Council of the European Union

Brussels, 22 October 2014
(OR. en)

14545/14
ADD 3

EF 269
ECOFIN 948
DELACT 204

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	22 October 2014
To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2014) 327 final PART 1/3
Subject:	COMMISSION STAFF WORKING DOCUMENT ESTIMATES OF THE APPLICATION OF THE PROPOSED METHODOLOGY FOR THE CALCULATION OF CONTRIBUTIONS TO RESOLUTION FINANCING ARRANGEMENTS Accompanying the document Commission Delegated Regulation supplementing Directive 2014/59/EU of the European Parliament and the Council of 15 May 2014 with regard to ex ante contributions to resolution financing arrangements

Delegations will find attached document SWD(2014) 327 final PART 1/3.

Encl.: SWD(2014) 327 final PART 1/3

EUROPEAN
COMMISSION

Strasbourg, 21.10.2014
SWD(2014) 327 final

PART 1/3

COMMISSION STAFF WORKING DOCUMENT

ESTIMATES OF THE APPLICATION OF THE PROPOSED METHODOLOGY FOR THE CALCULATION OF CONTRIBUTIONS TO RESOLUTION FINANCING ARRANGEMENTS

Accompanying the document

Commission Delegated Regulation

supplementing Directive 2014/59/EU of the European Parliament and the Council of 15 May 2014 with regard to ex ante contributions to resolution financing arrangements

{C(2014) 7674 final}

Contents

EXECUTIVE SUMMARY

The delegated act establishes how the individual contributions of each bank to resolution funds will be calculated. It puts into practice a key part of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for recovery and resolution of credit institutions and investment firms (BRRD), namely to ensure that the failure of banks can be handled in an orderly way with the help of privately-funded resolution funds instead of taxpayer money.

The delegated act, like the BRRD, applies to all Member States. It is not only for the Banking Union. It has to be adopted in 2014 because banks will start contributing to each national resolution fund in 2015. For those Member States participating in the Banking Union, these funds will be progressively merged as of 2016.

The delegated act has been subject to thorough consultation with external stakeholders, the European Parliament and Member States. The Commission has also worked closely with the Joint Research Centre of the Commission, the European Central Bank (ECB) and the European Banking Authority (EBA) in the preparation of the delegated act. Based on comprehensive data, the Commission has carried out extensive simulations in order to determine the impact of the different alternatives for calculating banks' contributions. Together, this thorough preparatory work has helped arrive at a fair and balanced methodology.

The delegated act builds on the principles established in the BRRD. Each bank has to contribute on the basis of its size. The contribution of each bank has to be adjusted to its risk-profile. Banks of similar size and risk-profile in different Member have to be treated the same.

All banks have to pay because, directly and indirectly, they can all benefit from the fund. By virtue of their size alone, bigger banks will pay considerably more. Further, riskier banks pay more than others of similar size. Based on a set of common risk-factors, the contributions of the most risky institutions can be a priori increased by up to 50% (upwards change) while those of the least risky ones can be decreased by 20% (downward change). This change is then adjusted to reach the contribution target without changing the relationship between the most and least risky institution. As a result, the most risky thus contributes nearly twice the amount of the least risky even if they are of comparable size.

As a result, bigger banks, which are normally also riskier, will pay more than small banks in both absolute and relative terms. For example, the largest banking groups in the Euro Area, subject to direct ECB-supervision as of November 2014 and representing 85% of total banking assets in the Euro Area, will pay roughly 90% of the total contributions into the Single Resolution Fund among Banking Union Member States. The average contribution of the largest among these banks, i.e. those with more than EUR 500bn in liabilities subject to the calculation-base, is estimated to be around EUR 300mn.

Conversely, the delegated act takes fully into account the principle of proportionality and avoids imposing excessive costs on small banks. Very small banks with less than EUR 1bn in total assets and EUR 300mn in liabilities subject to the calculation-base will pay a lump sum

in accordance with six buckets within these thresholds. This means that more than 50% of EU banks will benefit from a considerable reduction (70% on average) compared to a situation where the methodology for calculating the annual contributions were applied to them. Depending on their liabilities subject to the calculation-base, these very small banks will pay between EUR 1,000 and 50,000, making up for an estimated 0.3% of total contributions.

Like the BRRD, the delegated act is neutral with regard to the way banking groups or comparable organisations (namely "Institutional Protection Schemes") structure their business. More integrated groups are treated in a similar manner. Intragroup (and intra-IPS) funding is therefore excluded from the calculation of the basis for the contributions.

Finally, the delegated act pays special attention to maintaining the level playing field in the internal market. This also informs the treatment of derivatives, which can be a significant part of some banks' balance sheets. Since accounting rules are not exactly the same for all banks in all Member States, derivatives are factored in based on prudential rules which have recently been harmonised in the EU.

1. INTRODUCTION

This Commission staff working document outlines key issues, alternatives and provides a rationale for the choices taken by the Commission for its **Commission delegated act** under Article 103(7 and (8) of the BRRD.

The **Commission delegated act** under the **BRRD** has to specify the application of the methodology for the calculation of individual contributions and the modalities for allocating the risk factors to institutions. A number of issues directly related to the Banking Union will be specified in the Commission proposal for a **Council implementing act**.

For the purpose of this text, the term institution, banking institution, bank are used to describe entities falling under the scope of these legal acts, except otherwise stated.

The BRRD sets out new rules for all 28 Member States for the resolution of ailing banks and large investment firms (single rulebook on resolution). The BRRD provides for the first time binding rules on the bail-in of shareholders and creditors so that shareholders and creditors are the first to pay for banks in difficulty and to avoid that the taxpayers bear such costs. Any additional funds exceptionally required to provide funding during the resolution process - after the bail-in would be applied - will come from the banking sector itself. This will take the shape of mandatory set-up of resolution funds in all Member States. All institutions and other entities subject to the BRRD are required to contribute to resolution funds.

Within the Banking Union, the resolution funds will be pooled into one Single Resolution Fund filled with contributions from all institutions and other entities established in this area. The Single Resolution Fund is part of the **Single Resolution Mechanism** Regulation (**SRM**), which implements the BRRD in the Eurozone and any other Member State that would decide to join the Banking Union. The SRM will complement the **Single Supervisory Mechanism** (**SSM**) and will ensure that – notwithstanding stronger supervision – if a banking institution faces serious difficulties, its resolution can be managed efficiently with minimal costs to taxpayers and the real economy. National resolution funds set up under the BRRD will be replaced progressively by the Single Resolution Fund as of 2016.

The target level of each Member State's resolution fund is at least 1 % of the amount of covered deposits of all the institutions authorised in its territory to be reached over a ten year period as of 1 January 2015. In the Banking Union, the target level of the Single Resolution Fund will be at least 1% of the covered deposits of all credit institutions in the participating Member States to be reached over an eight year period as of 1 January 2016 (or as of the date when the conditions for the transfer of contributions to the Single Fund have been met)[1].

