IMPACT OF CMDI PROPOSAL ON FUNDING

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Introduction

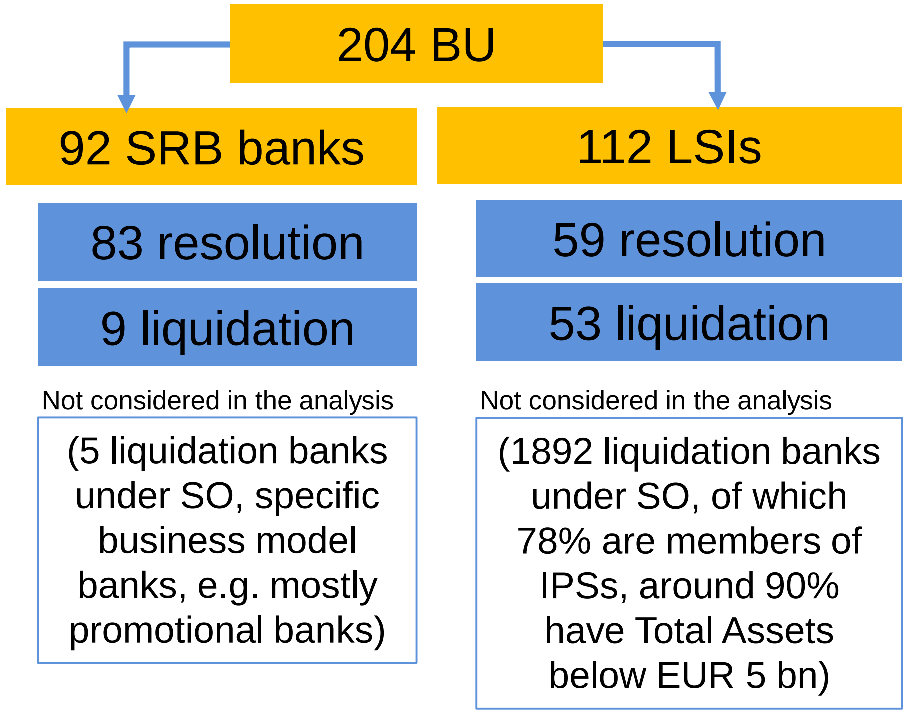
- The presentation has the following goals:
  - To assess the impact of the use of the DGS in resolution (‘DGS bridge’) and of the general depositor preference on the DGS and the Single Resolution Fund (SRF) - as compared to the current creditor hierarchy - both for banks already earmarked for resolution and for banks that could change strategy from liquidation to resolution;
  - To assess the effects of the general depositor preference on the DGS costs for the banks earmarked for liquidation.

Methodological elements: Assumptions and Data

- Assumptions for all simulations:
  - Reduction of capital to a level corresponding to minimum capital requirements (capital buffers depleted);
  - 85% net recovery rate for assets (same as in the EBA study and Commission Impact Assessment);
  - General depositor preference, i.e. all deposits rank *pari passu* in insolvency;
  - All deposits are excluded from loss absorption;
  - Reference Date: End-2022.

Methodological elements: Scope

- 204 Banking Union banks: i.e. 92 SRB banks (SIs and cross-border LSIs, excluding host banks) and 112 LSIs (under NRAs remit), as per 2022 Resolution Planning Cycle.
- The sample includes both BU banks earmarked for resolution (142) and for liquidation (62), with the exception of banks subject to Simplified Obligation (SO).
- All resolution banks are considered in the analysis, irrespective of the chosen resolution tool (not only banks having a transfer tool as preferred strategy).



Funding gap for resolution banks

- For banks currently earmarked for resolution:
  - 47 resolution banks (out of 142 in the 2022 cycle), i.e. 17 SIs and 30 LSIs, would not reach 8% of Total Liabilities and Own Funds (TLOF) without bailing-in deposits;
  - These 47 banks are in 13 MS of the Banking Union;
  - The median gap to reach 8% TLOF is 2.4%. For the 17 SIs and 30 LSIs the median gap is respectively 1.7% and 3.1 % TLOF.

