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Central Bank of Ireland

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YEARS OF PUBLIC SERVICE



Resolution Industry Briefing

16 November 2018

Agenda

1. Welcome
2. Resolution funds levies
3. Resolution planning data reporting
4. General update on resolution matters
5. Other relevant national and EU policy developments
6. Q&A session



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2. Resolution funds levies



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2. Bank and Investment Firm Resolution Fund (BIFR Fund) and Single Resolution Fund (SRF)

OBJECTIVE

To provide practical guidance to institutions to make the levy calculation process as efficient and effective as possible

TOPICS

- Annual levy calculation process – with focus on data collection

Annual levy calculation process

Data reporting form

Data restatements

SRB validation tool

Timeline

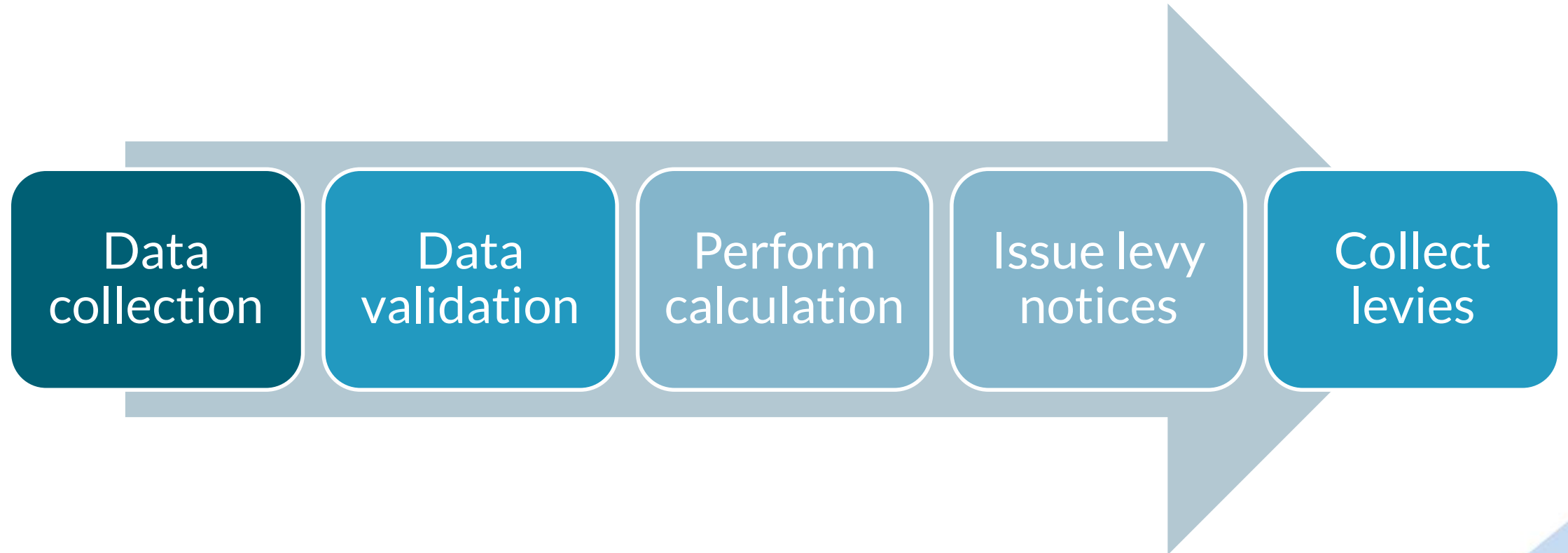
Central Bank website



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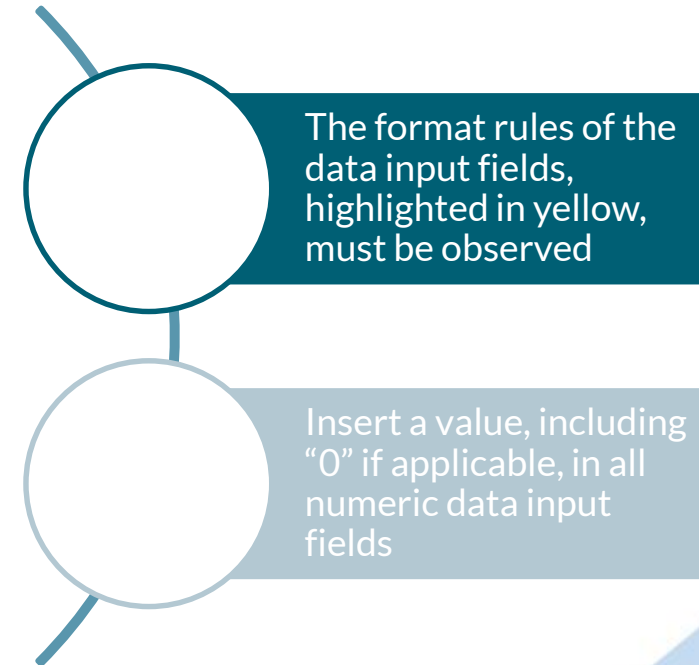
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2. Annual levy calculation process



2. Data collection – data reporting form (DRF)

1. Read me – should be read as sets out the objective and structure of the DRF and general instructions for its completion – enhanced from 2018
2. Definitions & guidance tabs – contains definitions of each data field – enhanced from 2018
3. General information – No change from 2018
4. Basic annual contribution – No change from 2018
5. Deductions – No change from 2018
6. Risk adjustment
 - Key difference between the 2018 and 2019
 - Share of interbank loans and deposits in the EU risk indicator may be applied for the first time in the 2019 contribution period – new fields 4C1 to 4C8 are required to be completed
7. Validation rules – all rules should be OK or will be crossed out automatically if not applicable.



2. Data collection – data restatements