Individual contributions are composed of a **flat part** and a **risk adjustment**. The flat part reflects the pro rata size of the credit institution's liabilities minus own funds and minus covered deposits. The flat part has to be risk adjusted in proportion to the risk profile of institutions. The precise amount that individual institutions would have to pay each year will thus depend on their size and risk profile.

The **risk adjustment** part of individual contributions will be based on the criteria set out in the BRRD. Article 103(7) of the BRRD empowers the Commission to adopt a delegated act specifying the notion of adjusting contributions in proportion to the risk profile of institutions. Article 70(7) of the SRM Regulation empowers the Commission to adopt a proposal for a Council implementing act on the methodology for the calculation of individual contributions within the Banking Union.

2. WORKING PROCEDURE

2.1. Consultations

The Commission Services had a number of meetings with the **Expert Group on Banking, Payments and Insurance** (**Expert Group**), composed of Member State experts, on 15 May, 13 June, 30 June, 9 July, 16 July, 23 July, 30 July, 10 September, 25 September, 2 October and 8 October 2014. The Commission Services also met with the respective committee of the **European Parliament** on 22 July, 8 September, 23 September and 2 October 2014. In addition, the Commission Services held numerous bilateral or multilateral meetings with experts from Member States, Members of the European Parliament, and industry representatives.

Furthermore, the Commission Services launched an **online consultation**; open to any interested citizen or stakeholder, on the main questions to be addressed in the delegated act on 20 June 2014, asking for feedback as regards key elements for the determination of contributions of institutions to the resolution financing arrangements.[2]

[1] The provisions of the SRMR related to the Single Resolution Fund apply as of 1 January 2016 if the agreement on the transfer and mutualisation of the contributions to the Single Resolution Fund is applicable at that time following its ratification/approval of the Member States participating in the SSM/SRM, or otherwise, as of the moment when the Agreement becomes applicable after its ratification/approval.

[2] For the online survey as well as a summary of the responses, see: http://ec.europa.eu/internal_market/consultations/2014/credit-institutions-contributions/index_en.htm

2.2. Data collection and final database

In the interest of having a sufficient empirical base on which to support its assessment, the Commission Services worked together with the Commission **Joint Research Centre** (**JRC**) for constructing a database with relevant institution data required.

A first preliminary analysis of the distribution of contributions to resolution financing arrangements had been conducted by the Commission services on the basis of commercial, publicly available data (the so-called **Bankscope database**). In particular, the coverage of total assets in the Bankscope database was widely varying across Member States, ranging from 11% (Cyprus) to 89% (France), with a median value of 58%.

In an effort to better inform the preparation of the Commission delegated act, the Commission services requested Member States' representatives in the Expert Group to provide the necessary data. A draft data request was issued on 15 May 2014. A final data request was issued on 4 June 2014, with a deadline of 18 June 2014.

The **final database** has the following characteristics:

- Data is at the individual, not consolidated, bank level.
- Data is as of 31 December 2012, except for Cyprus, Greece and Slovenia (31 December 2013).
- Data only includes credit institutions.

Overall, the Commission services consider the quality of the final database to be significantly improved with respect to publicly available data, both in terms of reliability (figures are provided directly by competent authorities) and in terms of coverage, increasing from around 3,200 to around 4,600 banks and from around 74% to around 83% of total assets. The final database contains now directly transmitted data for 25 Member States while data for 3 Member States comes from the Bankscope database.

In the Annex the chapter "Database" provides a comprehensive summary of the data collection process and the content of the final database.

3. MAIN ALTERNATIVES IDENTIFIED

3.1. Approach for the calculation of contributions

One issue to be decided in the content of the legislative acts is whether to collect contributions from the perspective of an **individual institution level (Alternative 1)** or the **consolidated (group) level**, if relevant **(Alternative 2),** as consolidation is only relevant for existing groups; therefore, the individual level will always have to be used for the calculation of contributions of stand-alone entities which are not part of a group.

In Alternative 1 each individual institution would pay based on its stand-alone size and risk profile, so that for each institution its individual accounting or prudential data could be used as a base for calculating its respective contributions.

A **sub-alternative A** of **Alternative 1** could be that the individual basis is used, but transactions within a group are deducted, such as for **intragroup liabilities**. A further **sub-alternative B** would be that those transactions within group like structures, such as **institutional protection schemes** (**IPS**) are also deducted.

In **Alternative 2** the contributions would be calculated based on **consolidated (group) data**. This calculation would not necessarily refer to individual entities but to groups. Thus, the group accounts or group prudential data would represent the basis for charging contributions.

Alternative 1: individual level

One argument in favour of **Alternative 1** is that each institution is a legal entity which has to report certain balance sheet data by law, and thus a number of data about that institution should be easily available.

A counter argument is that many banking groups within the EU are de-facto highly integrated and interconnected. Therefore, it seems sensible to recognize that reality when calculating contributions. Calculating contributions at an individual level might thus present a distorted picture because the overall business strategy of a group would be the correct level of judging the risk profile of an institution, for instance.

In addition, in case the calculation of contributions were carried out at individual level, this approach would lead to the double counting of certain liabilities in case of groups, which should be avoided. For example, a double-counting would arise if a mother company raises funding from financial markets and transfers this funding to its subsidiary. In that case, the liability would be counted both at the level of the mother institute and at the level of the subsidiary.

Alternative 2: consolidated level

Under Alternative 2 the collection of contributions should be done at the highest consolidated level within the scope of the applicable resolution financing arrangement, implying that the level of consolidation should be the Banking Union (SRM level) for institutions based in Member States participating in the Banking Union and the relevant Member State for institutions based in non-participating Member States.

This level of consolidation would also be congruent with calculating the contributions at the level of the Banking Union, and thus be in line with the new regulatory framework created by the SRM Regulation, for those banks headquartered inside a Member State adhering to the Banking Union.

A further argument in favour of calculating the contributions based on the consolidated level is that it might provide a more accurate picture of the risk profile of a group, when compared with the individual level, given the de-facto close interconnectedness of a group.

In addition, there would not be a double counting of certain liabilities, such as funding taken by the mother company and then transferred to its subsidiary.

Preliminary conclusion

After extensive consultation with the experts from the Expert Group it became evident, that there is a practical problem with data availability at consolidated level as this kind of data is currently not collected in most Member States.

As a result of these practical problems, and to avoid burdening institutions by asking them to collect such data, the contributions will be calculated and raised at solo level. As to the specific business model and risk profile of banking groups and IPS, there are other ways to take these into account (see sub-alternatives A ban B below).

Most of the participants in the online consultation favoured that approach as well.

Percentage of respondents in online survey favouring the calculation of contributions based on individual data vs. consolidated data.
Answers in %, based on different categories of respondents. Percentages might not add up to 100 due to rounding or respondents not replying to the question.

