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FBF RESPONSE TO EBA CONSULTATION PAPER ON THE APPROPRIATE TARGET LEVEL BASIS FOR RESOLUTION FINANCING ARRANGEMENTS UNDER BRRD (EBA/CP/2016/08)

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The FBF welcomes the opportunity to comment on the EBA's Consultation on the appropriate target level for resolution financing arrangements under BRRD directive. This draft report aims at making recommendations on the appropriate reference point for setting the target level for resolution financing arrangements, and in particular, whether total liabilities constitute a more appropriate basis than covered deposits.

Despite the EBA draft recommendations, the FBF strongly recommends not to change the reference point for several reasons:

- First, and as demonstrated in the report, the current reference point (covered deposits) is the most suitable operationally (best option regarding "dynamic and smoothness of contribution", "practical consideration" and "simplicity and transparency"). Moreover, the study shows that the correlation between state aid levels and deposits is positive and there is no significant improvement when the total balance sheet is used, as such, this indicator can be seen as valid to measure financial means to be kept in the resolution fund. In addition, as said in the report, having the same reference for DGS and Resolution funds enables authorities to have a predictable and global view on available financial means to address bank crisis. This point should receive a higher score in the scoring method page 23.
- Second, 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.
- Third, regarding the Single Resolution Fund (SRF), a separate review of that basis is provided for under the SRM regulation, but only by 31 December 2018. Having different rules between BRRD and SRM does not seem appropriate.

- In addition, and as stated in the report, the overall level of the resolution financing arrangements is expected to remain constant even if any change to the basis would occur. The consequences and possible benefits arising from changing the reference point would thus be limited.
- The report states also that the measure should be consistent with other regulatory rules and encourage banks to reinforce their resilience against failure and their resolvability (page 13). As such, any measure based on balance sheet (even excluding own funds and covered deposits) will result in imposing a higher burden on certain business modell funded both by deposits and wholesale funding, whereas diversification of activities is a major source of resilience against crisis (because not all activities will incur difficulties at the same time). On top of this, this measure will not take into account the efforts of banks to build TLAC/MREL buffers to increase their resolvability, which is the opposite of what should be aimed at.
- Eventually from an accountancy perspective :
    - there are several differences between local GAAPs in UE, that could lead to major discrepancies on the way to calculate total liabilities ;
    - institutions at solo level will be particularly impacted due to taking account of intragroup exposures.

In a nutshell, changing the reference point would be of very limited value and relevance, but would inevitably lead to confusion. As the building-up phases of the resolution funds have already started, it is now preferable to stabilise the rules instead of adding more complexity.

Lastly, the FBF considers it regrettable that the consultation does not deal with the individual bases and the risk factor used to distribute the target amount among the institutions, which are the key elements of the individual contribution calculation.

<u>Answer to questions related to the consultation</u>

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

The report does not take sufficiently into account the burden that would represent any change in the target level for the resolution authorities and the institutions. This drawback is mentioned by the EBA but not assessed (*"The report does not, however, attempt to measure these costs and their impact on each Member State"*). As the building-up phases of the resolution funds have already started, this point is however an essential criterion that should be taken into account in the analysis.

Moreover, any change in the reference point should be accompanied by an assessment of the impact it would have on the level of contribution for each Member State. The current calculation methodology of the contributions is the result of negotiations between the parties concerned. The impact of any change to this methodology should be duly assessed.

Finally we suggest that:

- In option 1 (page 23), the link between RF and DGS should have a better score at least "++" least) and the correlation should receive a "+" ;
- In option 2, the last criteria on page 25 should reveive "---" because estimating funding needs on the basis of both bailinable and not bailinable liabilities is a nonsense.

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.

The FBF strongly recommends not to change the reference point. Indeed, and as demonstrated in the report, the current reference point (covered deposits) is the most suitable operationally (best option regarding "dynamic and smoothness of contribution", "practical consideration" and "simplicity and transparency"). "Covered deposits" as the reference point also allows to have a common basis for the target levels of the resolution financing arrangement and the DGS funds, which makes it easier to raise the optimal level of those funds.

Moreover, regarding the Single Resolution Fund (SRF), a separate review of that basis is provided for under the SRM regulation, but only by 31 December 2018. Having different rules between BRRD and SRM does not seem appropriate.

From an accountancy perspective there are several differences between local GAAPs in UE, that could lead to major discrepancies on the way to calculate total liabilities and institutions at solo level will be particularly impacted due to taking account of intragroup exposures.

As a consequence, the FBF strongly rejects the three recommended options.

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

The FBF believes that the best option is to keep the current reference point (covered deposits). As stated in the report, the overall level of the resolution financing arrangements is expected to remain constant even if any change to the basis would occur. The consequences and possible benefits arising from changing the reference point would thus be limited. Changing the reference point would be of very limited value and relevance, but would inevitably lead to confusion.