- An institution can restate data for a contribution period previously submitted to the Central Bank (in relation to the BIFR) or the SRB (in relation to the SRF)
- The Central Bank (for BIFR) or the SRB (for SRF) will recalculate the institution's levy for the relevant contribution period
- Any difference between the levy paid and the levy that should have been paid based on the restated data will be settled in the next contribution period by increasing or decreasing the contribution of the next contribution period
- Submit the restated data, by email to the Central Bank, using the data reporting form (DRF) applicable to the contribution period e.g. if restating data for 2017 use the 2017 DRF
- A Director sign-off or auditor's confirmation must accompany the re-submitted DRF



2. Data collection – SRB validation tool

- The SRB have developed an excel workbook containing a macro as a validation tool
- The objectives of the validation tool are to
 - Reduce multiple submissions of the data reporting form (DRF) by SRF institutions
 - Assist SRF institutions to test the DRF against validation rules before uploading the DRF to the Central Bank's On Line Reporting system (ONR)
 - Assist Central Bank to test the DRF against validation rules before transferring the DRF of SRF institutions to the SRB
- The validation tool and a user manual are available on the Central Bank's website



2. Data collection – timeline

- All institutions are requested to
 - indicate the reference date (field 1E1) for the 2019 data reporting form (DRF) by e-mail by 27 November 2018
 - submit the DRF through ONR by 11 January 2019 – No change to ONR submission process. ONR will be available from 1 December 2018.
 - submit the approved annual financial statements in accordance with the reference date through ONR by 11 January 2019
- All institutions are requested to submit an auditor’s confirmation or a sign-off by a member of the Board, on the data submitted in the DRF, by 1 March 2019
- We would encourage and welcome all institutions to submit the DRF and financial statements as early as possible after 1 December 2018.



