)
- European Commission adopts RTS as Delegated Regulations and ITS as Implementing Regulations
- EBA Guidelines are on a “comply or explain” basis
  - Binding on the parties to whom they are addressed e.g. NRAs or credit institutions/investment firms
  - The Central Bank expects institutions to adhere to relevant guidelines as they emerge

**Examples of RTS, ITS and Guidelines under BRRD**

- RTS on criteria for determining MREL
- RTS on application of Simplified Obligations
- RTS on independent valuers
- Guidelines on treatment of liabilities in bail-in
- Guidelines to reduce or remove impediments to resolvability
- ITS on information to be provided to NRAs the purpose of resolution plans (under review with updated templates expected for use from 2019 onwards)

**EBA BRRD Q&A Tool**

- Provides answers to questions on BRRD – 142 Q&A to-date
- Ensuring consistent and effective application of BRRD across the EU

**2018 & Beyond**

- Most level 2 and 3 mandates under BRRD I are complete
- New mandates for the EBA under the RRM Package (& BRRD review) e.g. ITS on reporting and disclosure of MREL
Regulatory developments

RRM package update
Risk Reduction Measures Package

Legislative package proposes changes to the EU’s prudential and resolution frameworks

- In November 2016, the European Commission released a package of measures to “complete the post-crisis regulatory agenda” and implement relevant standards published by the Basel Committee on Banking Supervision and the Financial Stability Board.
- The package introduces the FSB’s TLAC standard as a Pillar 1 requirement within the EU, revises the calibration and application of the MREL and harmonises the creditor hierarchy under national insolvency proceedings.
- The key proposed changes relate to the following pieces of legislation, resolution specific changes are highlighted in bold.

### BRRD (Bank Recovery and Resolution Directive)
- Definition of resolution entities and groups
- Pillar 2 add-on
- MREL calibration
- MREL guidance
- Internal MREL
- MREL breaches
- Bail-in of liabilities governed by third country laws
- Moratorium tools

### SRMR (Single Resolution Mechanism Regulation)
- Same as for BRRD (except for the bail-in of liabilities governed by third country laws and the moratorium tools)

### CRR (Capital Requirements Regulation)
- TLAC and eligible liabilities
- Leverage ratio
- Fundamental review of the trading book
- Net Stable Funding Ratio
- Other Basel standards (e.g. large exposures)
- Waivers on the application of certain prudential requirements
- Proportionality
- SME/infrastructure exposures
- IFRS 9

### CRD (Capital Requirements Directive)
- Review of exempted entities
- Authorisation of holding companies
- Intermediate EU parent undertaking
- Pillar 2 changes
- Interest rate risk in the banking book
- Remuneration

### BRRD Article 108
- Partial harmonisation of creditor hierarchy in insolvency law

---

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem
Co-legislative procedure

- European Commission release legislative proposal
- Council produce “General Approach”
- Trilogue negotiations (EC, EP and Council)
- Trilogue agreement = final legislative text
- National transposition
- Legislation in effect

State of Play on RRM Package

- Trilogue agreement on Bank Creditor Hierarchy Directive in October 2017
- Negotiations on the remainder of RRM package continue
- Hope for Council “General Approach” under Bulgarian Presidency
Creditor hierarchy

- Partial harmonisation of national insolvency hierarchies
  - New asset class of “non-preferred” senior unsecured debt
  - Subordinated by contractual provisions
- Published in the EU Official Journal on 27 December 2017
- Transposition deadline of 28 December 2018
Resolution work planning - 2018 and beyond

Update for banks and investment firms
Resolution planning
Resolution planning is divided into various steps

Strategic business analysis
- Adequately detailed overview of the institution
- Assessment of critical functions
- Starting point for PRS

Point-of-entry – Single or Multiple

Preferred resolution strategy

Financial and operational continuity
- How the institution or group should be resolved: which resolution tool(s) should be utilised
- Funding and liquidity requirements implied by the resolution strategy
- Arrangements needed to ensure continuity of the critical shared services
- Access to financial market infrastructures

Resolvability assessment
- Impediments to resolvability
- Measures to address or remove these impediments

Resolution Plan

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosyste
Annual submission play a central role in resolution planning for each institution

Information from an institution’s submissions utilised when determining the preferred resolution strategy and MREL determination

