



CMDI review package

Technical presentation by DG FISMA

Agenda

1. Overview and objectives of the package
2. Zoom-in BRRD/SRMR
3. Zoom-in DGSD
4. Zoom-in Daisy Chains
5. Conclusions

CMDI package: content

MAIN PACKAGE

- Bank Recovery and Resolution Directive (Directive 2014/59/EU)
- Single Resolution Mechanism Regulation (Regulation 806/2014)
- Deposit Guarantee Schemes Directive (Directive 2014/49/EU)

FAST-TRACK

- Daisy Chains proposal (follow up on Regulation 2022/2036)

NON-LEGISLATIVE ACTS

- SSM Review Report
- Impact assessment and Executive summary (SWD)
- Communication from the Commission on CMDI and its contribution to completing the Banking Union

CMDI package: narrative

- **Long-standing project** – not related to recent events in the US and Switzerland
- **Past experiences** of managing failed medium-sized and smaller banks outside resolution framework, with public funds - distorted incentives due to risk of bailing-in depositors in resolution (see Evaluation and Chapter 2 of IA)
- Need for a **consistent policy response**, inter-relation between the provisions
- No new proposal on **EDIS**, but CMDI should pave the way for new talks on completing Banking Union.

CMDI package: objectives



**Preserving financial
stability and protecting
taxpayers' money**



**Better protection for
depositors**



**Shielding the real
economy from the impact
of bank failures**

The CMDI review aims to make the framework for handling banks failure more effective, especially for smaller and mid-sized banks

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BRRD/SRMR: objectives of the review

Preserve **financial stability** and **enhance depositor protection**, instil **market discipline** and limit **moral hazard** and recourse to **taxpayers' money**

Promote a **wider use of the harmonised resolution framework**, while ensuring **consistency with national procedures** to avoid arbitrage

Balance between **level playing field** and **proportionate** approach (funding and bank-specific requirements)

Ensure that **industry-funded safety nets** can be used

BRRD/SRMR: content of the review

Early intervention measures

- Increase legal certainty and avoid overlaps between early intervention measures and CRD supervisory powers (triggers and available measures), while maintaining an escalation ladder (Articles 27-29 BRRD)
- Promote and strengthen coordination between competent authorities (CAs) and resolution authorities (RAs) (Article 30a BRRD / Article 13c SRMR)
- Include the EIM provisions in SRMR (Articles 13-13b SRMR)

Reasons for change: address the scarce use of early intervention measures to date, as shown by EBA report on early intervention measures, which analysed the main reasons leading to this outcome.

Remove ambiguity in the conditions for application, while ensuring an appropriate and proportionate escalation ladder between supervisory and early intervention measures.

Provide a directly applicable legal basis for the ECB, instead of relying on differing national transpositions.

Expand the provisions requiring interaction between supervisors and resolution authorities when the situation of a bank starts deteriorating and clarify the powers of the resolution authorities for preparing a potential resolution.

Further references: EBA/REP/2021/12; IA pg 163-164 Annex 5 (Evaluation), section 7.1.1.3; pg 333-335, Annex 8, section 4.

BRRD/SRMR: content of the review

Early warning
of failing or
likely to fail
(FOLF)

- Provide for an enhanced cooperation and information sharing mechanism between CAs and RAs in the run-up to resolution (Article 30a BRRD /13c SRMR)
- Require the CA to alert the RA sufficiently early in case of material risk of FOLF
- RA to define what is a 'reasonable timeframe' for the purposes of looking for alternative solutions able to prevent the failure

Reasons for change: avoid a late FOLF declaration, in order to prevent a steep depletion of capital and liquidity in the bank.

Ensure a cooperative monitoring mechanism (through adequate governance, cooperation and timely exchange of information) between the competent and resolution authorities. Such mechanism should balance the incentives of the competent authorities to keep looking for private measures to avert the failure and those of resolution authorities to ensure a successful and orderly resolution. Empower resolution authorities to decide what is a reasonable timeframe for the implementation of private measures to avert a failure.

Further references: IA pg 168 Annex 5 (Evaluation) section 7.1.2.2; pg 336-338, Annex 8, section 5.

BRRD/SRMR: content of the review

Public interest assessment (PIA)

- Definition of critical functions takes into account impact also at regional level (Article 2(1)(35) BRRD)
- Adjustments to the resolution objectives related to minimising reliance on public money and ensuring depositor protection (Article 31(1) BRRD / Article 14(2) SRMR)
- Procedural changes to the comparison between resolution and insolvency (Article 32(5) BRRD / Article 18(5) SRMR)

Reasons for change: reduce the legal uncertainty and divergences in the application of the public interest assessment within the Banking Union and outside, while maintaining the discretion of resolution authorities in carrying out this test.

Expansion of PIA is targeted: it is still possible for resolution authorities to earmark entities for liquidation (and draft the resolution plans accordingly).

Further references: IA pg 26-27 Chapter 2 (Problem definition) section 2.1.2; pg 48, 66, 76 Chapter 6, section 6.1 (Policy options); pg 184-186 Annex 5 (Evaluation), section 7.1.3.4.

BRRD/SRMR: content of the review

Extraordinary Public Financial Support and precautionary recapitalisation

- **List** of the admissible extraordinary public financial support outside resolution (Art 32c BRRD / Art 18a SRMR)
- Clarifications on **precautionary recapitalisation**:
 - Temporary nature, admissible instruments (CET1 as an exception and subject to a cap of 2% TREA of the institution) and exit strategy. Institution to be FOLF if exit strategy is not met
 - Explicit reference to impaired asset measures
 - Assessment of solvency (Article 2(1)(54a) BRRD / Article 3(1)(5a) SRMR) by the CA
 - Quantification of losses done with the involvement of the CA. possibly on-site inspections

Reasons for change: Strengthen the safeguards ensuring the temporariness of the aid.

Reduce legal and operational uncertainties around the assessment of the solvency of the entity at the time the aid is granted, ultimately ensuring that aid is only granted to viable banks.

Ensure impaired asset measures are in scope and do not trigger FOLF when conditions are met.

Recognise the role of international accounting standards (IFRS 9) in identifying incurred and likely losses, supported by on-site inspections and asset quality reviews where needed.

Further references: IA pg 25-26, Chapter 2 (Problem definition) section 2.1.1; pg 181-184 Annex 5 (Evaluation), section 7.1.3.3.; pg 344 Annex 8, section 9.

BRRD/SRMR: content of the review

Other targeted changes

- **MREL calibration** for banks with transfer strategies (Article 45ca BRRD / Article 12da SRMR)
- **Technical improvements of the MREL framework**, identified during the implementation of BRRD II, particularly on the calculation of the CBR for the purpose of M-MDA when the resolution group differs from the prudential group (Article 16a BRRD / Article 10a SRMR) and on the subordination allowance for HoldCos (Article 45b BRRD / Article 12c SRMR)
- Further specifications on the applicable national procedures leading to **market exit** that should be available in case of **negative PIA** and role of **license withdrawal** (Article 32b BRRD)
- Treatment of **provisions** and **contingent liabilities** under the bail-in tool (Articles 36, 44, 46 and 53 BRRD)
- New **EBA mandates** on monitoring resolvability process, operationalisation of resolution tools and powers and coordination of crisis simulation exercises (Articles 15, 37, 44a and 128a BRRD)
- **Ranking in insolvency** of resolution fund/SRF claims (Article 108 BRRD / Article 76 SRMR)
- **Use of irrevocable payment commitments (IPCs) to contribute to resolution funds:** greater flexibility on their use with higher cap and enhanced role of the RA, clarification of situations where a bank exits the scope of BRRD/SRMR (Article 103 BRRD / Article 70 SRMR).