Contributions should be calculated at …	Total	Credit institutions	Public authority	Organisations	Individuals
individual level	99%	97%	100%	71%	100%
consolidated level	1%	3%	0%	29%	0%

Sub-alternatives A and B excluding intragroup and intra-IPS liabilities

While the arguments would support the collecting of contributions at consolidated (group) level, there are practical problems with this approach. The only workable alternative is to use the individual level. Sub-alternatives A and B use the individual level for calculating the contributions, but replicating the consolidated (group) structures.

Some of the consultations carried out by the Commission brought to light a view that a similar interconnectedness exists for Members in a so-called **IPS**. In such a contractual arrangement, institutions agree among themselves to protect each other in case of liquidity or capital problems. This is often linked with a peer supervision system or a centralised supervision system one with specifying certain acceptable risk levels or business models.

Given that there is a de-facto similarity with groups and IPS, in that both are highly interconnected, it is proposed to apply the exclusion of intra-IPS liabilities in the same manner.

To ensure fair treatment irrespective of the direction of the intragroup financing flows (liability of the subsidiary towards the parent, liability of the parent towards the subsidiary or between IPS institutions) and that no distortion is introduced among Member States in the internal market or on the size of national compartments within the Banking Union, it is proposed that, once 100% of the intragroup (or intra-IPS) liabilities are excluded from the balance sheet either of the parent or the subsidiary, 50% of the corresponding liabilities on the balance sheet of the subsidiary or of the parent (or IPS institutions) are allocated respectively to the parent or the subsidiary.

This would ensure that both the parent and the subsidiary (or both IPS institutions) would equally benefit from the intragroup (intra-IPS) liabilities exclusion and contribute in proportion to their own resolution fund/national compartment.

This would take into consideration the integrated nature of groups and similar structures such as IPS in the European Union. This approach would enable an accurate picture of the risk profile of groups and similar structures and also combine this with the respective data availability from individual institutions.

The Commission services tried to estimate the volume of intragroup liabilities and concluded in a tentative analysis that the average prevalence of intragroup liabilities in the Euro area is estimated to be relatively limited (median of 5.88% or 8.9% of the BRRD base in 13 Euro area Member States), and the largest institutions tend to have lower interbank deposits. On average, the extent of intragroup liabilities tends to be relatively limited. However, there is significant variation across Member States, and there will be significant variation within Member States around these averages, which means that for some banks intragroup liabilities could represent a sizeable amount. For an analysis of the intragroup exposures see the respective Chapter in the Annex. The Commission Services were not in a position to estimate the amount of intra-IPS liabilities and such data are not collected at the level of Member States.

Conclusion

It is proposed that the collection of contribution should be based on the **individual level** but **intragroup liabilities** and **intra-IPS** should be excluded from the calculation with the aim of replicating a consolidated approach or reflecting the close integration of certain banking institutions.

The collection of contributions at individual level is reflected in the Commission delegated act in Article 4 and in Article 5 as regards the exclusion of intragroup and intra-IPS liabilities.

3.2. Treatment of small institutions

The first question to be decided is whether **small institutions should be treated as all other credit institutions (Alternative 1) or in a special, more favourable, way (Alternative 2)**.

A special treatment could be given to small institutions by either granting them **a single flat rate for their contributions (Sub-alternative 2A)** or by assigning to them **a multiple bucket approach (Sub-alternative 2B)**.

There is no legal basis for excluding small institutions fully from the contributions as all institutions fall within the scope of the BRRD and the SRM. The BRRD and the SRM Regulation are clear: all institutions should contribute to resolution funds because small credit institutions will also benefit from the enhanced financial stability deriving from the new resolution framework. Therefore small institutions will have to contribute accordingly. From a legal point of view, it is not possible to exempt small institutions from contributing to the fund.

Small institutions are defined as institutions which meet the following cumulative conditions: (1) BRRD base[3] equal to or less than EUR 300 million, and (2) total assets not exceeding EUR 1 billion.

This calibration of the relevant thresholds is based on the following considerations:

- The EUR 1 billion threshold is intended to avoid that larger institutions benefit from this specific treatment even if they have a BRRD base below EUR 300 million.

- As different national thresholds are in place in Member States, the Commission Services had to make their own assessment on the determination of the thresholds. The feedback gathered in the Expert Group was that the mentioned thresholds are adequate.

Alternative 1: normal treatment of small institutions

A normal treatment of small institutions would imply that they would receive the same treatment as all other institutions.

The first argument in favour of Alternative 1 is that small institutions benefit as well from a higher degree of systemic stability and effective recovery and resolution mechanisms within the BRRD and the Banking Union. In that respect, it could be argued that a normal treatment for small institutions is justified as it should result in a relatively small fee for small institutions.

In addition, it is not evident that small institutions have per se a less risky business model when compared with larger institutions. Indeed, during the crisis there had been a number of smaller institutions which failed and which got either extraordinary public support (State aid) for the implementation of their restructuring or for their orderly wind down.

Alternative 2: a more favourable treatment of small institutions

Arguments in favour of Alternative 2 are that requiring small institutions to contribute would constitute a high burden for them, in particular in case they would have to perform complex calculations for determining the risk based contributions.

The BRRD requires a proportional treatment of different institutions.

In general, the impact of the riskiness of a single small institution is much smaller than the riskiness of a large institution as the latter poses in many cases a much higher systemic risk.

Also, the failure of a small institution could be more easily accepted from a public policy perspective during normal economic and financial circumstances. Thus since small institutions are less likely to benefit from resolution fund resources as their (potential) failure might not fulfil the public interest condition for resolution. Consequently, they might be typically wound down via other methods such as normal insolvency procedures.

[3] Liabilities excluding own funds minus covered deposits.

This Alternative had also been supported by the respondents of the online consultation.

Percentage of respondents in online survey agreeing to treat small institutions in a special manner.
Answers in %, based on different categories of respondents. Percentages might not add up to 100 due to rounding or respondents not replying to the question or providing no opinion.

Small institutions should be treated in a special manner	Total	Credit institutions	Public authority	Organisations	Individuals
agree	99%	95%	83%	56%	99%
disagree	1%	3%	17%	18%	0%

Before asking whether a special treatment should be given to small institutions, it will be explored how such a treatment should look like.

Sub-alternative 2A: a single flat fee

Alternative 2A would be a single flat fee for small institutions. There are two problems with this approach. First, it would put all institutions below the defined thresholds into a single payment category, without further differentiating between institutions which are, for instance, close to a balance sheet of EUR 1 billion, and those institutions which have a balance sheet of, for instance, less than EUR 50 million.

This would imply that inside the small institution category, relatively small institutions would pay relatively a lot and relatively large institutions would pay relatively little. Such an equal lump sum payment of institutions with different sizes would not be proportionate.

Also, there might be a different risk element emanating from very small institutions or institutions which are, while still falling under the small size threshold, relatively large.