Moving from ad-hoc submissions to standardised reporting templates and process

Crucial that the information provided is accurate, up-to-date and submitted on a timely basis

Information submitted also supports the NRA in developing an overall view of the national market

Information collated in these templates can also be utilised when completing your institution’s recovery plan e.g. critical function assessment
2018 resolution planning submissions

Reports required

- This information is submitted by Significant Institutions, Less Significant Institutions and Investment Firms
- The information should be populated as at 31 December 2017
- Data submission may be followed up with ad-hoc queries and workshops
- Additional reports may be required in time
## 2018 resolution planning submissions

### Deadlines for the receipt of these templates are as follows:

<table>
<thead>
<tr>
<th>Template</th>
<th>Submission dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBA resolution planning templates – Annexes I and II</td>
<td>28 February 2018</td>
</tr>
<tr>
<td>EBA resolution planning templates – Annexes III, IX and X</td>
<td>13 April 2018</td>
</tr>
<tr>
<td>LDR</td>
<td>13 April 2018*</td>
</tr>
<tr>
<td>Critical Functions</td>
<td>13 April 2018</td>
</tr>
<tr>
<td>FMI template</td>
<td>13 April 2018</td>
</tr>
</tbody>
</table>

- Please note, EBA templates IV, V, VI, VII, VIII, XI and XII are not requested in 2018

*NRA submission of LDR data to SRB 30 April for relevant institutions*
2018 resolution planning submissions – Liability Data Report

- The LDR records the liability and capital position of an entity, the data contained within is utilised in completing the resolution plan and in the calculation of an institution’s MREL.

- LDR is to be submitted for Relevant Legal Entities
  - A Relevant Legal Entity represents more than 5% of a group’s total risk exposure amount, leverage exposure or total operating income; or it provides critical functions.
  - Information for the entity in scope is collected on a consolidated, sub-consolidated and entity-level (individual) basis, as applicable for each entity.

- As this is the third year of annual reporting, the Central Bank expects submissions to be accurate and of high quality. Failure to do so may be deemed an impediment to resolution.

- In the event of a resolution action, an updated LDR may be requested from an institution at short notice.

- Guidance on the LDR and the SRB taxonomy can be found at https://srb.europa.eu/en/content/liability-data-report. All LDR queries should be addressed to your relevant contact in the NRA in the first instance.
Critical functions are those that are essential to the real economy, not functions critical to an institution itself.

The presence or absence of critical functions is a key determinant of an institution's preferred resolution strategy.

The continuity of critical functions is a key resolution objective.

The CF report provides the NRA with key information in relation to an entity’s functions. The entity also provides its view on criticality.

The NRA and SRB, as appropriate, analyses this data and supporting documentation to conclude on the criticality of an entity’s functions.

Guidance can be found at https://srb.europa.eu/en/content/critical-functions-report
## 2018 resolution planning submissions – EBA and FMI templates

<table>
<thead>
<tr>
<th>EBA resolution planning template</th>
<th>FMI template</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual submission - ensures the information in an institution’s resolution plan is up to date</td>
<td>Provides information on an institution’s direct and indirect participation in FMIs</td>
</tr>
<tr>
<td>Information can aid in the determination of the preferred resolution strategy</td>
<td>Provides qualitative data necessary at the point of resolution</td>
</tr>
<tr>
<td>The template provides crucial information which could be used in a resolution event</td>
<td>Ensures resolution authorities can collate global systemic information in relation to FMIs</td>
</tr>
</tbody>
</table>
XBRL reporting

The SRB and NRAs are moving to an XBRL solution for the LDR template in 2018 and other resolution reports thereafter.

XBRL will replace the current Excel solution and provide a more streamlined process for the submission and analysis of the resolution planning templates.

For 2018, LDR templates in both Excel and XBRL formats will be accepted. XBRL will be mandatory for 2019 LDR submissions.

The CBI encourages the use of XBRL in 2018 as it will improve the quality of data and reduce the need for re-submissions.

The SRB is planning to move to XBRL for all other resolution planning templates in the future.
Lessons learned

The quality of data submissions has generally been of a good standard but exceptions to this remain.

Timeliness of submissions remains a concern in some instances.

Any errors in data, particularly in the LDR, can lead to significant delays in the validation of the templates.