BRRD/SRMR: content of the review

Adequate funding in resolution

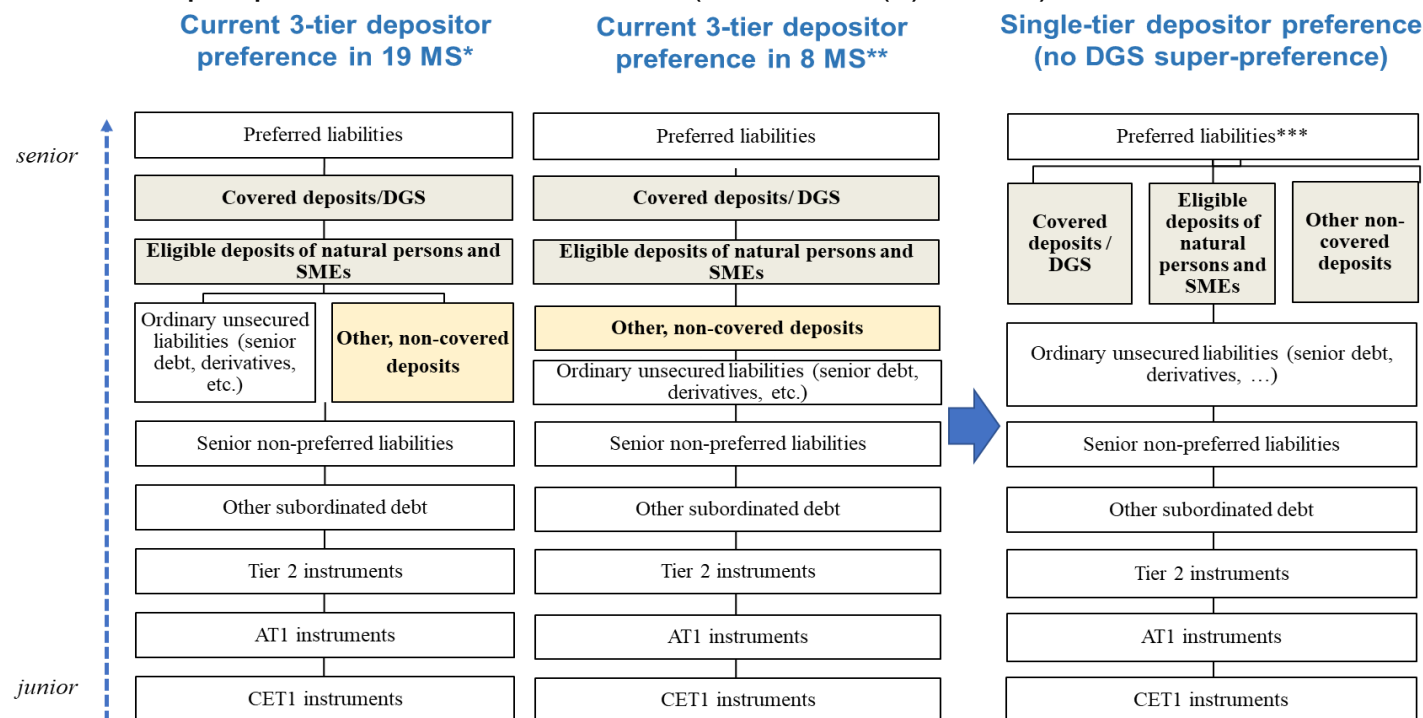
- **Banks' internal loss absorbing resources (MREL)** remain the first line of defence. The requirements to access the resolution fund/SRF are unchanged. Industry-funded safety nets, not taxpayers' money should be the second line of defence.
- The rules to **use DGS in resolution** are adjusted for **transfer strategies leading to market exit** (Article 109 BRRD / Article 79 SRMR):
 - The DGS may be used to cover the **difference** between the assets and the deposits transferred to a recipient and, where necessary, to contribute to the own funds of the recipient (negative price)
 - All **deposits** may be included in the scope of the transfer – however, for non-covered deposits, RA must demonstrate that the reasons for their protection are met (bail-in exclusions)
 - Other liabilities ranking below deposits may be included in the scope of the transfer, but the DGS can only be used to **support the transfer of deposits** (i.e. DGS contribution cannot be attributed to other liabilities)
 - The amount of the DGS contribution is limited by the **least cost test defined in the DGSD**
 - Where non-covered deposits are included in the transfer, the DGS contribution counts towards **compliance with the 8% TLOF requirement** for accessing the RF/SRF ('bridge function'), and is limited to the amount necessary to meet the 8% TLOF, compensating only for losses that would have otherwise been borne by deposits
 - The use of DGS bridge to access the RF/SRF comes with safeguards: case by case decision of the RA (no automatism), only for transfer strategies with market exit, only for non-liquidation entities, only if the protection of non-covered deposits in a transfer is justified
 - The DGS is covered by the '**no creditor worse off**' safeguard

Further references: IA pg 28-32 Chapter 2 (Problem definition), section 2.2; pg 46-81, Chapter 6 (Policy options); pg 166-168 and 169-179 Annex 5 (Evaluation), sections 7.1.2.1, 7.1.2.3; pg 237-313 Annex 7 (Analytical methods).

BRRD/SRMR: content of the review

Depositor preference

- General depositor preference in the ranking of claims in national insolvency laws, with a single-tier ranking that removes the super-preference of DGS claims (Article 108(1) BRRD)



* AT, BE, CZ, DE, DK, EE, ES, FI, FR, IE, LV, LT, LU, MT, NL, PL, RO, SE and SK.