2. Data validation



2. Perform calculation (1/2)

1. Determine the annual target amount

- For 2019, SRF target = 1.15 % of average quarterly amount of European DGS covered deposits of 2018 divided by 8 years
- For 2019, BIFR target = 1 % of average quarterly amount of Irish DGS covered deposits of 2018 divided by 10 years

2. Identify those institutions to which the small institutions lump sum approach applies

- Small where total liabilities less own funds less covered deposits \leq €300m and total assets $<$ €1bn
- Small institutions pay a levy between €1,000 and €50,000
- For those institutions that do not qualify for the small institutions lump sum approach, the risk adjusted approach is applied



2. Perform calculation – risk adjusted approach (2/2)

3. The risk-adjusted approach is a multi-step process:

- determine the BRRD base of an institution
 - Total liabilities & equity (per financial statements) less own funds less covered deposits
 - Minus deductions, where specific conditions are satisfied e.g. intra-group transactions
 - Plus/minus derivatives adjustment
- derive the basic annual contribution (BAC) of an institution = $\text{BRRD base of an institution} / \text{BRRD base of all institutions}^*$
annual target amount
- compare the relative riskiness of one institution against all other institutions based on a series of indicators and formulae specified in the Commission Delegated Regulation which
- results in the application of a risk adjustment multiplier between 0.8 – 1.5 to the BAC



2. Key dates in the 2019 process

Mid November

- Request to complete and submit the data reporting form sent to all institutions

End February

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

1 May

- Levy Notices issued to all BIFR and SRF institutions
- Technical appendices / additional data

30 June

- NRA is required to transfer levies collected from SRF institutions to the SRB

Mid January

- Deadline for all Institutions to submit data reporting form to the Central Bank using the ONR

Mid April

- Publication of 2019 Levy Regulations

7 June

- Deadline for paying 2019 Levy Contributions



2. Data collection – Central Bank website

- Address - <https://www.centralbank.ie/regulation/how-we-regulate/resolution-framework/resolution-funds>
- Separate page for the SRF and the BIFR

Webpages contain

- Letter from SRB to Institutions 2019
- SRF and BIFR 2019 Data Reporting Form for Contributions (DRF)
- SRF 2019 Sign-off report and Agreed upon procedures
- BIFR 2019 Sign-off report
- SRF 2019 Guidance documents
- SRF 2019 Validation Tool and guidance
- Commission Delegated Regulation (EU) 2015/63
- BRRD
- EU (Bank Recovery and Resolution) Regulations



2. 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 BIFR and the SRF can be sent to resfunds@centralbank.ie



3. Resolution planning data reporting in 2019



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3. Resolution reporting – purpose and key changes from 2018

Purpose

Plays a central role in resolution planning for each institution

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

Crucial that the information provided is accurate and up-to-date

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

The information collated in these templates can also be utilised when completing your institution's recovery plan

Key changes

EBA ITS on resolution reporting and taxonomy 2.8 released

Mandatory XBRL for certain template submissions for the 2019 cycle through the Central Bank's online reporting system (ONR)

2019 will see distinct reporting requirements for LSIs and investment firms in comparison to institutions under the remit of the SRB



3. Resolution reporting – requirements for LSIs & investment firms

- Requirements per EBA ITS on Resolution Reporting pertaining to taxonomy 2.8
- Z Templates ONLY
- Mandatory XBRL submission
- Liability and Own Funds information will be collected on a consolidated, sub-consolidated and entity-level (individual) basis, as applicable for each entity
- All other information will be collected on a consolidated or sub-consolidated basis, as applicable for each entity
- Full information on reporting requirements via EBA website
<http://www.eba.europa.eu/risk-analysis-and-data/reporting-frameworks/reporting-framework-2.8>
- Technical queries regarding the submission should be addressed to CRD4Returns@centralbank.ie
ONR specific issues to OnlineReporting@centralbank.ie
- Firm specific queries on content of the templates should be addressed to your relevant resolution contact, and CC ResolutionReporting@centralbank.ie