Another problem with such a single lump sum would be the emergence of a significant cliff effect between the small institutions and the institutions just falling outside the definition of a small institution. Thus, a small difference in balance sheet (or BRRD base) size between one institution just falling below that threshold and another institution just surpassing that threshold, might result in a large difference in required payment contributions. This would not be proportionate and could also not be justified on the basis of risk considerations.

Sub-alternative 2B: multiple buckets

A sub-alternative B would be a special treatment of institutions, but on the basis of different size thresholds within those falling inside the definition for small institutions. This could be done via different lump sums. In order to address cliff effects, the lump sums have to be calibrated so that there is adequate progression over the BRRD base and the highest lump sum is not too far away from the 100% flat fee that an institution right above the thresholds would pay.

After various consultations and cross-checking with the final database, the Commission Services propose that small institutions are split into 6 buckets according to their BRRD base, setting a fixed payment (lump sum) for each bucket, as described in Table 1 such as to minimise cliff effects.

Table 1: The 6-bucket system: thresholds and lump sums, in TEUR

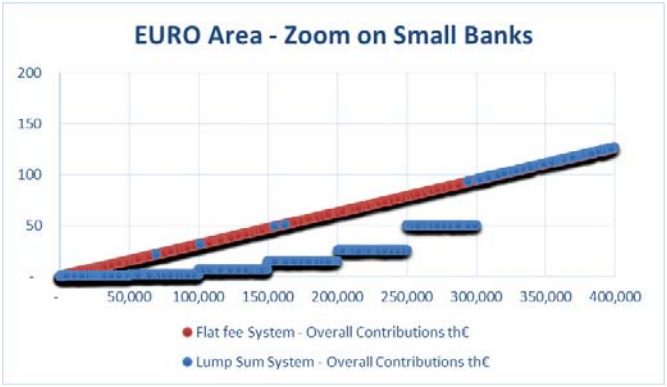
Buckets	Lump sum
BUCKET 1: BRRD base <= 50.000 & TA <= 1.000.000	1
BUCKET 2: 50.000 < BRRD base <= 100.000 & TA <= 1.000.000	2
BUCKET 3: 100.000 < BRRD base <= 150.000 & TA <= 1.000.000	7
BUCKET 4: 150.000 < BRRD base <= 200.000 & TA <= 1.000.000	15
BUCKET 5: 200.000 < BRRD base <= 250.000 & TA <= 1.000.000	26
BUCKET 6: 250.000 < BRRD base <= 300.000 & TA <= 1.000.000	50

Impact

This bucket system addresses also the important concern that may arise when comparing a bucketing system (discrete) with the flat fee (continuous) namely the existence of a cliff effect between the highest lump sum and the flat fee that an institution right above the threshold of 300 million Euro of BRRD base would pay.

Figure 1 shows that the 6-bucket system sets an adequate progression over the BRRD base, effectively limiting the scope for a cliff effect in the Euro area.

Figure 1: 6-bucket system versus flat fee, Euro area, in TEUR



Furthermore, it is important to analyse whether the proposed special regime effectively reduces the contributory burden of the smallest institutions in view of their low risk profile.

The following tables present the impacts of this solution in more detail. For these tables the target is always assumed to be collected over 8 years in order to facilitate the comparison among the different results.

Table 2: Annual contributions of small institutions

	Small institutions - Overall Flat fee		Small institutions - Overall 6 bucket lump sums		Reduction when moving from the flat fee to the lump sum
	TEUR	as % of annual target	TEUR	as % of annual target	
Euro area	**63,269**	**1.0287%**	**18,451**	**0.3000%**	**-71%**
BG	2,416	10.32%	199	0.85%	-92%
CZ	200	0.25%	10	0.01%	-95%
DK	1,445	0.79%	215	0.12%	-85%
HR	75	36.67%	74	36.21%	-1%
HU	200	1.70%	22	0.19%	-89%
LT	275	3.95%	24	0.34%	-91%
PL	3,453	3.61%	465	0.49%	-87%
RO	610	1.89%	31	0.10%	-95%
SE	1,722	0.84%	435	0.21%	-75%
UK	1,398	0.13%	939	0.09%	-33%

Finally, Table 3 shows that this sizeable risk-based reduction in the contributions of the smallest institutions would only entail a minor additional burden for all the other institutions: an increase in contributions in the order of 0.7% in the Euro Area. A small additional burden for every other institution translates in a big overall reduction for the smallest institutions.

Table 3: Annual additional payment (as a share of flat fee) by all other institutions when introducing the special regime for small institutions

Economic area	Additional burden for each other institutions
Euro area	+ 0.72%
BG	+ 10.56%
CZ	+ 0.23%
DK	+ 0.68%
HR	+ 0.73%
HU	+ 1.54%
LT	+ 3.75%
PL	+ 3.24%
RO	+ 1.83%
SE	+ 0.64%
UK	+ 0.04%

In order to maintain a levelled playing field in the internal market, it is not possible to tailor the lump sums to Member States individually. On the contrary, these estimates confirm that the application of the principle of proportionality holds in the EU as a whole, even though some variation across Member States exists.

Based on the final database, the following is observed:

- More than 50% of institutions will be under the small institutions regime, benefitting from an average reduction of 70% in the Euro area. The introduction of lump sums for small institutions does not create significant cliff effects in the Euro area, nor in non-participating Member States in general.

- The reduction for small institutions will be compensated or by all other institutions, but with an additional burden of only 0.72% of their contributions in the Euro area.

Thus, to summarise, the solution as regards the small institution treatment proposed results in a very significant reduction of the contribution for small institutions, but increases the contributions for large institutions only by very little.

Conclusion

The Commission Services conclude that small institutions should benefit from a favourable treatment and there should be a six bucket system thus minimizing any cliff effect. This will be reflected in Article 10 of the Commission delegated act.

While a special favourable regime for small institutions is proposed, there should be no incentive for those institutions to pursue an aggressive risky business model. Therefore, as an additional safeguard, the Commission Services propose that national resolution authorities, or the Single Resolution Board for the Member States participating in the SRM, could determine that if a given small institutions has a particularly risky business model, based on clear criteria set out in the act, they would apply the "normal" formula for the calculation of the contributions, i.e. the application of the additional risk adjustment to the BRRD base as described in Section 3.5 and 3.6.

In the Annex, the chapter on "Small banks" provides a description of these results.

3.3. Treatment of derivatives

Another issue refers to the treatment of derivatives in the context of calculating the contributions to the resolution financing arrangements. This issue is important due the significant amount of derivatives held in some large institutions and the banking system overall. Therefore, the question of valuation is crucial for ensuring a level playing field.

In our analysis, two alternatives as regards the treatment of derivatives are explored. **Alternative 1 is using an accounting treatment** and **Alternative 2 is using the so-called Prudential Standardized approach**. These two alternatives should be explored as regards netting and as regards the need to ensure a level playing field.