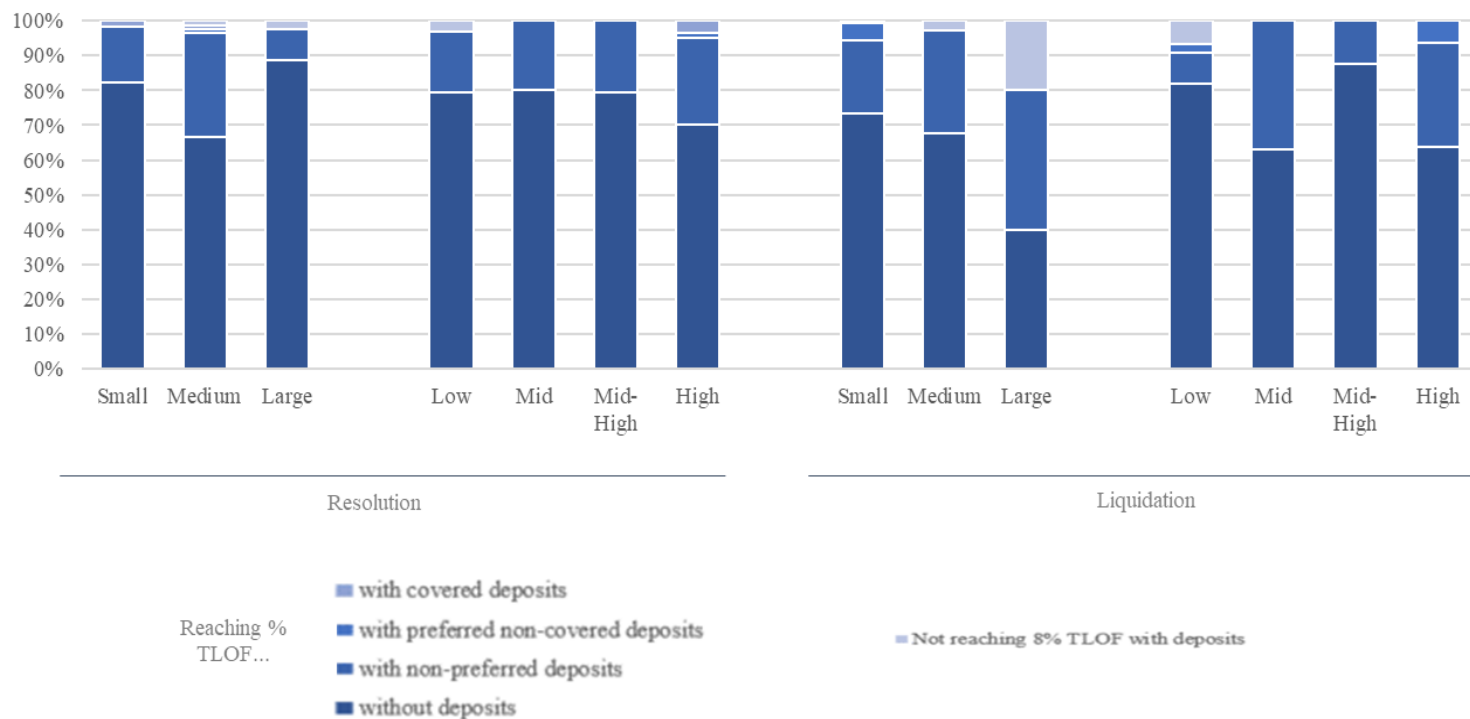
** Other 8 MS have preferred non-covered deposits relative to ordinary unsecured claims (BG, CY, EL, HR, HU, IT, PT and SI).

*** The Single Resolution Fund/ National resolution funds are among preferred liabilities.

Note: this illustration is stylised and simplified. In reality, the hierarchies of claims across Member States are only partially harmonised (in particular the subordinated layers), while the senior layers are largely unharmonised and may include additional sub-classes.

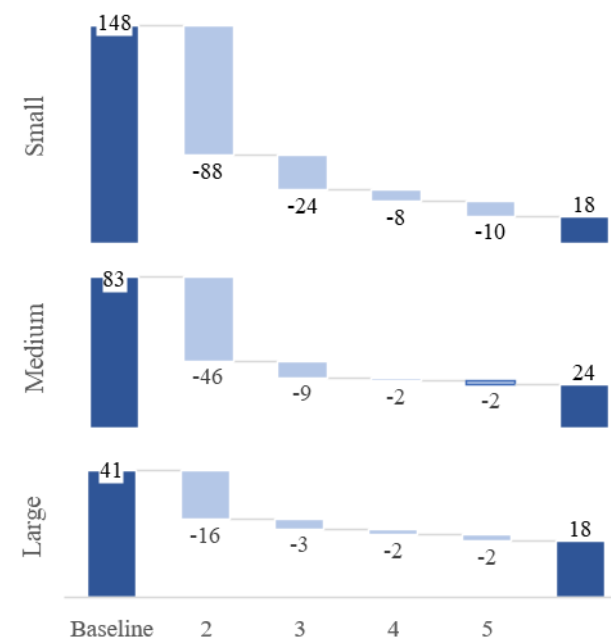
BRRD/SRMR: key findings impact assessment

Reaching 8% TLOF with or without imposing losses on depositors
(current situation, breakdown by size and funding profile)



Source: Figure 21, Annex 7 of Commission impact assessment

Reaching 8% TLOF without imposing losses on depositors
(current situation, impact of CET1 depletion)



Source: Figure 22, Annex 7 of Commission impact assessment

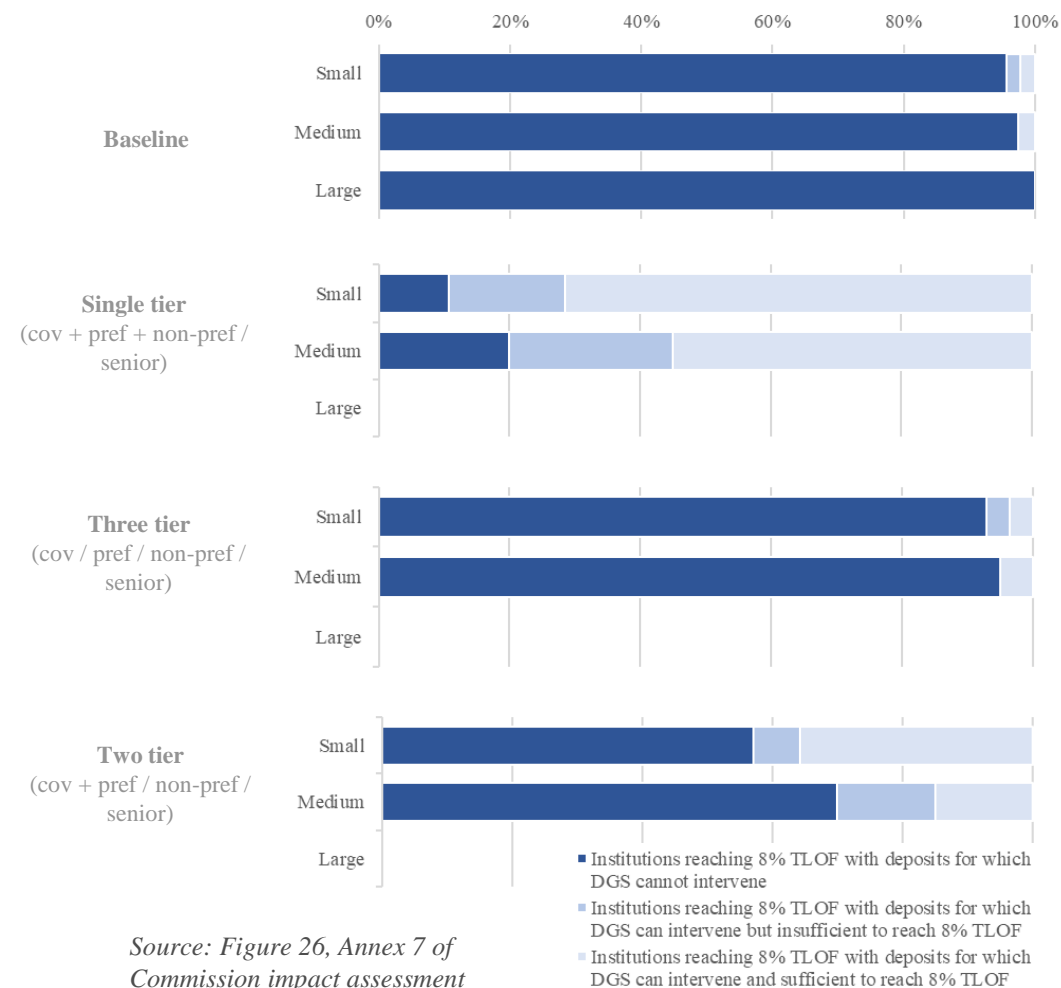
BRRD/SRMR: key findings impact assessment

Using DGS in resolution (current situation)

