

The Single Resolution Fund: Transitional Arrangements

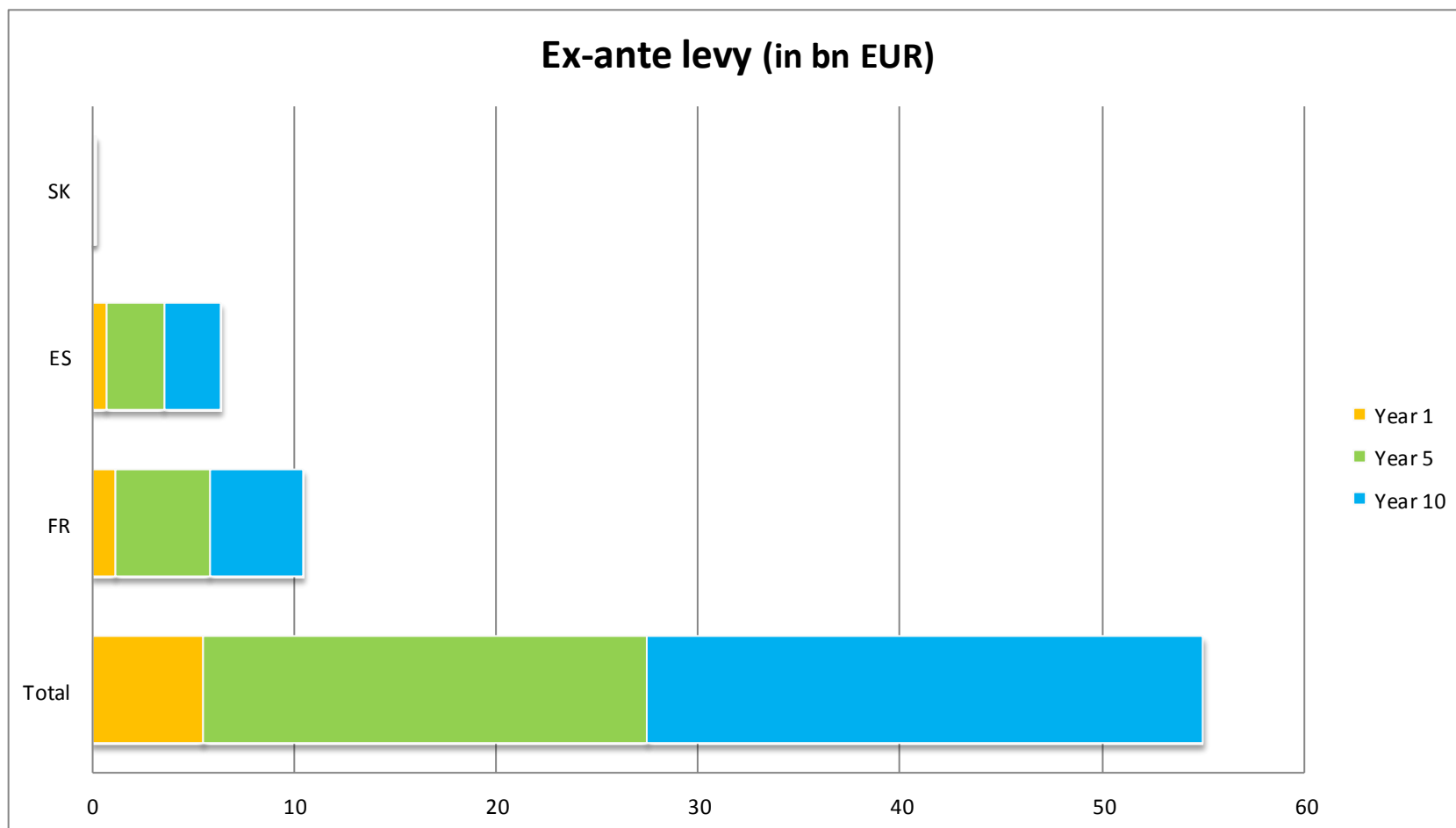
Main Characteristics of the SRF

- One Fund, national compartments in place for build-up phase
- Member States impose a levy upon their own banks and transfer receipts to the Fund
- Gradual mutualisation of resources during build-up phase which allows the Fund to tap different compartments
- National backstops until a common backstop is created

Ex Ante Levy (1)

- Linear progression of contributions from each Member States banks up to 1% covered deposits (SRM Reg. Art 65)
- Annual contributions of each Member State are required to amount to 10% of each Member State's target level (i.e. 0.1% covered deposits per annum) (SRM Reg. Art 66)
- 10% target is both a minimum and a maximum (SRM Reg. Art 66(1a))

