Opinion of the Czech National Bank on the Consultation by the European Commission on the contributions of institutions to resolution financing arrangements[1]

1. The calculation of contributions

Do you favour calculating the contributions based on:

- individual level data
- consolidated level data

CNB reply: "individual level data"

Supplement to the CNB reply: *We prefer calculation at the individual level. One of the reasons is that from the perspective of an individual institution's resolvability, there is only a small difference between the situations when the creditor (i.e. the owner of the debt which is written down or converted in resolution) is a member of the same group or a when the creditor is a stand-alone entity. Should the calculation method lead to a different approach to group members, it would be discriminatory against institutions with the same degree of resolvability which obtained loss absorption capacity on the market rather than within the group.*

In addition, the calculation of the risk component of the contribution for the entire group may not reflect adequately the risk of the individual group members, thus the requirement stipulated in Article 103(2) of the BRRD[2] *clearly would not be fulfilled. Further we believe that from the perspective of the functioning of the banking union, such a calculation method would not be fully in line with the requirement of allocation of the contributions paid by individual institutions to the separate national compartments of the Single Resolution Fund. Moreover, if a group member paid, only due to the use of the consolidated method, higher contributions than would be in line with its individual level of risk, this would, among other things, put the minority shareholders of this entity at a disadvantage.*

We also believe that the wording of Article 103(2) of the BRRD[3] *implies calculation based on liabilities on an individual basis.*

2. Methodology: Application of the principle of proportionality

Do you agree that small credit institutions should be treated in a special way, compared to what they would pay on the basis of a general formula that would apply to all credit institutions?*

- yes
- no
- no opinion

CNB reply: "no"

[1] http://ec.europa.eu/internal_market/consultations/2014/credit-institutions-contributions/index_en.htm

[2] „...contributions shall be adjusted in proportion to the risk profile of institutions ..."

[3] „The contribution of each institution shall be pro rata to the amount of its liabilities (excluding own funds) less covered deposits, with respect to the aggregate liabilities (excluding own funds) less covered deposits of all the institutions authorised in the territory of the Member State."

Supplement to the CNB reply: *Article 103(7) of the BRRD requires that the amount of the contribution reflect, among other things, the importance of the institution to the stability of the financial system (see Article 103(7)(g)) and the probability that its potential default will be addressed through resolution (see Article 103(7)(d)). A formula used to calculate the contribution which respects these requirements of the BRRD should lead, ceteris paribus, to lower contributions being paid by small institutions.*

We do not regard any further advantages for small institutions beyond the requirements of Article 103(7) of the BRRD as appropriate.

We assume that this was the direction of the Commission's question.

3. The weight of the flat contribution

Should the flat part be the most prominent part of the contributions or should the risk-adjusted part be the most prominent part of the contributions?*

- ○ The flat part should be the most prominent part of the contributions
- ○ The risk-adjustment part should be the most prominent part of the contributions
- ○ no opinion

CNB reply: "The flat part should be the most prominent part of the contributions"

Supplement to the CNB reply: *Setting the risk-adjusted part of the contribution is a very complex task; in our opinion, no static formula will probably be able to capture all the specifics of the business models (including future ones) of all institutions operating in the EU. Therefore, we consider it more appropriate that the risk-adjusted component should represent only a smaller part of each institution's overall contribution. <u>However, the final conclusion should be based on the results of tests of various models using specific data (see the answer to the next question).</u>*

4. The individual risk indicators

Do you agree with the following indicators for assessing the risk profile of each credit institution/group? In addition, please indicate the importance (high/low) which you would attribute to each risk pillar and to each risk indicator within each risk pillar. Note: a (+) or (-) indicates whether the contributions would increase (+) or decrease (-) if the value of the indicator increases or decreases.

	I agree with the indicator	High importance	Low importance
a) Risk pillar: Risk exposure:	☐	☐	☐
(i) RWA/Total Assets (+)	☐	☐	☐
(ii) Capital ratio (-)	☐	☐	☐
(iii) Leverage Ratio: Tier 1 Capital over Total Exposure Measure (-)	☐	☐	☐
(iv) Ratio of bail-in-able funds available in excess of the minimum requirement for own funds and eligible liabilities (-)	☐	☐	☐
b) Risk pillar: Stability and variety of the sources of funding:	☐	☐	☐
(i) Loan-to-Deposit Ratio: all loans except loans to credit institutions/deposits (+).	☐	☐	☐
(ii) Liquidity Coverage Ratio	☐	☐	☐
c) Risk pillar: Importance of an institution to the stability of the financial system or economy:	☐	☐	☐
(i) Total Consolidated Assets at Euro Area level/Euro Area GDP (Member State GDP for credit institutions in Member States not participating in the Banking Union) (+)	☐	☐	☐
(ii) Exposure to other credit or financial institutions when compared with the overall financial sector (+)	☐	☐	☐

CNB reply: *None of the options was selected.*

Supplement to the CNB reply: *The proposed indicators capture some requirements of Article 103(7) of the BRRD, but not all of them (e.g. the requirement under Article 103(7)(c) – the financial condition of the institution). Therefore, it is impossible to obtain a complete picture of the formula and the impact of the individual indicators on the result. The Commission should prepare several variants of the formula taking into account all the risk factors under Article 103(7) and submit them to Member States for testing using real data from their financial sectors. Only then can a qualified discussion be conducted on the inclusion or non-inclusion of some indicators and on their potential weights.*

5. Other comments

Any other comments

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CNB reply: *In our opinion, the pre-defined answers do not sufficiently cover the topics under discussion. We do not regard this format of consultation as appropriate. The CNB's supplementary answers are available at:*
http://www.cnb.cz/en/supervision_financial_market/legislation/cnb_opinions/index.html .
Beside credit institutions it is necessary to deal also with contributions of investment firms.