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## **EACB Comments on EBA Public Consultation on Report on the Appropriate Target Level Basis for Resolution Financing Arrangements under BRRD**

**01 September 2016**

The **European Association of Co-operative Banks (EACB)** is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 31 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 4,200 locally operating banks and 68,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 205 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 78 million members and 860,000 employees and have a total average market share of about 20%.

For further details, please visit [www.eacb.coop](http://www.eacb.coop)



## Introduction

The European Association of Co-operative Bank (EACB) welcomes the EBA report on the appropriate reference point for setting the target level for resolution financing arrangements and the assessments therein. We are generally supportive of the EBA analysis, however, we note that the change of the reference point at this stage of building-up of the resolution funds might easily lead to more complexity among both institutions and authorities, while at the same time bringing limited value.

The EACB initial reflections on the EBA questions on the appropriate reference point for setting the target level for the BRRD funds are set out below, giving some first industry insight on this topic.

## EACB Answers to Consultation QUESTIONS

### ***Question 1: Do you think the report is missing any crucial criteria or arguments in favour or against a particular option?***

Generally, the EACB members welcome the EBA analysis on the various options for changing the reference point. We acknowledge that the EBA draft report has been prepared in compliance with Art. 102, para 4 of the BRRD. Yet, we note that according to the mandate provided under the BRRD the EBA should analyse if the total liabilities constitute a more appropriate basis than covered deposits, but is not necessarily bound to advise a change of the current reference point, should such an assessment does not convincingly support the need for a change. In this respect we are of the view that the merits of the currently applicable option for the reference point of the resolution funds should be better outlined among others.

A shift to parameters other than covered deposits must ensure that the financial burdens on the institutions will not be increased. It is crucial to avoid higher (ex-ante) contributions for institutions. In particular, it should be taken into account that normally the change in the target level basis leads to broadening of the scope of contributors and possibly increasing the number of the transactions included in the respective calculations for determining the target level. Shortly after entering into force of the BRRD and without detailed experience with the calculation of contributions, it is hard for market participants to choose a new target level basis. Perhaps, QIS is necessary to demonstrate the effects of a possible change. Additionally, the report fails to provide a profound analysis of the implications on the reporting requirements.

Finally, despite the BRRD does not strictly require an assessment of the basis for the target level for the Single resolution fund (SRF), for completeness of the analysis and a fair examination of the most appropriate option, the EBA should also consider this.

Please see also answer to Q3.



***Question 2: Do you have a preference for one of the following recommended options?: (a) total liabilities (including own funds), (b) total liabilities excluding own funds, (c) total liabilities excluding own funds less covered deposits.***

As already stated, the EACB members are of the view that for the time being the currently applicable reference point for setting the target level for resolution funds should be preserved, unless a legitimate analysis demonstrates a clear need and obvious benefits of a change.

Please see also answer to Q3.

***Question 3: Is there any other option which would be preferable to those in the recommendation? Please provide the rationale supporting your view.***

The EACB members are of the view that there is no need to change the currently applicable rules on setting the target point for the resolution funds, which have proven to be effective for the short period of their application, especially taking into consideration the limited effects from a possible change of the reference point. The building-up phases of the resolution funds have already started. Changing the rules in the course of this phase would add complexity and create confusion in a context where the industry is yearning for stabilization of the rules. We believe that consistency and legal certainty should be ensured which also fits well in the Better regulation agenda.

Moreover, we note that according to the EBA report the current reference point seems to be the most appropriate measured against criteria such as "dynamic and smoothness of contribution", "practical consideration" and "simplicity and transparency". Besides, we remind that the total amount of the target level of resolution funds was one of the key elements of the compromise with regard to the BRRD. It is in no way justified to undermine this compromise by a simple exchange of the relevant parameter of the target level.

Furthermore, the EACB members take into consideration the EBA finding that the overall level of the resolution financing arrangements is expected to remain constant even if any change to the basis would occur. Thus, the consequences and possible benefits arising from a change of reference point would be limited, which can hardly justify a shift from the current practice.

Finally, since in EBA's view the review of the basis for the SRF should be subject to a separate review in late 2018, changing the reference point for the BRRD funds now would create discrepancies between the rules and lead to complexity and inconsistency even for a relatively limited period of time.



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