Alternative 1: accounting treatment

The alternative of using an **accounting treatment** would imply using international accounting standards, IFRS, when available; otherwise national GAAP would be used.

The accounting treatment has the following advantages. First, the accounting basis is simple and transparent. In the EU, all listed companies (typically those with large derivatives portfolios) are required to prepare their consolidated financial statements in conformity with IFRS. Banking groups that apply IFRS are expected to be able to provide IFRS-compliant information also on a solo basis.

Second, the accounting basis is conservative. Using the gross amounts of derivatives as a basis for calculating SRF contributions reflects to a certain extent that these instruments are inherently complex and entail additional risk. Moreover, it provides a consistent and transparent basis, as both derivatives assets and derivative liabilities are presented on the balance sheet, on which to introduce the risk-based overlay.

In contrast, an accounting treatment has also a number of disadvantages. Potential level playing field issues result from the fact that in the EU non-listed banks as well as individual entities forming part of listed banks are not required to apply IFRS and may still continue to prepare their consolidated financial statements in conformity with their respective local accounting frameworks (national GAAP). This might raise serious issues of equal treatment between banks, depending in which Member State they are headquartered. In addition, there might be differences in the national application of IFRS accounting rules, but those differences are generally judged to be non-material.

The alternative of using the accounting treatment as regards netting stipulates in essence two different conditions for netting: first, the existence of an enforceable legal netting agreement with another counterparty and second, the intention to settle the net positions in the course of normal business. In particular, these two conditions are met mainly for derivatives traded through CCPs and the consequence is that the vast majority of derivatives which are traded over the counter (OTC) are valued at their gross amount. This implies a rather conservative approach to netting in practice.

Alternative 2: Prudential standardized approach

Another alternative is the use of the **prudential standardized approach** of derivatives as defined in the leverage ratio. Under the Commission delegated act adopted on 10 October 2014 which amends Regulation (EU) No 575/2013 ('CRR') with regard to the leverage ratio, this approach will de-facto become mandatory for the valuation of derivatives for the purposes of the leverage ratio in the respective CRR/CRD context. Therefore a model-based individual institution approach will be excluded.

The advantage of using this approach is that the valuation basis is fully harmonised. In the EU, all institutions (large or small) are required to prepare their prudential reporting statements in conformity with the CRR/CRD provisions. Thus, a level playing field can be ensured together with a reasonable conservative valuation.

Netting under this approach is allowed in a broader way than under IFRS, as in particular also over the counter (OTC) derivatives can be netted if they fall within master netting agreements with a counterparty. These agreements usually provide that the parties shall settle their positions net only in the event of default and not in the ordinary course of business.

Impact of the different alternatives

As data on derivative liabilities have not been provided by the MS, the JRC has estimated them using publicly available data. Two major points come out from this analysis. On the one hand, the vast majority of the outstanding derivatives accrued to the largest banks. On the other hand, the proportion of derivatives held in each institution can significantly vary both among banks in different size categories and among banks of similar size.

In an analysis focusing on the impact of excluding up to 25% of derivative liabilities from the BRRD base in the calculation of the contributions to the resolution fund, this is estimated to result in the following:

- An average reduction of 1% in the contributions of largest banks.
- All other banks except those paying lump sums are estimated to compensate with an increase of 2% in their contributions.

Conclusion

Using the applicable accounting rules will imply that IFRS will be used for some entities whilst national GAAPs for some others. This alternative would not ensure a level playing field between entities.

The Prudential Standardized approach - in essence a standardized approach (technically the Current Exposure Method) provided for the purposes of the leverage ratio calculation - would ensure a level playing field.

The Prudential Standardized approach would allow for more netting, it would ensure a level playing field.

The Commission Services would propose to use the Prudential Standardized approach with the following safeguard:

To harmonize the treatment of derivatives in order to avoid an uneven-playing field in the calculation of the BRRD basis, it is proposed that the derivatives are valuated pursuant to the prudential standardized approach of the leverage ratio under the CRR.

To avoid any uncertainty as regards the effects of the prudential treatment on the amount of netting, in the absence of data, we propose a safeguard in the delegated act. The application of the leverage ratio treatment would not allow netting more than 25% of derivatives compared to IFRS treatment. This proposal is reflected in Article 5 of the delegated act.

Based on the available estimates, the impact of this safeguard would ensure only a minimal impact as regards the contributions of the largest banks and the compensation to be paid by other banks.

3.4. Specific cases

The institutions covered by the legal acts are mainly typical banking institutions. But there are also some very special institutions covered by the legal acts and consultations with the Expert Group and other stakeholders, including the online survey, showed the necessity of finding a special regime in some cases.

3.4.1. Promotional loans

Some institutions are promotional lenders whose purpose is to advance the public policy objectives of a Member State's central or regional government, or local authority predominantly through the provision of promotional loans on a non-competitive, not for profit basis. The promotional loans are sometimes extended via another institution as intermediary (pass through loans). In such cases, the intermediary institution receives promotional loans from a multilateral development institution or a public sector entity and extends them to other institutions which would provide them to the final clients.

Alternative 1 is to treat promotional loans as all other liabilities while the other **alternative 2 would be to exempt them** as regards the promotional institution and any other concerned intermediaries.

Alternative 1: no special treatment

A priori it could be argued that promotional liabilities should not receive a special treatment. It could be argued that in essence, a promotional loan is just a loan to a business at favourable terms, when compared with normal loans.

Alternative 2: exemption

The arguments for exempting promotional loans are that those are often directly or indirectly guaranteed by the central or regional government or a local authority. As a result, there is no risk for the concerned institution as regards those guaranteed loans and thus no risk for the resolution fund. On the basis of a pure risk assessment, it could be argued that the liabilities underlying those loans can be excluded.

In addition, it should be kept in mind that promotional loans are granted on a non-competitive, not for profit basis in order to promote public policy objectives of the Union and/or a Member State’s central or regional government. Thus this non-competitive nature of promotional loans and the direct fulfilment of public policy goals could justify a special treatment.

Conclusion

As a result, only the liabilities of the intermediary institution towards the originating or another promotional institution or another intermediary institution and the liabilities of the original promotional institution towards its funding partners in so far as the amount of these liabilities is matched by the promotional loans of that institution will be taken into account. This is reflected in Article 5 of the Commission delegated act.

3.4.2. Central counterparties & central securities depositories

Some central counterparties (CCPs) and central securities depositories (CSDs) operate with banking licenses. For CCPs the main reason has to do with possible access to central bank liquidity and national requirements in some Member States limiting such access to institutions. For CSDs the main reason involves the limited form of credit-activity conducted by some of them which is largely ancillary and connected to their settlement-activity.