CMDI proposal and Public Interest Assessment (PIA)

- CMDI is expected to expand the scope of resolution, i.e. leading to higher number of banks with positive PIA (e.g. strategy equal to resolution).
- However, PIA remains subject to discretion of Resolution Authorities.
- The following assumptions have been made regarding the proposed changes of the PIA:
  - Banks where depositors would suffer losses in liquidation, and at the same time the cost for DGS would be lower in resolution than in liquidation, would have the resolution objective of depositor protection at risk, and thereby a positive PIA;
  - Banks with high share of deposits / loans in a given region (and not at national level) would have critical functions at regional level at risk, and thereby a positive PIA;
  - Banks currently subject to SO would continue to have negative PIA, and therefore remain outside of the scope.

CMDI proposal and PIA

- Based on the above assumptions, 26 additional banks (out of the 62 earmarked for liquidation in the 2022 cycle) could have their PIA changed from negative to positive;

- Out of these 26 banks, 19 would not reach the 8% TLOF without bailing-in deposits;

  - These banks are in 12 MS of the Banking Union;

  - The median gap to reach 8% TLOF for these banks is 2.2%.

Estimates of DGS use

- 36 banks (out of 47 banks with funding gap) would have a positive least cost test (LCT) with a general depositor preference, which would enable the use of DGS funds in resolution, after use of MREL, to reach the threshold allowing to access the Single Resolution Fund (8% TLOF);
  - The median DGS contribution would be 15% of DGS Available Financial Means (AFM);
  - Average figures are influenced by two-three outliers.
- 19 banks (out of 26 changing PIA) would need funding and have a positive LCT with a general depositor preference;
  - The median DGS contribution would be 3.7% of DGS AFM.

DGS bridge (36 and 19 banks)

	All	current resol.banks	addit. resol.banks
quartile 1	3%	9%	2%
median	9%	15%	4%
average	25%	40%	7%
quartile 3	24%	31%	7%

Note: DGS contribution expressed as % of AFM.

Estimates of SRF use

- The SRF can only be accessed after 8% TLOF, for the banks earmarked for resolution;

- For the 36 banks currently having a resolution strategy and positive LCT:
  - the maximum contribution required from the SRF* for the median bank would be 1.6% of the current SRF capacity;

- For the 19 banks assumed to have a positive PIA test and a positive LCT:
  - the maximum contribution required from the SRF* for the median bank would be 0.1%.

SRF use (36 and 19 banks)

	All	current resol.banks	addit. resol.banks
quartile 1	0,1%	0,5%	0,1%
median	0,8%	1,6%	0,1%
average	1,5%	2,0%	0,5%
quartile 3	2,3%	3,2%	0,5%

Note: SRF contribution expressed as % of SRF capacity

**assuming maximum contribution of 5% TLOF (coming after the 8% TLOF)*

Estimates of impact on DGS costs in liquidation

- Following the removal of the DGS' super priority and the introduction of a general depositor preference, the average costs to be borne by the DGS of the banks in the sample which will remain in liquidation (36, i.e. 8 SIs and 28 LSIs) would not be substantial.
- In comparison to the current situation, the additional costs for the DGSs for the banks that would remain in liquidation would be on average 5% of AFM.
- For the banks under SO (excluded from the scope), the costs for the DGS should be similar or lower, given also the presence of IPSs in most cases.

THANK YOU

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Banks under Simplified Obligation (*Art.4(1) BRRD*)

- Eligibility for SO is based on the consideration of no significant negative effect of the failure of the institution & its liquidation under national normal insolvency proceedings (NIPs) on financial markets, other institutions, wider economy;
  - E.g. due to the nature of its business, its risk profile, interconnectedness, scope and complexity of activities, its membership in an IPS.
- Resolution Authorities can determine reduced contents of resolution plan, lower frequency for its updating (e.g. every 2 years); reduced reporting requirements, reduced resolvability assessment;
- Two-stage SOs eligibility assessment (as per Delegated Regulation 2019/348): Quantitative assessment (Stage 1, following OSII methodology) + Qualitative assessment (Stage 2).