3. Resolution reporting – requirements for LSIs & investment firms



3. Resolution reporting – requirements for SRB banks

SRB Resolution Reporting Requirements 2019

SRB LDR Taxonomy 3.0.2

- XBRL Submission
- Deadline 31 March 2019
- Information will be collected on a consolidated, sub-consolidated and entity-level (individual) basis, as applicable for each entity

EBA Taxonomy 2.8

- XBRL submission
- 2019 deadline announced shortly
- Selected number of Z templates will be required to avoid duplication of reporting
- Information will be collected on a consolidated or sub-consolidated basis, as applicable for each entity

SRB FMI and Critical Functions Template

- Excel submission
- 2019 deadline announced shortly
- Information will be collected on a consolidated, sub-consolidated and entity-level (individual) basis, as applicable for each entity



3. Resolution reporting – XBRL

- The Central Bank is currently implementing a technical solution to securely receive, interpret and store XBRL returns for both the EBA taxonomy 2.8 and the SRB taxonomy 3.0.2
- All XBRL submissions will be submitted through the Central Bank’s ONR system. All standard ONR functionality will be implemented and utilised for resolution returns (i.e. four eyes , director level sign-off etc.)
- External testing for the EBA taxonomy 2.8 is scheduled for 16 November. The Central Bank encourages institutions to take part in the external testing phase to ensure the institutions’ capability in this regard meets the necessary requirements
- As the SRB taxonomy was published on 30 September, there are no firm dates scheduled for external testing at this time
- Technical queries regarding the submission should be addressed to OnlineReporting@centralbank.ie



3. Resolution reporting – data submission housekeeping advice

- The quality of data submissions has generally improved but exceptions to this remain
- A move to XBRL reporting should aid institutions in improving data quality (e.g. inherent validation rules flagged at time of submission.) However, there are non-XBRL validation rules which must be complied with, e.g. cross return validations to COREP/FINREP. Thus significant care and additional validation checks are still necessary to ensure correctness.
- Any errors in data can lead to significant delays in the validation of the templates, and this increases the amount of work to be completed by the institution in corrections and re-submissions. For XBRL submissions, resubmissions will be through ONR where each iteration requires sign off at director level
- Where appropriate, supporting documents should be submitted to the resolution planning team. This can reduce the amount of follow-up work required in relation to queries of the submissions



3. Resolution reporting – expectations for 2019

Contact

- Institutions are expected to maintain a single point of contact for resolution matters to ensure an efficient communication process

Quality

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

Governance

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

Sign-off

- Institutions are expected to ensure the appropriate sign-off for information related to resolution. XBRL submissions through ONR will require director level approval



4. General update on resolution matters



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4. SRB – 2019 work programme

Five headline areas of work in 2019:

- Strengthening resolvability for SRB entities and LSIs;
- Fostering a robust resolution framework;
- Preparing and carrying out effective crisis management;
- Operationalising fully the SRF; and
- Establishing a lean and efficient organization.



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4. MREL

- MREL is linked to the firm specific preferred resolution strategy i.e. either liquidation or resolution, and if the latter it is dependent on the resolution tool used
- Most banks in the Banking Union have been issued with binding targets and transitional period
- EU entities now issuing MREL debt

- Irish domestic banks issuing from Holding Companies
- Inclusion of third country clauses in instruments

- Internal MREL will be addressed in 2019

Loss Absorption Amount

$$\bullet \text{LAA} = \text{RWAs} \times (\text{P1} + \text{P2R} + \text{CBR})$$