Ex Ante Levy (2)



Gradual Mutualisation (1)

- There will be a gradual mutualisation of the costs of bank resolution
- Mutualisation Formula: a 10 percentage points decrease in the exposure of the respective national compartments and a 10 percentage points increase in the exposure coming from all national compartments (ToR paras. 8 & 9 & IGA Art 5(1)(a) & (b))
- Gradual phasing-in of these 10 percentage points over the course of a year to avoid cliff effects; 2.5 percentage points per quarter (ToR para. 9 & IGA Art 5(1)(a) & (b))

Gradual Mutualisation (2)

Year	<u>Step 1:</u> Use of paid in means in national compartment	<u>Step 2:</u> Use of the available paid in means in all compartments making up the SRF, including any remaining paid in means in the national compartment in question	<u>Step 3:</u> In case of any remaining costs
1	100%	10%	Use of remaining financial means in the directly involved national compartments + Possible extraordinary ex post levy on national banking sector + Bridge financing from national sources or ESM in line with agreed procedures + Possibilities for lending between national compartments
2	90%	20%	
3	80%	30%	
4	70%	40%	
5	60%	50%	
6	50%	60%	
7	40%	70%	
8	30%	80%	
9	20%	90%	
10	10%	100%	
11	0%	100%	

1. Available part of National Compartment **earmarked** for resolution of national entities

(To be used **first**)

2. Available part for **burden sharing** by all National Compartments

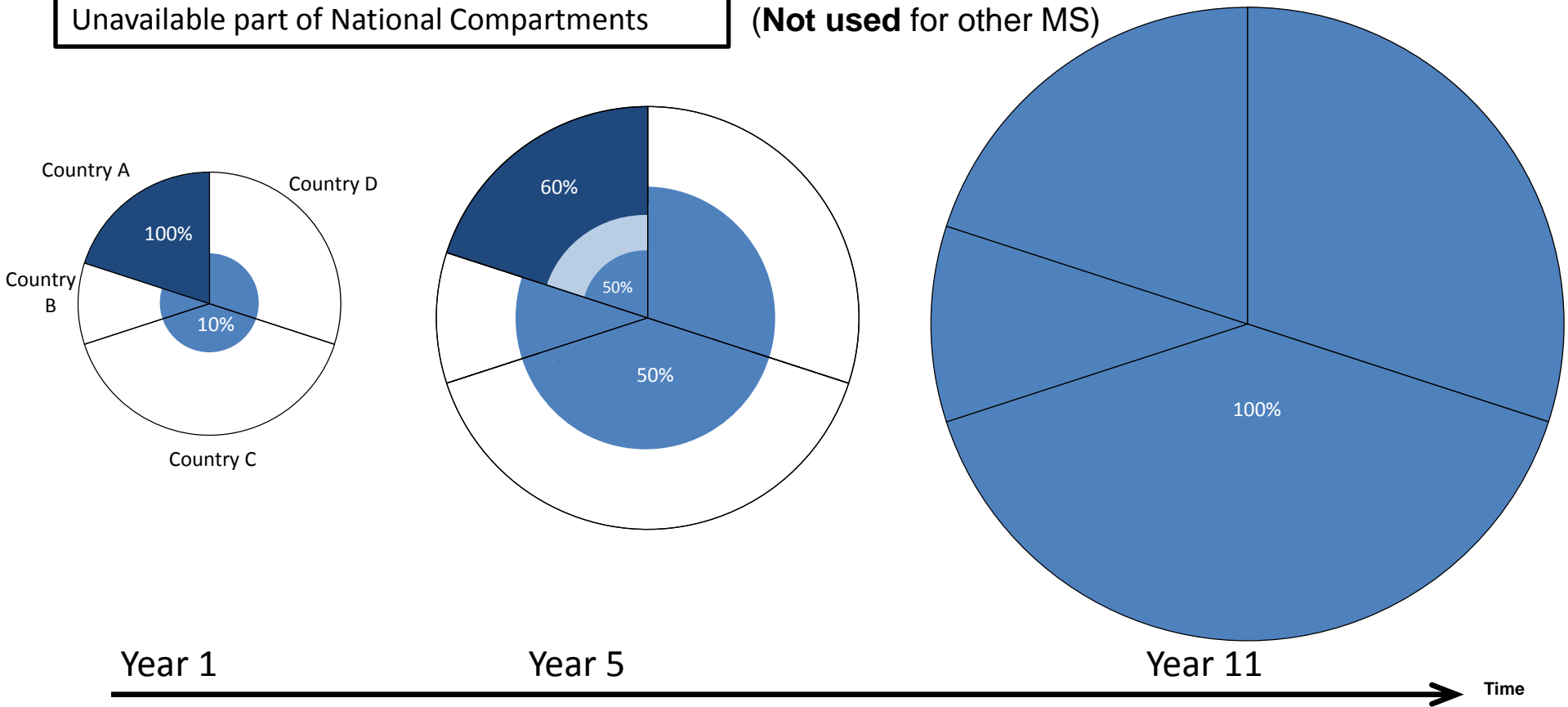
(To be used **after** the national earmarked funds are used)