Inaccurate and inconsistent data also increases the workload of the institution as it results in queries and re-submissions.

Where requested, detailed supporting documents should be submitted along with the relevant template.

In some instances, additional detail is required and/or workshops or conference calls held.

Having a single point of contact for resolution matters aids the resolution planning process to run smoothly.
Engagement and expectations for 2018

- The NRA and SRB (where relevant) will continue to interact with institutions during the course of 2018.
Engagement and expectations for 2018

Quality
- Information received is of a high standard, up to date and backed by supporting documentation, where relevant

Sign-off
- Institutions are expected to ensure the appropriate sign-off for information related to resolution

Governance
- It is expected that the person with overall responsibility for resolution within each institution should be at director level

Contact
- Institutions are expected to maintain a single point of contact for resolution matters to ensure an efficient communication process
Recent publications from the SRB


Resolution work planning - 2018 and beyond

Resolution Funds
Resolution Funds

Why are Resolution funds necessary?
- Break the bank sovereign link
- Industry funded mechanism to pay for firm failure
- To ensure the effective application of the resolution tools and powers by an NRA
- Not a mechanism to bail out an institution

Who is liable to contribute?
- Credit institutions / banks
- Certain investment firms
- Third country branches
- Credit unions – albeit under national legislation and not within the scope of the BRRD
BIFR Fund was established in November 2015 in accordance with Regulation 163 (1) of the European Union Bank Recovery and Resolution Regulations 2015 (S.I. No. 289 of 2015).

Regulation 166 of the 2015 Regulations requires the CBI to raise levies from in-scope institutions – mainly in-scope investment firms and third country branches.

BIFR Fund is managed and administered by the CBI.

The purpose of the BIFR Fund is set out in Regulation 165.
Single Resolution Fund

Single Resolution Fund ("SRF") was established in January 2016 pursuant to Article 67 of the Single Resolution Mechanism Regulation – SRM Regulation (EU) 806/2014

SRB is responsible for the management and administration of the SRF

Institutions in-scope of the SRMR contribute to the SRF – mainly banks

Article 70 of the SRMR requires contributions from each institution to be raised annually

NRAs, on behalf of the SRB, collect data, interact with institutions, issue levy notices and remit levies collected
## Use of the Funds

<table>
<thead>
<tr>
<th>BIFR Fund</th>
<th>SRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantee the assets or liabilities of an institution under resolution</td>
<td>Guarantee the assets or liabilities of an institution under resolution</td>
</tr>
<tr>
<td>Make a loan to an institution under resolution</td>
<td>Make a loan to an institution under resolution</td>
</tr>
<tr>
<td>Purchase assets of an institution under resolution</td>
<td>Purchase assets of an institution under resolution</td>
</tr>
<tr>
<td>Make contribution to a bridge institution, asset management vehicle, a purchaser where sale of business is used</td>
<td>Make contribution to a bridge institution, asset management vehicle</td>
</tr>
<tr>
<td>Pay compensation to creditors</td>
<td>Pay compensation to creditors</td>
</tr>
<tr>
<td>Make a contribution to an institution where the bail-in tool is used</td>
<td>Make a contribution to an institution where the bail-in tool is used</td>
</tr>
<tr>
<td>Lend to other financing arrangements</td>
<td>Lend to other financing arrangements</td>
</tr>
</tbody>
</table>
Legislative framework

- SRM Regulation
- Commission Delegated Regulation EU 2015/63
- Council Implementing Act

- BRR Regulations
- Commission Delegated Regulation EU 2015/63
- Levy Regulations prepared annually by the CBI
## Comparison of BIFR Fund and SRF

<table>
<thead>
<tr>
<th></th>
<th>BIFR Fund</th>
<th>SRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculation</td>
<td>Commission Delegated Regulation 2018 Levy Regulation</td>
<td>Commission Delegated Regulation Council Implementing Act</td>
</tr>
<tr>
<td>Responsible</td>
<td>NRA</td>
<td>SRB</td>
</tr>
<tr>
<td>Basis</td>
<td>National</td>
<td>National / Banking Union</td>
</tr>
<tr>
<td>Target</td>
<td>1% of covered deposits</td>
<td>1.05% of covered deposits</td>
</tr>
<tr>
<td>Initial Period</td>
<td>10 years</td>
<td>8 years</td>
</tr>
<tr>
<td>Balance</td>
<td>c.€4 m</td>
<td>c. €17.3bn</td>
</tr>
</tbody>
</table>
Annual Levy Calculation Process