Recapitalisation Amount

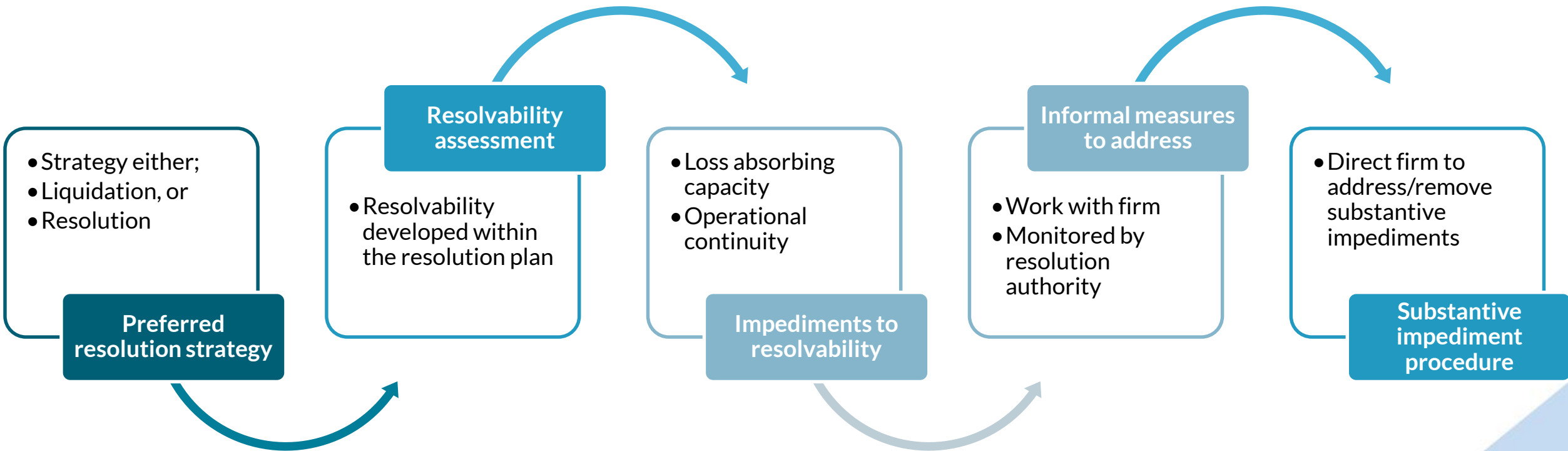
$$\bullet \text{RCA} = \text{RWAs} \times (\text{P1} + \text{P2R})$$

Market Confidence Charge

$$\bullet \text{MCC} = \text{CBR} - 125\text{bps}$$

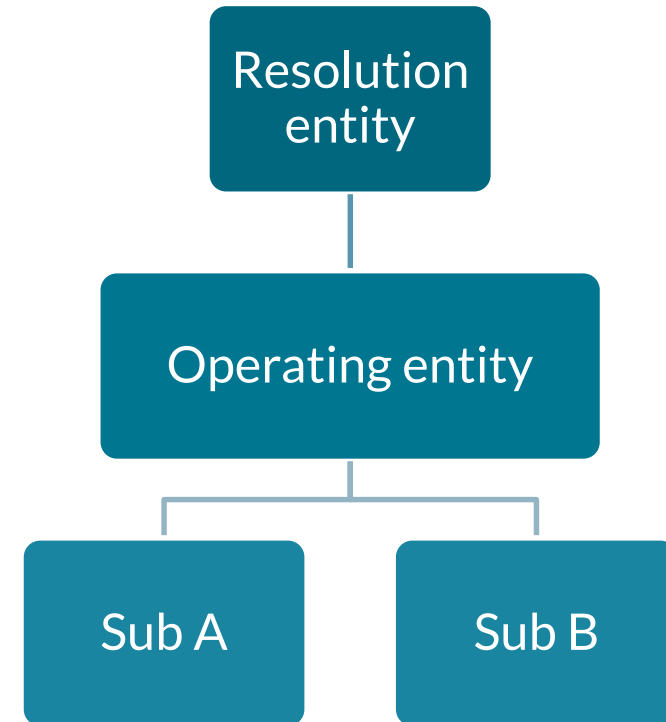


4. Impediments to resolvability – process



4. Impediments to resolvability – typical examples

- Organisational structures / complexity
 - Mitigating legal risk / execution risk
 - Holding company model
- Operational continuity
 - Provision of critical functions
 - Resolution-proof contracts
- Information readiness
 - MIS
 - Valuation capability
- Maintaining access to FMIs and FMI intermediaries