3. **Remaining available part** of National Compartment involved

(To be used **after previous steps**)

Unavailable part of National Compartments

(**Not used** for other MS)



1	2	3	4	5	6	7	8	9	10	
100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	of compartment MS concerned (Step 1)
10%	20%	30%	40%	50%	60%	70%	80%	90%	100%	of all compartments (Step 2)

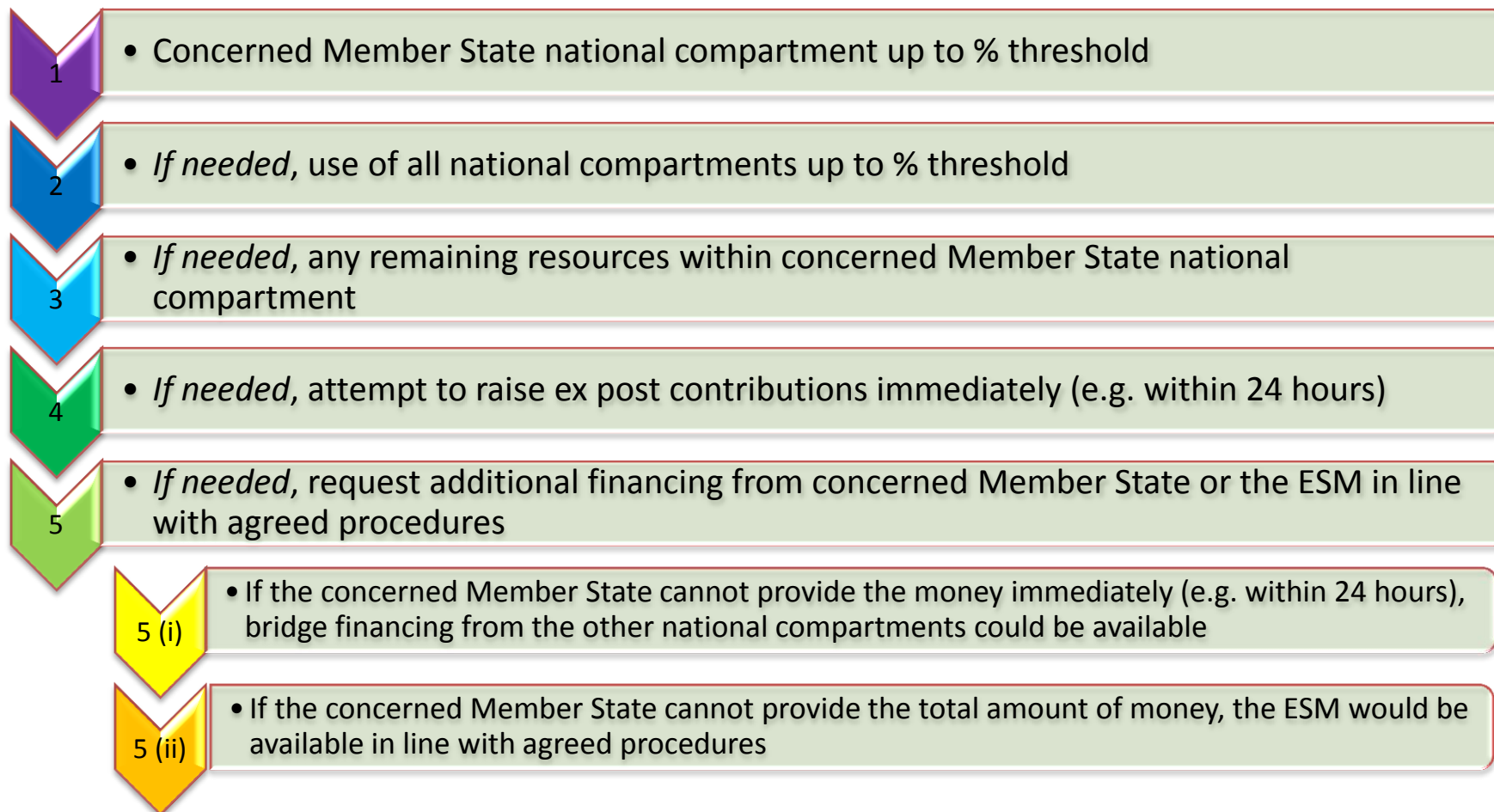
Liquidity Arrangements (1)

