The Managing Director

To: Dr. Elke König,
Chair, Single Resolution Board

To: Mr. John Berrigan,
Deputy Director General DG FISMA

DCA 160/2020 Brussels, 24 November 2020

Subject: Proposal to increase the share of Irrevocable Payment Commitments in SRF contributions

Dear Dr. König, Dear Mr. Berrigan,

In a context of the health and economic crisis, we are seeing an exceptional increase in covered deposits in Europe linked to a rapid build-up of precautionary savings by households (for example a 7% increase in deposits in Q3 2020 in France). Given the objective of the Single Resolution Board (SRB) to reach at least 1% of the total amount of covered deposits in the euro zone by December 31, 2023 for the constitution of the Single Resolution Fund (SRF), this very sharp increase in covered deposits will automatically lead to a substantial increase in the target amount of the fund. Based on this trend, the SRF might reach more than 75 billion euros by the end of 2023 against 55 billion initially planned. Moreover the increase of covered deposits could incite the SRB to increase the contribution rate for 2021.

The increase in the banking sector's contributions to the SRF for 2021 and the coming years is not only disproportionate to the SRF's initial target size, disconnected from the risk covered by the SRF (covered deposits being insured by the national deposit guarantee funds), but also at this point in time totally incompatible with the leading role that banks are needed to play in supporting economic players through this crisis. It is indeed essential that banks be able to maintain their profitability and continue to leverage their capital, not in order to sterilise unproductive resources within the SRF, but to continue to meet the financing needs that will appear in the effort to revive the economy after the crisis.

To remedy this situation of exceptional growth in deposits, two possibilities could be considered, namely a modification of the regulatory texts which would explicitly cap the amount of the SRF at 55 billion, or, within the framework of the current texts, measures to partially immunise banks' own funds against this significant increase in covered deposits.

Thus, in the short term, in order not to reduce the capital of European banks, whose use is essential to ensure the rebound of the economy, and while respecting the current regulatory framework, we are calling for an increase from 2021 in the share of Irrevocable Payment Commitments (IPC) not deductible from equity, in the SRF contributions raised by the SRB.

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Indeed, by virtue of regulation, banks' contributions to the SRF can be paid either through an immediate cash payment or in the form of IPC collateralised by cash (without risk for the SRF). While European regulations provide that the share of IPC can represent up to 30% of the SRF[1], since 2016 the SRB has only allowed the minimum fraction provided by the texts to be called in the form of IPC, namely 15 %[2]. The unprecedented crisis we are experiencing would fully justify the SRB making use of the flexibility in the level of IPC's which was explicitly designed by the legislator.

Therefore, the banking industry proposes that contributions in the form of IPC for the remaining 3 years of contributions be greater than or equal to 30% of each annual contribution, while still respecting the limit of 30% of the total cumulative amount of annual contributions received since 2016.

Furthermore, it is essential , in order to respect the letter and the spirit of the texts relative to resolution, BRRD and SRMR, and to maintain the utility of these contributions in the form of payment commitments, that they remain non-deductible from CET 1 to allow this measure to be fully effective. This was recently confirmed by a Judgment of the General Court of the European Union on 9 September[3], which ruled that SRF contributions paid in the form of IPC should not be deducted from equity.

Yours sincerely,

Chris De Noose

[1] In Article 103 of BRRD and in the article 70 (3) of the SRMR "The share of irrevocable payment commitments shall not exceed 30 % of the total amount of contributions raised in accordance with this Article." It is further confirmed in article 8 (3) of the Implementing Regulation (EU) 2015/81 "When calculating the annual contributions of each institution, the Board shall ensure that, in any given year, the sum of those irrevocable payment commitments does not exceed 30 % of the total amount of annual contributions raised" (see annex).

[2] This amount being the regulatory minimum provided in the Article 8 (3) of the Implementing Regulation 2015/81.

[3] Case T-146/18