Overall, each entity needs to address and prove its resolvability, which is assessed by the resolution authority



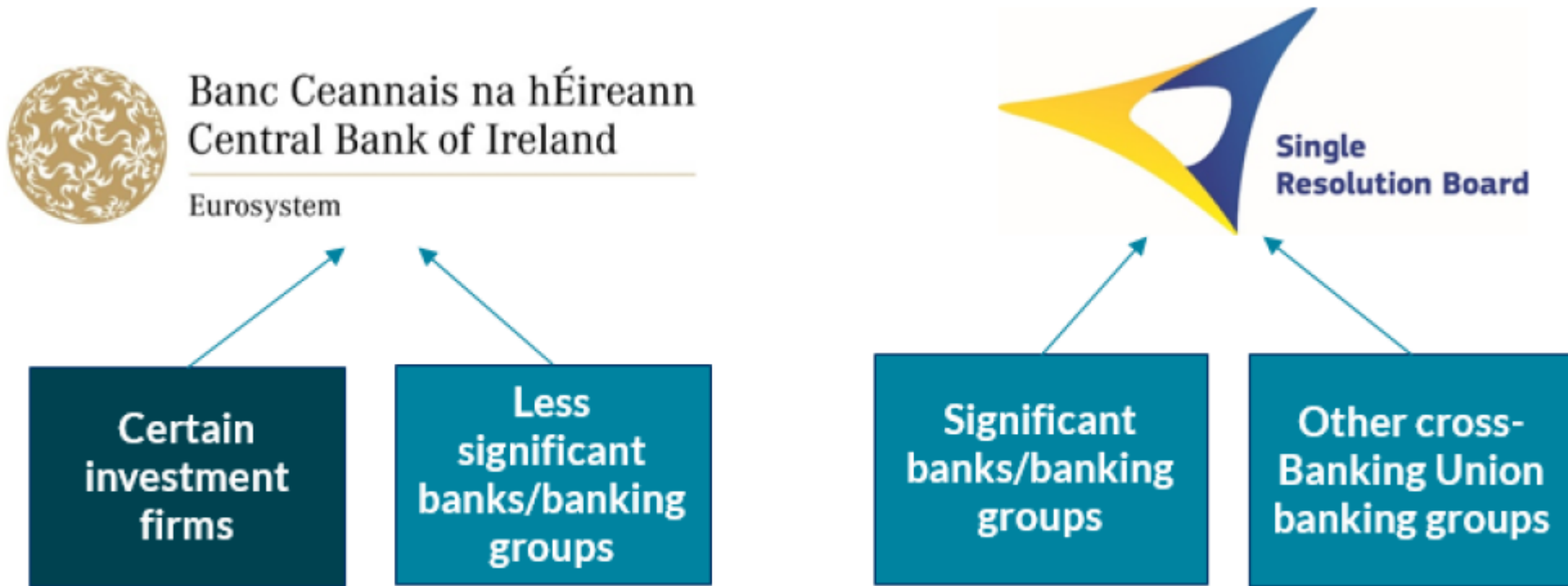
5. Other relevant national and EU policy developments



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5. Division of responsibilities within the SRM



5. BU and non-BU NRAs have already published national policies/guidance



**DANMARKS
NATIONALBANK**

**FINANSSIVALVONTA
FINANSINSPEKTIONEN**
FINANCIAL SUPERVISORY AUTHORITY



DeNederlandscheBank

EUROSYSTEEM

 **RIKSGÄLDEN**
SWEDISH NATIONAL DEBT OFFICE



BANK OF ENGLAND



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5. Upcoming document on Central Bank's approach to resolution

Purpose

A digestible overview of the resolution framework

Indicate the Central Bank's general expectations on resolution planning

Confirm the Central Bank's approach to setting MREL for institutions within its remit