- After the contributions from the Member State's national compartment and the mutualised portion, recourse will be had back to the Member State's national compartment until it is exhausted (ToR para. 10 & IGA Art 5(1)(c))
- Ex post contributions will attempt to be raised immediately to contribute towards any financing
- However, if financing needs exceed this, bridge financing is required to be repaid by ex post contributions
- During the transition, this will be available from national sources or from the ESM in line with agreed procedures (ToR Table & Eurogroup statement)
- Possibility to lend between national compartments (ToR Table)
- Common backstop will be developed over the transition period (Eurogroup statement)

Liquidity Arrangements (2)

- Questions:
 1. Should reference be made in the IGA to national bridge financing arrangements?
 2. Should a more elaborate procedure for borrowing between national compartments be developed in the IGA?

Allocation of Resolution Cost Waterfall (After Bail-in)



Replenishment of Funds

- Three mechanisms to replenish the respective compartments:
 1. Reflows: On-going payments (e.g. dividends) and upon exit (e.g. proceeds from sale of shares) (IGA Art 5(3))
 2. Ex post Contribution: Contributions from the financial system of the Member State(s) concerned after the event, to cover bridge financing (ToR para. 10, SRM Reg. Art 67 & IGA Art 5(1)(d))
 - Contribution only from the financial sector of the Member State(s) concerned regarding the bank in resolution
 3. Requirement to replenish the resources of national compartments (ToR para. 12 & IGA Art 5(2))
 - Contribution from every Member State to refill their own compartment in proportion to what was used

Example 1: One Resolution in Year 1

1

- Concerned Member State national compartment up to 100% threshold

2

- Use of all national compartments up to 10% threshold

3

- Any remaining resources within concerned Member State national compartment

4

- Attempt to raise ex post contributions immediately

5

- Request additional financing from concerned Member State

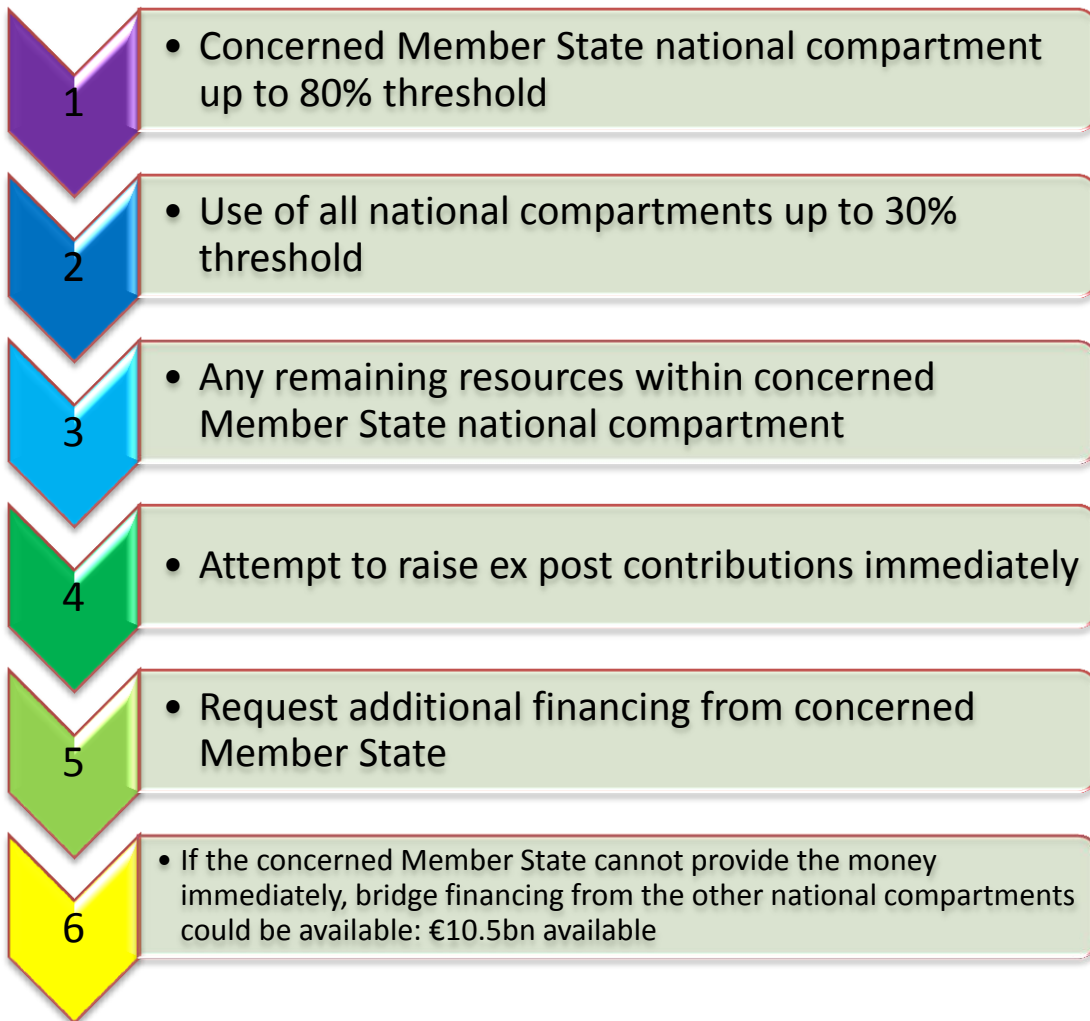
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- If the concerned Member State cannot provide the money immediately, bridge financing from the other national compartments could be available: €4.5bn available