- Data Collection
- Data Validation
- Perform Calculation
- Issue Levy Notices
- Collect Levies
Levy Calculation Process

First step is to determine the Basic Annual Contribution / BRRD Base

- Total Liabilities & Equity less Own Funds less Covered Deposits

Deductions
- Intra-group transactions, liabilities arising from holding client assets

Derivatives

Identify those institutions to which the Lump Sum approach applies to:

\[
\text{Total Liabilities} - \text{Own funds} = \text{Covered Deposits} \leq 300m \quad \text{and} \quad \text{Total Assets} \leq 1b
\]

Lump sum/small institutions pay a levy between €1,000 and €50,000
Levy Calculation Process

- For those institutions that do not qualify for the Lump Sum Approach, the Risk Adjustment Methodology is applied.

- Compares the relative riskiness of one institution against all other institutions, resulting in the application of a Risk Adjustment Multiplier between 0.8 – 1.5.

- The Risk Adjustment Process is a two stage process:
  - The BRRD Base is calculated as a proportion of the aggregate BRRD Base of all institutions subject to the Risk Adjustment Process, deriving their proportionate share of the annual target amount; and
  - The BRRD Base is adjusted for risk on the basis of a series of indicators specified in the Delegated Regulation (attached in Appendix II), in accordance with the formulae set out in Annex I of the Delegated Regulation.
2018 Levy Process – the story so far

- Institutions now submit the Resolution Fund data request through the Online Reporting system – this is to facilitate the secure transfer of confidential data to the NRA

- Lessons learned on the process so far:
  - Data quality has improved year on year
  - Issues regarding reporting of the Liquidity Coverage Ratio (“LCR”) data points
  - Drop down versus manual entry of information into certain cells

- Key differences between the 2017 and 2018 levy process:
  - Liquidity Coverage Ratio indicator turned on for the first time in the 2018 contribution period
Next Steps and Key Dates

- **End February**
  - Complete data validation & clarification of discrepancies (if any)

- **Mid April**
  - Publication of 2018 Levy Regulations
  - Levy Notices issued to all BIFR/SRF institutions
  - Technical appendices / additional data

- **1 May**

- **8 June**
  - Deadline for paying 2018 Levy Contributions

- **30 June**
  - NRA is required to transfer levies collected from SRF institutions to the SRB
Contact Details

- Queries in relation to the levy should in the first instance be sent to the NRA by email / in writing:
  - Queries in relation to the invoices/ calculation should be addressed to the **Resolution Division**
  - Queries in relation to payment should be addressed to the **Financial Control Division**

- Queries in relation to the Bank and Investment Firm Resolution Fund and the Single Resolution Fund can be sent to [resfunds@centralbank.ie](mailto:resfunds@centralbank.ie).
Resolution work planning - 2018 and beyond

SRB administrative contribution levy
On 10 January 2018 the SRB contacted all institutions in writing regarding Administrative Contributions.

2015 – 2017 provisional system in place where only significant institutions contributed.

2018 all institutions in-scope of the SRM institutions will be liable to contribute to the annual SRB administration costs pursuant to Commission Delegated Regulation (EU) 2017/2361.

The SRB’s Administrative Contributions are separate to the CBI’s Industry Funding Levy.

Any queries in relation to Administrative Contributions should be directed to the SRB.
SRB Administrative Contributions - Timeline

10 January
Information letter issued

26 January
Confirm Contact Details

March 2018
Issue Contribution Notices

April 2018
Payment Deadline
SRB Administrative Contributions

- Entities are referred to the following documents for more information:
  - Frequently asked questions (FAQs) on the implementation of the Delegated Regulation on the final system of contributions to the administrative expenditures of the SRB
  - Commission Delegated Regulation (EU) No 2017/2361 on the final system of contributions to the administrative expenditures of the SRB
  - Commission Delegated Regulation (EU) No 1310/2014 (provisional system of instalments that has been in use since 2014)

- All queries should be addressed to the SRB either on
  - SRB-ADMIN-CONTRIBUTIONS@srb.europa.eu or
  - Helpdesk: +32 2 490 3444
Q&A session