Illustrate how a resolution event may be handled by the Central Bank

Key Points

Would only apply to non-SRB LSIs and investment firms within scope of the BRRD

Will likely be publicly consulted upon
SRB would also have an opportunity to input

A first edition, likely to be updated from time-to-time to reflect, e.g., RRM package

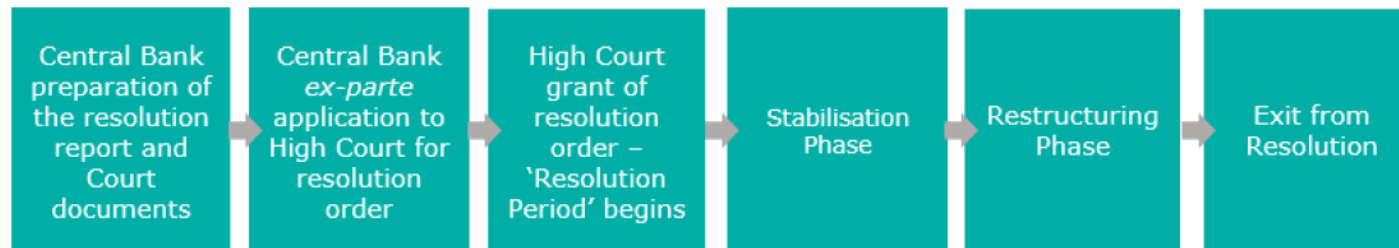
Final document anticipated to issue early Q1 2019



5. Upcoming document on Central Bank's approach to resolution

Key messages

- MREL policy for bail-in strategies, generally: $LAA = P1+P2R+CBR$. $RCA = P1+P2R+CBR - 125 \text{ bps}$
- MREL policy for liquidation strategy, generally: $LAA = P1+P2R+CBR$. $RCA = \text{zero}$.
- Adjustments may be possible in certain circumstances
- Approach to internal MREL would be addressed in a future edition
- Emphasis on structural subordination for institutions with bail-in strategies
- Expectations around, e.g., operational continuity and funding strategy elements of resolution planning
- Highlight the role of other actors, e.g. the High Court, in resolution and liquidation processes



5. EBA Brexit opinion, SRB Brexit position paper, industry protocols



MREL Eligibility

- Include contractual recognition clauses & demonstrate effectiveness
- Issuance under EU27 law alt.
- Assess stock and flag potential shortfall/ineligibility issues

Non-MREL

- Include contractual recognition clauses in new issuances
- ISDA Protocols for derivatives

FMI

- Minimize reliance on group entities outside the EU27 for FMI access
- Consider which alternative FMIs are available if access lost



5. General update on 'Risk Reduction Measures' negotiations

Council of the EU v. European Parliament Pre-Trilogue Positions (Indicative Issues)

MREL and Subordination

- Tiering of banks under Council Approach
- Some scope for institution-specific MREL adjustments in both Council and EP approaches
- Different parameters for setting internal MREL between both approaches

Moratoria

- EP permits use of both a pre resolution moratorium tool and the existing resolution moratorium tools, with a 10 day lapse period
- The Council only permits use of either moratorium tool once

Intermediate Parent Undertakings

- Different thresholds for establishment
- Both permit a second IPU in certain circumstances, i.e. structural separation requirements



5. SRB conference 2018

Banking Union
– what still
needs to be
completed?

Loss absorbing
capacity &
funding in
resolution

Critical
functions &
impediments
to resolution



6. Q&A session



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Recent publications from the SRB

- Documents for the 2019 LDR data collection cycle - <https://srb.europa.eu/en/content/liability-data-report>
- SRB 2019 work programme – https://srb.europa.eu/sites/srbsite/files/wp2019_final.pdf
- SRB Conference 2018 – 10 years after the crisis: are banks now resolvable?
<https://srb.europa.eu/en/content/srb-conference-2018>
- SRB Brexit opinion – <https://srb.europa.eu/en/node/679>