	N.	Institutions reaching 8% TLOF with deposits, requiring DGS contribution	Of which:	
			Institutions for which DGS can intervene (positive LCT)	Institutions for which DGS interventions under the LCT are sufficient to reach 8% TLOF
		Count	Count	Count
Small	195	46	2	1
Medium	124	39	1	1
Large	49	6	0	0
Total	368	91	3	2

Source: Table 17, Annex 7 of Commission impact assessment

Using DGS in resolution (impact of changes of depositor preference)



Source: Figure 26, Annex 7 of Commission impact assessment

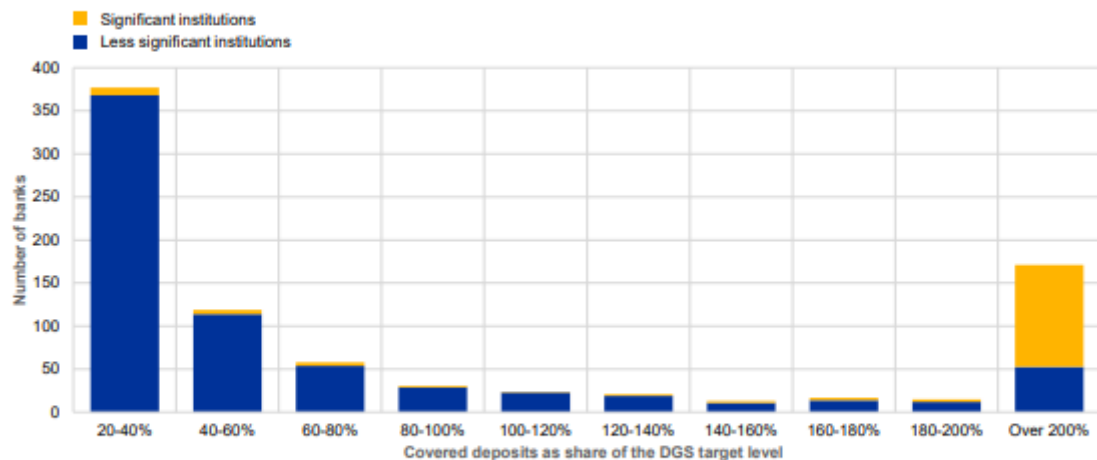
BRRD/SRMR: key findings impact assessment

- **Baseline (3-tier depositor preference with DGS super-preference):**
 - Deposits in 25% of banks (91 out of 368 banks) located in 20 MS would suffer losses up to an aggregate of EUR 18.3 bn (Q4 2019 data) when allocating losses to reach 8% TLOF (or deposits in 23.5% (44 out of 187 banks with resolution strategies as of end 2019 would be affected up to an aggregate of EUR 14.2 bn in 18 MS).
 - Under more severe scenarios of equity depletion, the share of affected banks would increase significantly: assuming a 75% depletion of capital buffers means affected deposits in 71.7% of banks (246 out of 368 banks) for an aggregate EUR 83.1 bn (62.5% of banks (117 out of 187 banks) with resolution strategy as of end 2019 for an aggregate EUR 71.6 bn of affected deposits).
 - The LCT does not allow the DGS fund to intervene in resolution, except in 3 out of 368 banks.
- **Single-tier depositor preference:**
 - Preferring all deposits versus ordinary unsecured claims reduces the number of banks where deposits would be impacted from 91 banks (baseline) to 48 banks (out of 368 banks).
 - Unlocks contribution of DGS funds under LCT in a most significant manner: out of 48 banks with affected deposits, the DGS would be able to intervene under the LCT for 41 of these banks with an amount that would be sufficient to reach 8% TLOF without touching deposits in 31 of cases (76% of cases when considering the entire sample and in 88% of cases for banks with resolution strategy).
 - Tail risks remain: some deposits in a number of banks would not be shielded from losses in case 8% TLOF needs to be met, even under a single-tier depositor preference.

BRRD/SRMR: key findings impact assessment

Chart A

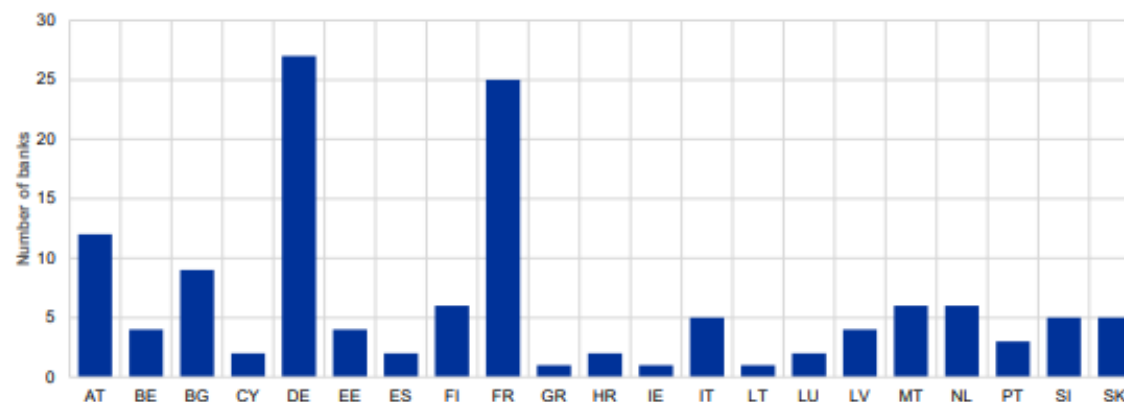
Payouts can deplete significant shares of a DGS's target level



Notes: The chart compares the covered deposits of banks, banking groups and their hosted subsidiaries within the banking union with the target level of the relevant national DGSs in the banking union. Entities within one banking group that are members of the same DGS are treated as one entity. 1,562 banks, banking groups and their hosted subsidiaries that would deplete 0-20% of their respective DGSs' target levels, corresponding to 64% of the banks in the sample, are excluded from the graph for ease of reading.

Chart B

In each Member State in the banking union, at least one less significant institution can deplete its fully filled DGS with a single depositor payout



Note: The chart counts the number of LSIs, LSI groups and LSIs' hosted subsidiaries per Member State whose covered deposits match or exceed the target level of the relevant DGS.

Source: ECB Occasional paper series - Protecting depositors and saving money (October 2022)

Many banks would significantly deplete their DGSs if their individual failures resulted in depositor payouts

- 132 LSIs or their hosted subsidiaries also have covered deposits exceeding the target level of their DGSs
- Each Member State in the Banking Union has at least one LSI that could deplete its DGS.

