ČESKÁ BANKOVNÍ ASOCIACE
CZECH BANKING ASSOCIATION

Set up in 1990, the Czech Banking Association (CBA) is the voice of the Czech banking sector. The CBA represents the interests of 39 banks and foreign branches operating in the Czech Republic: large and small, wholesale and retail institutions. The CBA is committed to supporting quality regulation and supervision and consequently the stability of the banking sector. It advocates free and fair competition and supports the banks' efforts to increase their efficiency and competitiveness.

We appreciate the opportunity to comment on the **REPORT ON THE APPROPRIATE TARGET LEVEL BASIS FOR RESOLUTION FINANCING ARRANGEMENTS UNDER BANK RECOVERY AND RESOLUTION DIRECTIVE** (EBA/CP/2016/08).

We provide answers to EBA specific questions regarding the appropriate reference point for setting the target level for resolution financing arrangements (in particular, whether total liabilities constitute a more appropriate basis than covered deposits) and also bring further comments.

Current situation where the target amounts of Resolution funds (national resolution financing arrangements) are based on the amount of covered deposits creates a situation where the contributions to Resolution funds may significantly differ among different EU countries based on the share of covered deposits on the total liabilities not reflecting the real potential riskiness (not even the size) of banking sectors.

Czech banks are mostly funded by covered deposits and thus, the target amount in the Czech Republic is relatively high in comparison other countries. Due to the high amount of covered deposits and high capitalisation Czech banks do not need a lot of non-covered liabilities. However, such liabilities (such as uncovered depo and issued bonds) are the base for the payment to the Resolution fund and are thus burdened with a relatively higher contribution to Resolution fund in comparison to other countries.

In general, the target amount in national resolution financing arrangements should reflect the potential riskiness of the local banking sector and necessity to use specific measures in insolvency (no liquidation). Thus, we welcome the initiative to change the target base.

1. Answers to EBA specific questions

1) Criteria / arguments in favour or against a particular option

In our opinion, the analysis of options covers most important criteria and arguments.

Minor comments to assessment of Option 2: Total liabilities and own funds (2a), Total liabilities (excluding own funds) (2b), Total liabilities (excluding own funds) less covered deposits (2c) – p. 25 - 27

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- Dynamic and smoothness of contributions are treated double minus (--) for changing the definition of the target level in the build-up phase. We do not see it so negative in case the recalibration is smooth.

- Negative assessment for simplicity and transparency for Total liabilities (excluding own funds) and Total liabilities (excluding own funds) less covered deposits due to regulatory changes of own funds. In case regulatory requirements are transparent this assessment should not be negative.

2) Preference for recommended options

The preferred option is total liabilities excluding own funds or total liabilities excluding own funds less covered deposits. The first alternative is more preferred and simpler.

3) Other option

Even though neither of the two proposed options (total liabilities excluding own funds nor total liabilities excluding own funds less covered deposits) reflect the potential riskiness of the local banking sector and necessity to use specific measures in insolvency we do not recommend any other option as other potential targets/measures would not significantly improve the safety system. On the other hand, oversophisticated targets might increase the complexity and worsen forecasting and planning of future contributions on the side of institutions with negative consequences for capital planning.

2. *Other issues related to resolution financing arrangements*

- Criteria for setting the risk weights are not harmonised among the Member States and are different for BRRD/Resolution fund and DGSD/Deposit guarantee fund purposes.

- The ranking of institutions and rescaling (the formula for FCI and the formula for rescaling the final composite indicator resulting from step 5) must not lead to significant differences in contributions for institutions with similar risk profile. Currently this is the case especially in countries with low number of institutions paying according to their risk profiles (and not by lump-sum).

- The risk of each institution for the stability of financial system is mainly driven by its asset-side business policy, risk management, capital planning and liquidity management and not by its structure of deposits.

- The system of centralized liquidity management leads to higher contributions in case that banking group also consists of subsidiaries not paying to resolution fund. On the other hand, the centralized liquidity management do not pose higher risk to financial system, rather opposite is true. All intragroup transactions within a group should be deducted in our view and not only those within BRRD institutions.

- An impact analysis for individual bank sectors as well as types of credit institutions would be appropriate.

We believe that our response is sufficiently clear and our views are helpful.

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