The banking licenses held by a number of CCPs and CSDs means that they fall within the scope of institutions from which contributions to resolution financing arrangements under the BRRD and SRM are to be raised. However, their status as banks is qualitatively different when compared with the bulk of the other institutions from which contributions will be raised. They do not have covered deposits and are subject to different organizational and prudential requirements compared to institutions, pursuant to the EU Regulation on OTC derivatives, central counterparties and trade repositories ('EMIR') and the EU Regulation on CSDs.

It is legally not possible to fully exclude these entities from the scope of contributions. However, the rates levied on them should reflect their actual risk profile and potential recourse to resolution financing arrangements.

Alternative 1: include all liabilities

Two main alternatives have therefore been considered, namely Alternative 1 is to include all the liabilities of CCPs and CSDs with banking licenses, related both to their clearing and settlement activities as well as to their banking activities, in the basis for calculating their contributions to resolution financing arrangements.

Alternative 2: include banking related activities

Alternative 2 is to exclude from this basis all clearing and settlement activities, thereby calculating their contributions based solely on their banking activities.

Conclusion

It is considered that alternative 1 would be disproportionate and fail to accurately reflect the systemic risk posed by them.

Therefore, the alternative 2 is retained as it fits the aim of the BRRD more neatly, which is in essence, to cover banking activities. Consequently, the contributions of CCPs with banking licenses should not be based on liabilities arising in the context of their clearing activities. The contributions of CSDs with banking licenses should be based only on those liabilities arising from their ancillary banking activities which are beyond a maturity of seven days and are less immediately connected with their settlement activities. This is reflected in Article 5 of the Commission delegated act.

3.4.3. Institutions covered by Article 45(3) of the BRRD

As for the institutions covered by Article 45(3) of the BRRD, those institutions that are subject only to wound-up through national insolvency proceedings will not have recourse to the resolution funds for recapitalisation purposes, but might use the fund for liquidity

purposes and will profit nevertheless from the overall increased financial stability. Therefore a proportional contribution by such institutions could be envisaged to reflect their specificity of not making use of the resolution fund.

The Commission Services propose that, in view of the specificity of those institutions, their contributions would be calculated on the basis of 50% of their basic annual contribution. Where such an institution would use the resolution financing arrangement, the resolution authority would have the ability to adopt a reasoned decision determining that the risk adjustment methodology would apply to those institutions which have a risk profile that is similar or above the risk profile of the institution which has used the resolution financing arrangement for any of the purposes referred to in Article 101 of Directive 2014/59/EU. The determination of the similarity of the risk profile by the resolution authority for the purpose of would have to be based on a number of elements in order to inform such a decision.

This is reflected in Article 11 of the Commission delegated act.

3.4.4. Investment firms and Union branches

Many of the metrics envisaged for the calculation of the contributions to the resolution funds are not adequate for branches of third country credit institutions (Union Branches) and to some investment firms and can therefore not be applied, because of the way in which they are construed. Therefore branches of third country credit institutions and investment firms that meet the criteria laid down in Article 96 of the CRR or operate multi-lateral trading facilities without trading on their own account should be excluded from the scope of the delegated act while ensuring that the national resolution authorities would ensure that such entities would contribute to the resolution funds. This is reflected in the recitals of the Commission delegated act for third country credit institutions and in Article 5 of the same legal text for investment firms.

3.5. Risk indicators

The BRRD lays down in Article 103(7) the criteria which the Commission should take into account as regards the risk profile of institutions and thus specifying the risk adjustment of individual contributions. The following presents the risk criteria and shows how those have been translated into indicators and provides a rationale for those decisions. In that context, please note that a (+) or (-) indicates whether an increase of the respective indicator would lead to an increase (+) or a decrease (-) of the individual contribution for that particular institution, all other things being equal.

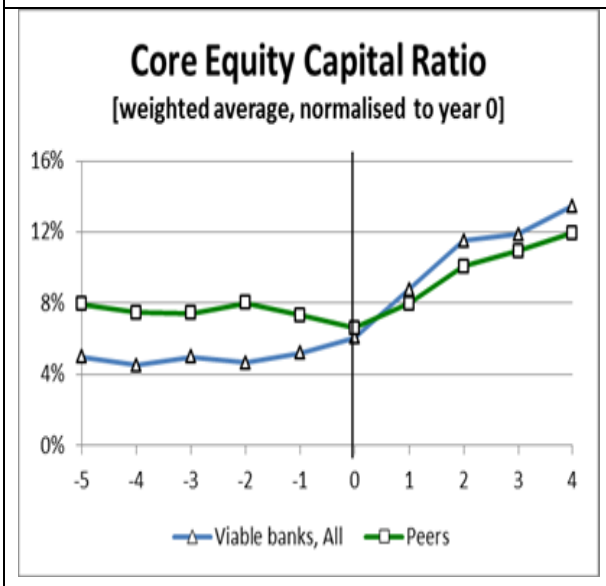
Table 4: Risk profile elements according to Article 103 (7) BRRD)		
Elements	**Proposed Indicator**	**Justification for proposed indicator**
Risk exposure • importance of trading activities • off-balance sheet exposures • degree of leverage	• Risk weighted assets (RWA)/Total Assets (+) • Ratio of own funds and eligible liabilities held by the institution in excess of the 8% total liabilities including own funds (-) • Leverage Ratio (-) • Common Equity Tier 1 Capital ratio (-) Importance of trading activities and off-balance sheet exposures also assessed with discretion to the national resolution authorities (or the Single Resolution Board;	Absolute amount of risk exposure and in relation to risk absorbing capacity both on a going and a gone concern level and in relation to overall size of institution. Specific indicators proved to be predictors of problems for institutions during the crisis, see information below the table. Importance of trading activities and off-balance sheet exposures require also a qualitative analysis, as a simple "Yes/No" indicator or even a ratio might not be sufficient
Funding • stability and variety of funding • unencumbered highly liquid assets	Liquidity Coverage Ratio (-) Net Stable Funding Ratio (-)	The idea is to measure the stable funding sources of an institution. The Liquidity Coverage Ratio and the Net Stable Funding Ratio are the internationally accepted standard for those measures.
Financial condition	No specific indicator	In the context of the BRRD, which is a resolution framework, financial condition is measured by the ability to face risk exposure and have stable funding. Potential indicator "profitability" would be very difficult to assess as it would have been necessary to determine in each case whether profits derive from a volatile or risky business or from sound business practices.
Probability that institution enters into resolution	No specific indicator	All of the indicators on risk exposure and funding together measure the probability of entering into resolution. Thus no specific indicator required.
Extent of previous extraordinary public financial support	Extent of previous extraordinary public financial support (+).	State aid received is one of the requirements prescribed by the BRRD and not measured by other indicators
Complexity and the resolvability	Assessed with discretion by national resolution authorities (or the Single Resolution Board in the Banking Union)	A "Yes/No" indicator is not sufficient as this required a deeper assessment
Financial or economic systemic relevance to one or more Member States or Union	Share of total exposures to other institutions (+)	Systemic financial relevance of institution, to be measured by an interconnectedness indicator
Part of an IPS	IPS membership, assessed with discretion to the national resolution authorities (or the Single Resolution Board in the Banking Union)	To take into account that IPS characteristics are very different depending of the contractual setting, thus a more specific assessment is required

While most of the indicators are thus fairly directly linked to the actual wording of the different considerations mentioned in the BRRD, some of the risk exposure indicators require more explanations.