- *Target NC Size: €5bn;
Resolution cost: €10bn;*
- *Available own funds Y1:
€0.5bn, other
compartments: €5bn*

1. *Tapping own fund:
 $0.5 \times 100\% = €0.5bn$*
2. *Tapping all NCs: $5 \times 10\% = €0.5bn$*
3. *Using the remainder of NC:
€0bn*
4. *Ex post contributions
immediately: €unknown,
likely very low*
5. *Funding needed remaining:
 $10 - 0.5 - 0.5 = €9bn$*
6. *Bridge financing from other
NCs: €4.5bn available*

Example 2: One Resolution in Year 3



- *Target NC Size: €5bn;
Resolution cost: €10bn;*
 - *Available own funds Y3: €1.5bn, other compartments: €15bn*
1. *Tapping own fund:
 $1.5 \times 80\% = €1.2bn$*
 2. *Tapping all NCs: $15,3 \times 30\% = €4.59bn$*
 3. *Using the remainder of NC:
 $1.5 - 1.2 - 0.09 = €0.21bn$*
 4. *Ex post contributions immediately: €unknown, likely very low*
 5. *Funding needed remaining:
 $10 - 1.2 - 4.59 - 0.21 = €4bn$*
 6. *Bridge financing from other NCs: €10.5bn available*

Example 3: Cross Border Resolution in Year 3

1

- Concerned Member States national compartments up to 80% threshold

2

- Use of all national compartments up to 30% threshold

3

- Any remaining resources within concerned Member States national compartments

4

- Attempt to raise ex post contributions immediately

5

- Request additional financing from concerned Member States

6

- If the concerned Member States cannot provide the money immediately, bridge financing from the other national compartments could be available: €10.29bn available

- MS "A": Target NC Size: €5bn; Resolution cost: €8bn; Available own funds Y3: €1.5bn*
 - MS "B": Target NC Size: €1bn; Resolution cost: €2bn; Available own funds Y3: €0.3bn*
 - All compartments: €14.7bn;
 - Split of costs: MS "A" = 80%; MS "B" = 20%
1. Tapping own fund: *MS "A": $1.5 \times 80\% = €1.2bn$; MS "B": $0.3 \times 80\% = €0.24bn$*
 2. Tapping other NCs: $15.06 \times 30\% = €4.518bn$; *MS "A": $4.518 \times 80\% = €3.6144bn$; MS "B": $4.518 \times 20\% = €0.9036bn$*
 3. Using the remainder of NC: *MS "A": $1.5 - 1.2 - 0.09 = €0.21bn$; MS "B": $0.3 - 0.24 - 0.018 = €0.042bn$*
 4. Ex post contributions immediately: €unknown, likely very low
 5. Funding needed remaining: *MS "A": $8 - 1.2 - 3.6144 - 0.21 = €2.9756bn$; MS "B": $2 - 0.24 - 0.9036 - 0.042 = €0.8144bn$*
 6. Bridge financing from other NCs: €10.29bn available

Conclusions and Issues for Discussion

- Progressive mutualisation: mutualisation of the **use** of compartments
- Borrowing from other compartments: need for more elaborate procedure?
- Bridge financing from national sources: need for provision in IGA?
- Replenishment and reflows: requirement to bring level of compartments back up to target level for that year needs greater clarity
- Interpretation and implementation: how to deal with issues that arise after the IGA enters into force?