SRMR specificities

Governance of the Board

- Possibility for the Chair, Vice-Chair and permanent Board members to serve a **second term** in office (Article 56 SRMR)
- Granting of **voting rights to the Vice-Chair** (Articles 43, 53 and 55 SRMR)
- Adjustments to the procedural rules on establishment of the **budget** (Article 61 SRMR)

Task allocation between SRB and NRAs

- No change to the existing allocation between SRB (SIs and cross-border LSIs) and NRAs (remaining entities)
- Clarification on **exercise** of certain powers in relation to SIs and cross-border LSIs: M-MDA restrictions (Article 10a SRMR), prior permission for eligible liabilities (Article 12 SRMR), records of financial contracts (Article 8 SRMR), pre-resolution moratorium (Article 18 SRMR), intervention in insolvency proceedings (Article 31 SRMR)

Exchange of information and disclosure

- Access to **ECB data** collected under its central bank function (Article 30 SRMR)
- Reference to **ESRB, ESAs, NCBs** for cooperation and information exchange (Articles 30 and 34 SRMR)
- Possibility for the Board to **define the form of the data and the applicable procedure** when requesting data directly from institutions and entities (Article 34 SRMR)
- Possibility to **disclose** analyses, assessments and determinations made by the SRB (Article 88)

Procedural changes in case Fund or State aid is used in resolution

- In case the resolution scheme involves the use of **Fund aid or State aid**, the SRB will be able to adopt the scheme also if the assessment of compatibility of such aid with the internal market has not yet been concluded by the Commission (Article 19 SRMR)
- However, the entry into force of the scheme will continue being conditional on such assessment and endorsement of the scheme by the Commission

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DGSD: objectives of the review

Clarify the scope of depositor protection to offer European depositors a solid and harmonised level of protection across MS

Facilitate the least costly interventions of DGS funds when dealing with banks in distress to protect access to deposits

Enhance the functioning of the DGSs by simplifying administrative procedures, while improving their transparency towards depositors and relevant authorities

Increase convergence in the practices of DGSs to level the playing field for European depositors on coverage and repayment arrangements

Further improve cross border cooperation among the DGSs

DGSD: deposit insurance in the EU

- Only a statutory DGS
- Presence of IPS recognised as DGS
- Presence of IPS not recognised as DGS
- Presence of voluntary or contractual scheme

Germany

BVR Institutssicherung GmbH
Sicherungseinrichtung des Deutschen Sparkassen- und Giroverbandes (DSGV)
Einlagensicherungsfonds des Bundesverbandes Deutscher Banken
Einlagensicherungsfonds des Bundesverbandes öffentlicher Banken

Spain

Grupo Caja Rural IPS

Poland

IPS – SGB
SOZ BPS

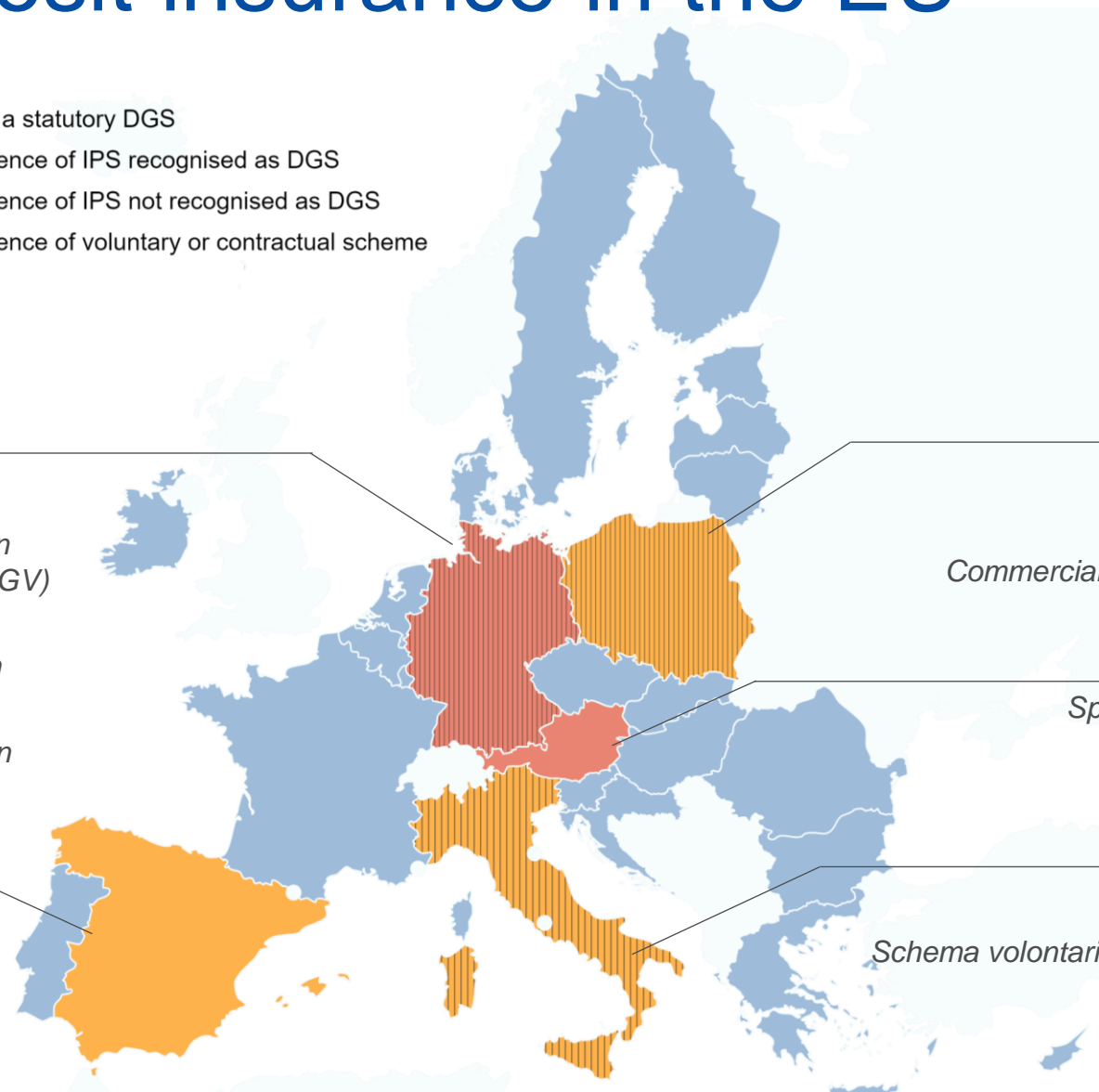
Commercial Bank Protection System

Austria

Sparkassen-Haftungs GmbH
Österreichische Raiffeisen

Italy

Raiffeisen Südtirol IPS
Schema volontario di intervento of the FITD



DGSD: content of the review

Scope of depositor protection

- Protection of public entities, such as schools, municipalities or hospitals
- Further harmonisation of the protection of temporary high balances – minimum level of protection and precise scope of protected deposits as part of real estate transactions
- Clarified and enhanced harmonisation of the protection of client funds' deposits (deposits held by financial institutions on behalf or for the purpose of their clients, due to segregation rules on clients funds: payment institutions, e-money institutions, investment firms).

Reasons for change: levelling up the protection of depositors across the EU while ensuring more legal certainty regarding the scope of the depositor insurance framework.