As regards the RWA / Total Assets indicator: this is the only indicator measuring the innate riskiness of the asset side. Also, it should be taken into account that the RWA will be over time harmonized in the frame of the Banking Union, thus overcoming the supposedly different calculation methods currently in place in different Member States.

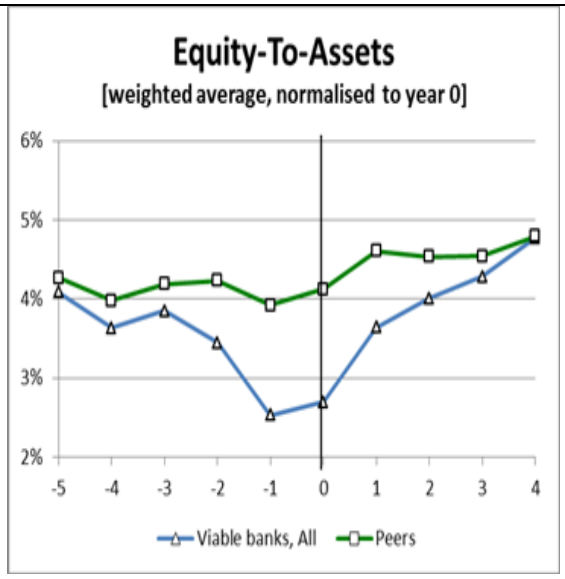
In addition, data from State aid cases show that both the Tier 1 Ratio as well as the Leverage Ratio seem to be an early "danger" warning signal. The figures below compare those indicators for institutions requiring previously state aid but made subsequently viable through their respective restructuring plans and a peer group not requiring state aid at any time. The vertical line denotes the time when the first group received State aid.

Figure 2: The capital ratio



Source: Commission Services

Figure 3: The leverage ratio



Source: Commission Services

All those **indicators** described in the table above are grouped into four different **risk pillars**, consisting of (1) risk exposure which is arguably the most important element, (2) funding, (3) the institution's importance and (4) additional risk factors which are left to the discretion of the national resolution authority (or the Single Resolution Board within the Banking Union). All of those pillars were assigned different weights which were intensively discussed with the Expert Group and found broad agreement. Inside the risk pillars, the weights of the individual risk indicators were divided equally, absent any prior knowledge of their importance. Also this decision had found agreement in the Expert Group. Article 6 of the Commission delegated act covers the risk indicators.

What is important to note is that the data available in the final database does not allow to the JRC to estimate all risk indicators and thus to include all of them for the final estimates as regards the payments of different banks.

Available are three out of four indicators in the risk exposure pillar, namely the indicator (i) RWA/Total Assets and (ii) the Leverage Ratio (proxied as Common equity over Total Assets) and (iii) a proxy for a third indicator namely the Tier 1 Capital ratio. In contrast, the indicator "Bail-in-able funds" is by its nature not available, as these bail-in-able funds have not been defined by any resolution authority for any institution so far.

No data is available for the two indicators for the funding pillar at the JRC. Therefore, a measure of loan to deposit ratio is being used for the analyses as a substitute.

The indicator on the importance of an institution to the stability of the financial system is available.

Also, by its nature, no indicator is available in pillar four, as this is proposed to be left at the discretion of the board.

As regards the weights for the different indicators and weights, one has to distinguish between the final weights when all indicators and pillars will be available when the system is up and running, and the fact that a number of indicators are currently not available, and therefore the JRC has to deal with that fact by increasing the weights of the available indicators proportionally. The resulting de-facto weights as used in the current JRC estimations are below as well as those weights used in the final system:

Table 5: Risk pillars, indicators and weights		
	Available JRC estimate for September Commission staff working paper	**Final system**
Pillar: Risk exposure	**weight of 62.5% of composite risk indicator**	**weight of 50% of composite risk indicator**
Indicator: RWA/Total Assets (+)	1/3rd weight within the pillar	25% weight within the pillar
Indicator: Ratio of own funds and eligible liabilities held by the institution in excess of the 8% total liabilities including own funds (-)	Not available	25% weight within the pillar
Indicator: Leverage Ratio (-)	1/3rd weight within the pillar	25% weight within the pillar
Indicator: Common Equity Tier 1 Capital ratio (-)	1/3rd weight within the pillar	25% weight within the pillar
Pillar: Stability and variety of the sources of funding and unencumbered highly liquid assets	**weight of 25% of composite risk indicator**, no data is available on this pillar to the Joint Research Centre. Therefore, a measure of loan to deposit ratio is being used;	**weight of 20% of composite risk indicator**
Indicator: Liquidity Coverage Ratio (-)	JRC used Loan-to-Deposit ratio as a substitute with 100% weight in this pillar	50% weight once the Net Stable Funding Ratio becomes available; The Net Stable Funding Ratio will apply only once calibrated; until then, the Liquidity Coverage Ratio will account for 100% of this pillar.
Indicator: Net Stable Funding Ratio (-)		50% weight (see above)
Pillar: Importance of an institution to the stability of the financial system or economy	**weight of 12.5% of composite risk indicator**	**with a weight of 10% of composite risk indicator**
Indicator: Share of total exposures to other institutions (+)	100% weight within the pillar	100% weight within the pillar
Pillar: Additional risk factors to be specified by the resolution authority based on the remaining elements covered by Article 103(7) of the BRRD, to deal with some of the other risk factors which may be more complex to determine.	**Not available and thus 0% of the weight of the composite indicator**[4]	**weight of between 0 and 20% of composite risk indicator**
Indicator: Trading activities, off-balance sheet exposures and derivatives & Indicator: Complexity and resolvability	Not available and thus 0% of the weight of the composite indicator	0-9% of the weight of the composite indicator
Indicator: IPS Membership	Not available and thus 0% of the weight of the composite indicator	0-9% weight of composite risk indicator
Indicator: Extraordinary public support;	Not available and thus 0% of the weight of the composite indicator	0-2% weight of composite risk indicator

[4] A separate scenario analysis is found in the Annex.

3.6. Size of additional risk adjustment

Based on the relevant legal provisions, the contributions will consist of a basic contribution and of an additional risk adjustment. The question is to what extent the additional risk adjustment should go, i.e. whether it should be a **very significant adjustment (Alternative 1)** or a **significant, but more moderate adjustment (Alternative 2)**.

Alternative 1: very significant adjustment

Such an approach would result in that the ratio of contributions between the least risky and the most risky institutions of the same size could be between 5, 10 or even 15.