Public authorities/entities: different definition of public authorities/entities across MS; in some it includes hospitals, schools and municipal services, who are not sophisticated investors and should be covered, according to the EBA opinion

Clients' funds: address raising concerns about contagion effects and financial stability as those financial institutions would not be able to return safeguarded money to their clients if the bank fails; consistency with other EU rules (MIFID, payments services directive, e-money directive) aimed at protecting the funds of the clients

→ Impact: Immaterial in terms of amount of covered deposits according to EBA opinion (≈1%)

Further references: EBA-Op-2019-10; IA page 223, Annex 6, sections 3.2.4, 3.2.5, 3.2.6

DGSD: content of the review

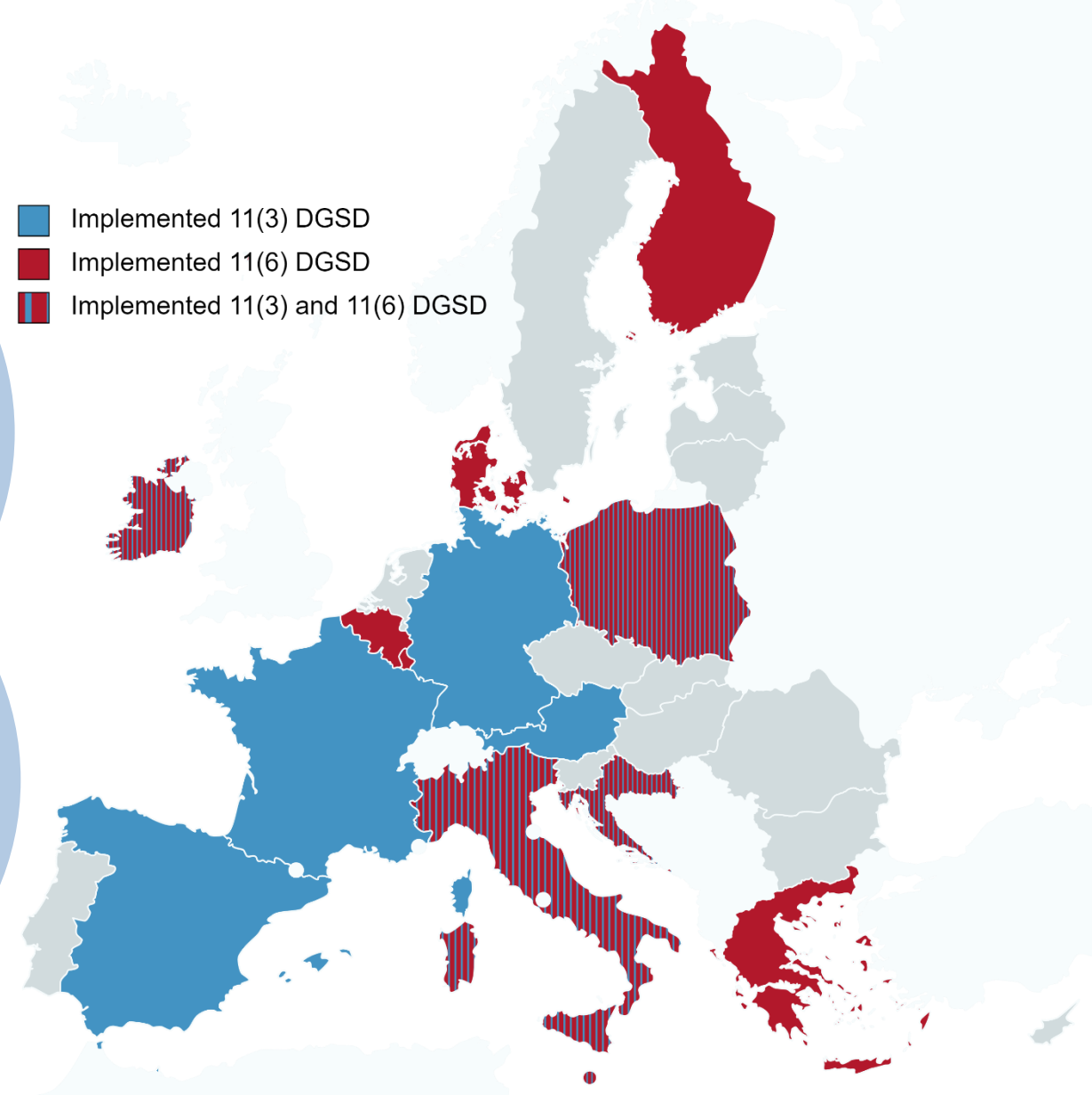
Uses of DGS funds

- Preserve the possibility for DGSs and IPS/DGS to use DGS funds to finance preventive measures.
- Harmonised rules and safeguards on timing and extent of DGS funds use to finance **preventive measures** (e.g. LCT, submission of a note to CA with measures the bank commits to undertake)
- Keep the possibility for DGS to finance **alternative measures** in the context of winding-up procedures, under certain conditions (LCT, marketing arrangements for the assets, rights and liabilities to be transferred)
- Facilitate the use of **DGS funds in resolution** - addressed in Article 109 BRRD/79 SRMR.

Reasons for change: further harmonisation of the existing safeguards and the LCT requirement in line with the international standards (Basel/International Association of Deposit Insurers). Ensuring level playing field between private/public DGSs and IPS/DGS. Clarifying the responsibilities and decision-making process by the respective institutions and bodies.

Further references: EBA/OP/2020/02; IA page 228-234

DGSD: current implementation of preventive & alternative measures



- Implemented 11(3) DGSD
- Implemented 11(6) DGSD
- Implemented 11(3) and 11(6) DGSD

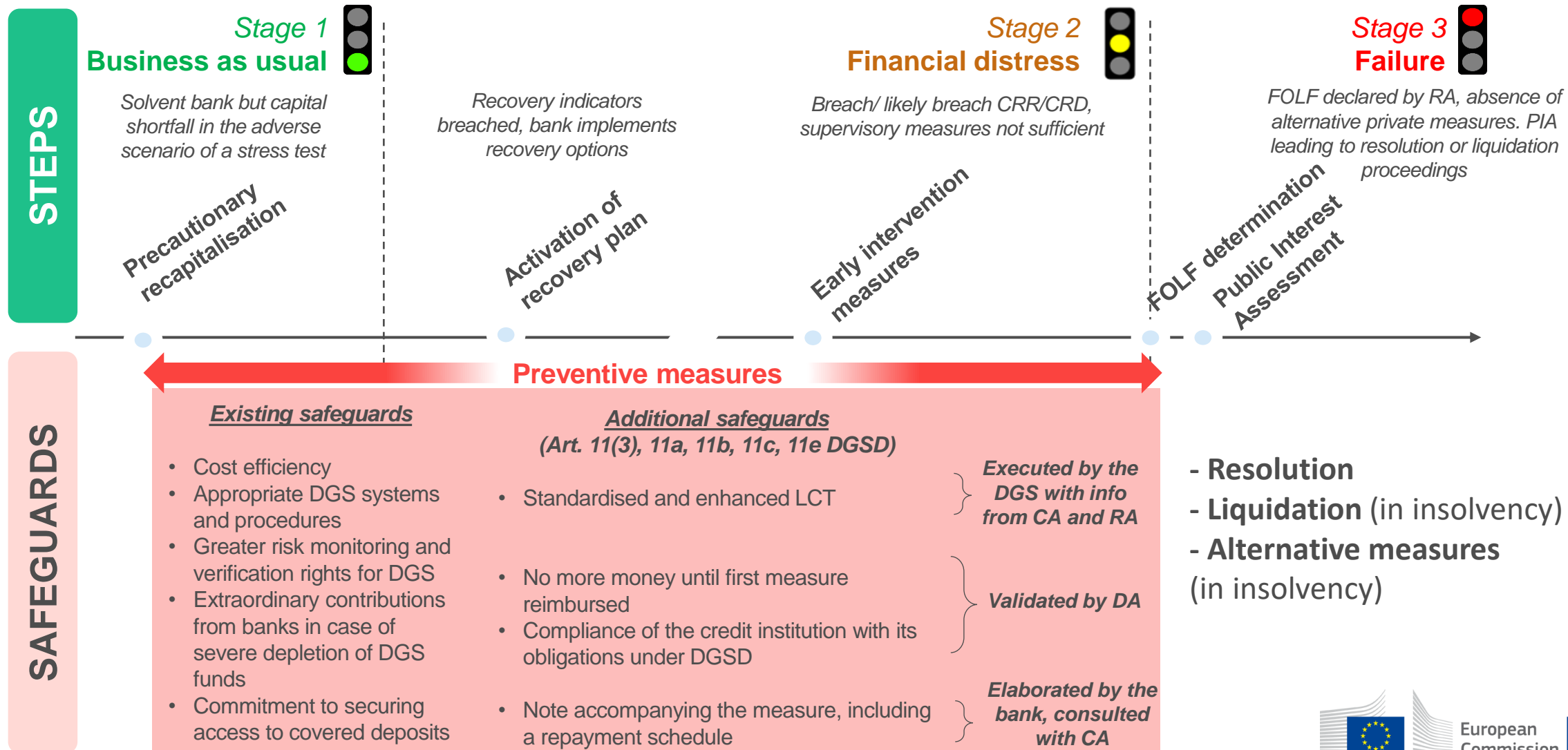
*Implemented 11(3) DGSD
on preventive measures*
5 Member States

*Implemented 11(3) and
11(6) DGSD*
5 Member States

*Implemented 11(6) DGSD
on alternative measures in
insolvency*
4 Member States

*Did not implement 11(3)
nor 11(6) DGSD*
13 Member States

DGSD: overview preventive measures



DGSD: content of the review

Least Cost Test (art. 11e DGSD)

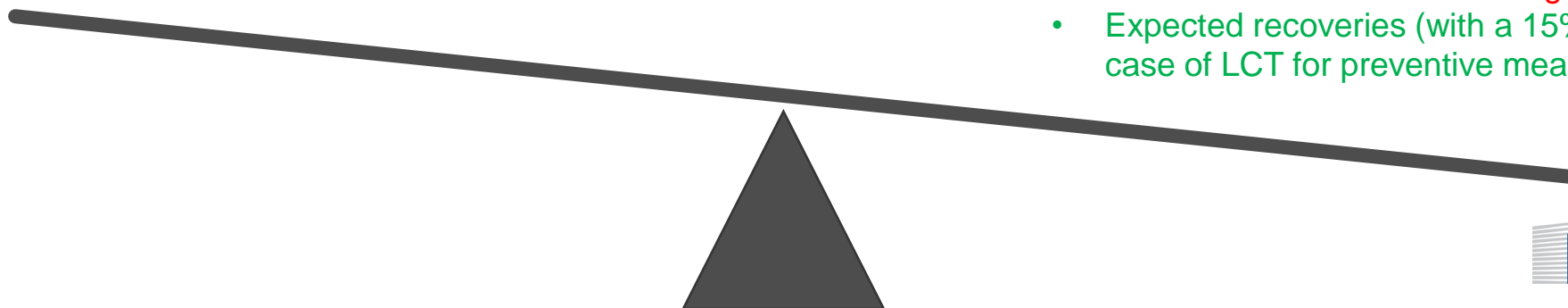
- Harmonised least cost test for all DGS interventions outside payout
- Net approach, time value of money and type of indirect costs in level 1 text (articles 11e(1) and 11e(2))
- EBA mandate for LCT detailed methodology (article. 11e(5))

Net cost of the intervention

- Gross disbursement linked to the intervention
- Operational expenses
- Expected recoveries after the intervention (e.g. repayment of a loan)
- Expected earnings linked to the intervention (interest)

Net cost of a payout

- Gross cost of reimbursing depositors
- Operational expenses
- Targeted indirect costs
 - ⇒ Cost for replenishment of DGS
 - ⇒ Additional cost of funding for DGS
- Expected recoveries (with a 15% haircut in case of LCT for preventive measures)



DGSD: content of the review

DGS funding

- Criteria on types of financial assets eligible to target level requirements
- Clarification of rule to rebuild target level in 6 years after depletion to less than two thirds of the target level
- Clarification of sequencing of the use of funds
- Investment strategy for DGS funds

Repayment process

- Harmonisation of the longer repayment period for most complex disbursements
- Burden of proof on depositors' side for beneficiary accounts and THB
- Withholding of the payout to a depositor that gives rise to AML/TF concerns
- Repayment above EUR 10.000 through credit transfer
- Some changes related to dormant accounts (cost threshold for active steps towards repayment, link to active account)
- Maximum period to claim deposits for depositors

Information

- Format for information sheet to depositors standardised by EBA (deletion of annex I – new ITS)
- In case of merging credit institutions, informs depositors that are affected on the possibility to transfer deposits up to the amount of lost coverage.
- Possibility for DGS to request information on depositors under Freedom of Services/Establishment

DGSD: content of the review

International Cooperation

- Possibility for 'home' DGS to pay-out deposits in 'host' member states directly
- Host DGS point of contact under freedom of services
- Clarification on applicable amount to transfer in case of change of DGS affiliation
- Compulsory affiliation for third-country branches to DGS in EU Member State

Scenario	DGS performing the payout	Proposed change
Resident depositors Depositors residing in MS A with deposits in credit institution in MS A	Home DGS	
Depositors in branches Depositors residing in MS B with deposits in a branch in MS B of a credit institution established in MS A (freedom of establishment)	Host DGS on behalf of home DGS	Possible pay-out by home DGS
Non-resident depositors Residing in MS B with deposits in credit institution in MS A	Home DGS	
Passported services depositors Residing in MS B with deposits in a credit institution in MS A via freedom of services	Home DGS	Host DGS possible to act as contact point during pay-out

DGSD: additional references

- **EBA's opinions**
 - DGS payout (30 October 2019)
 - Eligibility of deposits, coverage level and cooperation between DGS (8 August 2019)
 - Funding and uses of DGS funds (23 January 2020)
 - Treatment of client funds (October 2021) and
 - Interplay between the Anti-money laundering Directive and DGSD (11 December 2021).
- **Centre for European Policy Studies report**
 - 'Options and national discretions under the DGSD' (November 2019)

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Daisy Chains Proposal: objectives of the review

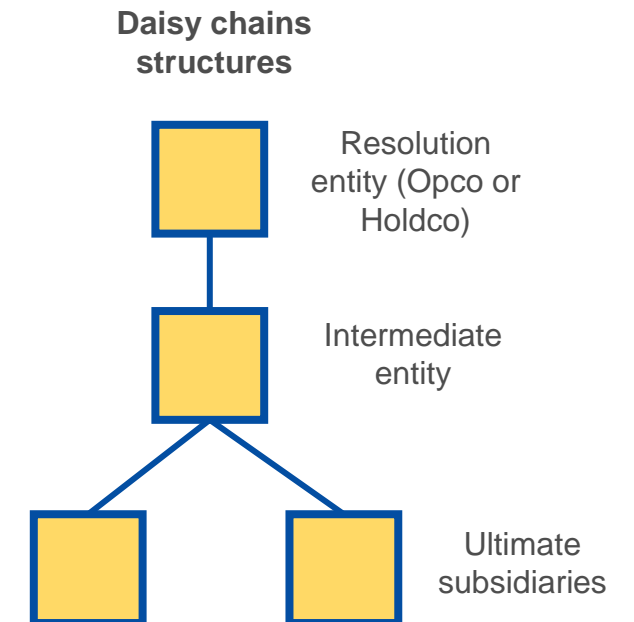
Follow up on a **review clause** in Regulation (EU) 2022/2036 that introduced deduction rules to foster the transfer of losses within banking groups