The argument for such a significant risk adjustment is that the most risky institutions should pay the most, while the least risky institutions should pay the least. Otherwise, there would be a cross-subsidy from the least risky institutions to the most risky institutions.

However, it has to be pointed out that the language of Article 103(7) of the BRRD indicates that a risk adjustment has to be performed in relation to the basic contribution, but not a purely risk based contribution.

Alternative 2: significant, but more moderate adjustment

In that approach, the difference of payments between the least risky and the most risky bank of the same size should amount to a more moderate amount, of around 2.

One important element for a less radical risk adjustment is that the legal language suggests that the basic contribution should have a prominent part in the overall contribution and not the other way around. Otherwise, the overall contribution could become purely risk based, which is not covered by the legal language.

It should be kept in mind that it is for the first time that a methodology for the calculation of annual contributions is established and that methodology has never been tested in practice, but only on data available to the Commission services which has certain limitations. The uncertainty linked to this lack of practical experience is particularly strong for the risk adjustment which is more complex, and its impact on different types of banks thus more difficult to anticipate. Giving a very strong weight to the risk adjustment would necessarily enhance this uncertainty and make it more difficult to anticipate the impacts of the delegated act.

It can also be argued that the **basic contribution** reflects already the risks posed by an institution in several ways:

- First, it reflects the size which is indicative of the potential use of the resolution fund. The bigger an institution, the higher the use of the resolution fund in a crisis.

- Second, the deduction of own funds and covered deposits reduces the contribution of banks with strong own funds and a strong deposit base, both of which are normally indicative to reduce risks.

Conclusion

Based on the arguments above, the Commission Services conclude there should be a significant but moderate risk adjustment. This is supported by the language of the legal text of the BRRD and the fact that the available data have a number of limitations calling for caution as well as the fact that there is a need for predictability of the contributions for institutions.

In further consultations with the Expert Group and the European Parliament, the Commission Services determined an a priori range of 0.8 to 1.5 of the total contributions when compared with the basic contribution, thus implying a ratio of 1.875 (1.5/0.8) between the most risky institution and the least risky institution of the same size. Article 6 of the Commission delegated act covers the risk adjustment.

That proposed range for the multiplicative factor ensures a sufficient amount of certainty and establishes a clear ratio between the upper and lower limit of the risk-based adjustment. It also ensures that the flat part of the contribution is the most prominent part overall.

Thus while the flat part remains the most prominent part of the contribution, there is nevertheless a sufficient element of risk also reflected in the contribution. The fact that an institution may face in principle an increase of as much as 50% in its contribution due to its risk profile provides adequate room for the role of the risk-based adjustment. On the other end of the range, a reduction of as much as 20% has to be read in conjunction with the application of the principle of proportionality: the role of the risk-based adjustment is recognized in a balanced way because it is accompanied by a system of lump sums for small institutions. As a result of the application of a 0.8-1.5 range, the contributions of institutions not classified as small and with identical BRRD base will be able to be to be almost twice as high as each other.

It should be noted, that it will be necessary to apply a proportional readjustment to all contributions in order to ensure that the target level is met. This implies that the same percentage increase or decrease will be applied to all institutions, therefore preserving the ratios between the most risky institutions and the least risky institution of the same size: if institutions A and B have the same BRRD base, and the contribution of institution A is nearly 1.9 times the contribution of institution B before readjustment, the same relationship is going to hold after readjustment. More generally, what remains constant is the ratio between the risk adjusted contributions of the riskiest over the least risky banks before and after the renormalization. Therefore, the policy objective of ensuring adequate differentiation between institutions on the basis of their risk profile is served.

As a result of the application of the 0.8-1.5 range, the contributions of institutions with identical BRRD base but with a different risk profile, could potentially lead to a situation where the riskier institution contributes almost twice the amount when compared with the low risk institution.

As an illustrative example where the banking system would be made only of two banks, the application of the risk adjustment as proposed above, creates a multiplicative effect of the absolute value of the contributions, so that a very risky institution A, which has a BRRD base

10 times as large as that of a low risk institution B, would pay up to nearly 20 times more than the contribution of institution B.

4. OVERALL IMPACT

In order to evaluate the ability of the proposed contribution system to produce a fair distribution of the burden across institutions, a possible reference point is represented by significant banks as defined by the SSM regulation. The ECB has communicated that these institutions represent around 85% of total banking assets in the Euro area.[5] In principle, the contribution system should attribute at least 85% of the total burden to these institutions. Furthermore, these institutions should tend to pay an additional risk premium (see below), as they tend to be more important for financial stability and the economy of the Member States and more engaged in trading activities and derivative contracts than the smaller players, and might be more complex and hence more difficult to resolve.

According to available calculations done on the final database, institutions representing the largest 85% of total assets in the Euro area pay 90% of total contributions. For the very largest institutions, the application of the flat basic risk contribution alone represents a significant premium in their share of total contributions with respect to their share of total assets, as the calculation of the basic risk contribution includes already elements which are favourable to small institutions, such as a lower share of covered deposits.

Institutions representing the largest 85% of total assets in the Euro area also pay a risk premium with respect to their flat fees as they would pay about 88% of total flat fees (+ 3 percentage points), and, as mentioned, about 90% of total contributions (+ 2 extra percentage points).

The above calculations provided estimates only on the basis of the first 3 pillars of risk factors only (risk exposure, stability and variety of the sources of funding, importance to the stability of the financial system or economy) since it is proposed that the fourth pillar is left to the determination of the resolution authorities. However, the fourth pillar contains risk factors that will be especially prominent for the largest banks, such as trading activities, off-balance sheet exposures and derivatives, and complexity and resolvability (accounting for as much as 18% of the composite risk indicator). Therefore, the risk premium of the largest institutions could be even more pronounced than represented in the presented calculations.

Since the calculation of contributions will be done on a solo basis, it is not possible to have a direct estimation of the contributions of significant banks as defined under the SSM Regulation as significant banks are defined on a consolidated basis, and even though the ECB has published the names of all the entities of the provisional list of significant groups[6], it is not possible to exactly identify these in the final database, since Member States have provided data on an anonymized basis. As a result, the best possible proxy is to consider individual banks that jointly represent the largest 85% of total assets in the Euro area, thus this group will

[5] http://www.ecb.europa.eu/ssm/html/index.en.html as of 29 August 2014

[6] http://www.ecb.europa.eu/ssm/pdf/SSM-listofdirectlysupervisedinstitutions.en.pdf?6dfe13ea9224b4f2f313c8c9dd05bc96, last updated on 26 June 2014.

include entities which are not part of the ECB's list of significant institutions but are larger than some of the smaller entities that are part of significant groups all based on the final database.

In addition, for estimates of the contributions by size group see the relevant chapter in the Annex.

5. REVISION CLAUSE

Given the fact that there are a number of uncertainties in relation to the available final database and other elements, the Commission Services propose a revision clause for the delegated act for June 2016. This is covered in a recital of the Commission delegated act.