Assess possible **level playing field issues** among banking group structures, in particular for banks operating under a holding company

Separate proposal to ensure a **fast-track** negotiation before 2024 (1/1/2024 is the date of application of daisy chains rules)

Daisy Chains: review clause

- Analyse the impact of a full holdings-based deduction approach on various group structures, with an emphasis on ‘holdco structures’
- Three explicit areas of investigation:
 - The possibility to allow non-resolution entities (the intermediate entities) to comply with internal MREL on a consolidated basis
 - The treatment of entities whose resolution plan provides that they are to be wound up under normal insolvency proceedings (‘liquidation entities’), when they are ultimate subsidiaries in a daisy chain
 - The appropriateness of limiting the amount of deduction to the minimum requirement (instead of full holdings of eligible instruments) under a requirement-based deduction approach



Daisy Chains: consolidated internal MREL

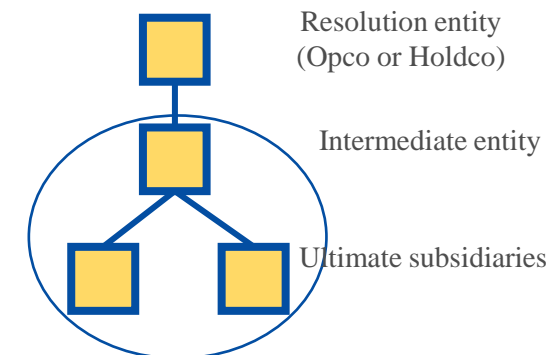
Internal MREL on a consolidated basis

- **New rule:** Allow resolution authorities to set internal MREL on a consolidated basis for subsidiaries which are intermediate entities in daisy chains
- **Conditions:** (1) subsidiary held directly by the resolution entity which is a holding company in the same Member State and there are no other sister subsidiaries in the scope of BRRD held directly by the resolution entity; *OR* the subsidiary is already subject to prudential requirements on a consolidated basis; (2) resolvability considerations.
- **Scope:** Intermediate entities part of *holding companies and operating companies* structures.

Impacts

- Exemption from the daisy chain deduction regime (Articles 45f BRRD and 12g SRMR)
- Consolidation relevant in certain cases (e.g. centralisation of exposures, prudential requirement on consolidated basis)
- Increase of exposure amounts due to consolidation
- Impact on solvency depends on bank-specific features: general decrease of surpluses (quite material in opcos structures), lower impact in holdco structures compared to holdings-based approach

Daisy chains structure



Change of intermediate entities' exposure amounts compared to baseline

Metric	Group structure	Sub-consolidation
TREA	HoldCo	7,5%
	OpCo	62,9%
	Total	23,4%
TEM	HoldCo	42,3%
	OpCo	74,0%
	Total	52,1%

Daisy Chains: treatment of liquidation entities

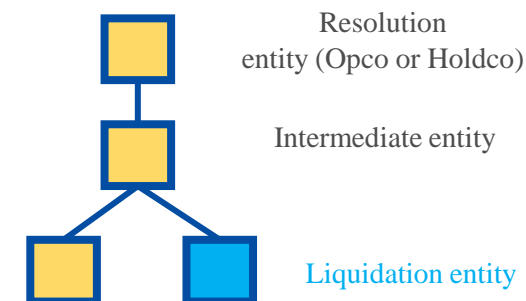
Treatment of liquidation entities

- **New rule:** Removal of the general obligation to adopt an MREL decision for liquidation entities (Articles 45c BRRD and 12d SRMR) if MREL would not have exceeded own funds
- Clarification of reporting obligations (Article 45i BRRD)
- Indirect effects on prior permission regime and daisy chain deduction regime.

Impacts

- Proportionate approach, as there is no need to upstream losses and downstream capital resources for liquidation entities
- Higher amounts of exposures to liquidation entities in Holdco structures
- Removing exposures to liquidation entities leads to a level of deduction which is halfway between the outcome of the holdings-based and the requirement-based approaches
- Positive impact on banks in shortfall, less material for banks already in surpluses. No bias towards a specific group structure.

Daisy chains structure



Metric	Group structure	Exposures to liquidation entities in % (vs baseline)
TREA	HoldCo	2,6%
	OpCo	0,3%
	Total	2,0%
TEM	HoldCo	0,3%
	OpCo	0,1%
	Total	0,3%

Deductions (% TREA)		Full holdings-based deduction without liquidation entities		
Category	Metric	Holdco	OpCo	Total
Total	<i>Average</i>	13,2%	6,9%	11,2%
	<i># of banks</i>	5	5	10
of which: deducted from T2	<i>Average</i>	1,8%	1,7%	1,7%
	<i># of banks</i>	1	4	5
of which: deducted from AT1	<i>Average</i>		2,3%	2,3%
	<i># of banks</i>		4	4
of which: deducted from CET1	<i>Average</i>	0,3%	5,2%	5,0%
	<i># of banks</i>	1	3	4

Daisy Chains: requirement-based approach

- **Prudential soundness** of a holdings-based deduction approach unchanged.
 - Introduction of a cap on the deduction may:
 - prevent losses along the chain of ownership to be adequately passed on to the resolution entity, thereby putting the resolution strategy at risk;
 - hamper the comparability between direct and indirect issuances, potentially creating level playing field issues, contrary to the goal of ensuring an equivalent outcome pursued by the co-legislators.
- No action in the CMDI package.

Agenda

1. Overview and objectives of the package
2. Zoom-in BRRD/SRMR
3. Zoom-in DGSD
4. Zoom-in Daisy Chains
5. Conclusions

Conclusions (1)

- **Harmonised resolution tools** should be **credibly used also to handle the failures of medium-sized/smaller banks**, when better achieving the objectives of the framework (financial stability, depositor protection, reduce recourse to taxpayer money) than insolvency
- Resolution is only possible where **funding** (MREL and industry funded safety-nets) **is available and accessible** for these types of banks
- Resolution action should be made possible **without imposing losses on depositors, where this impacts financial stability and market confidence**
- **Industry funded safety nets and not taxpayers' money should be the second line of defence** (SRF approx. EUR 80 bn possibly complemented by an ESM backstop of EUR 68 bn and national DGS funds approx. EUR 65 bn)

Conclusions (2)

- The choice of crisis tools (harmonised resolution or national options) to handle a bank failure should be made based on the **merits of each tool in best meeting the objectives → incentive-compatible access to funding in the continuum of tools and level playing field**
- **Strong inter-connection between CMDI and State Aid reforms**

Conclusions (3)

more on process...

- Encourage co-legislators to **consider the core elements of the package together as a whole** because removing/changing elements in one part may risk significantly altering the functioning of other parts (e.g. scope of resolution and availability of funding, DGS contributions outside payout and creditor hierarchy changes, shield taxpayers' money and use of industry funded safety nets)
- Encourage a **swift negotiation** of the package in co-legislation, in particular of the Daisy Chains proposal (application deadline of deduction mechanism for banks on 1 January 2024).

Thank you!

More information:

- [Press release - Banking Union: Commission proposes reform of bank CMDI framework](#)
- [Questions and answers – Reform of bank CMDI framework](#)
- [Factsheet](#)
- [Communication on the review of CMDI contributing to completing the Banking Union](#)
- [Legal texts: BRRD, SRMR, DGSD, Daisy Chains proposal](#)
- [Impact assessment CMDI review](#)



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