Information note for PAC on Levies for Resolution Funding

Background

The Central Bank and Credit Institutions (Resolution) Act 2011 (the "CBCIR Act") established a resolution regime for credit institutions and credit unions in Ireland. It created a Resolution Fund, managed and administered by the Central Bank, to support resolution actions in the State. One of the overall purposes of the legislation is to provide for a resolution regime that is effective in protecting the Exchequer and the stability of the financial system and the economy.

The Minister has contributed €250m to the Fund and the legislation provides that he is entitled to be reimbursed for this contribution through levies placed on industry. In addition, it was proposed that the levies would continue after the reimbursement until a target level of €100m was achieved.

Calibration of levy

In making levy Regulations under the Act the Minister is required to have regard to:

- The need for the Fund to grow over time to a size commensurate to the costs that might arise in carrying out resolution activities and the other obligations of the Fund (e.g., capital for a bridge bank; Central Bank's expenses in discharging its functions under the Resolution Act as the Resolution Authority);
- The need for the rate of contribution by an authorised credit institution or class of same to be consistent with maintaining the financial viability and sustaining the commercial position of these credit institutions.

Under the Resolution Act the Minister has scope to set different rates or different methods of calculating rates for different classes of credit institutions or classes of same according to:

- Nature, scale and complexity of their business and the level of risk associated with each institution or class;
- Level of capital and liquidity of each such credit institution or class;
- Adequacy of the internal controls of each such institution or class;
- Capacity of credit institution or class to make the proposed contribution.

When making the regulations, the Minister is required to consult the Central Bank and the Credit Union Advisory Committee (CUAC) and can have regard to such other matters as he considers appropriate.

Estimated receipts

It was originally envisaged the levy would raise €25 mn per annum from institutions until the Minister's €250mn contribution to the Resolution Fund was reimbursed and a standing resolution fund of €100mn was built up. It was expected that this €25 mn would comprise of €7mn from credit unions and €17.1 mn from the banks. The contribution from the banks would be subdivided as follows:

- Irish domestically focused retail banks (AIB, BoI, IBRC and IL&P) - €15.4 mn,
- Foreign owned domestically focused retail banks – €1.7 mn,
- Non-domestically focused banks (IFSC Banks) - €1 mn.

However the first category – Irish retail banks (the formerly 'covered' banks) – was subject to the Credit institutions (Stabilisation) Act 2010 ("CISA") regime which expired at the end of 2014. The availability of these alternative resolution powers has meant therefore that these banks could not be resolved under the CBCIR Act and consequently have not yet contributed to the resolution fund established thereunder. However, when the CISA regime ceased it was expected these banks would commence contributing to the Resolution Fund in the region of €15.4 mn in a 12 month levy period. Thus over time the Ministers contribution would be repaid and an ongoing fund built up.

Move to European Resolution Fund for Banks.

However at EU level the Bank Recovery and Resolution Directive (BRRD) has been adopted and these rules are to apply to banks and certain investment firms. The BRRD, which is expected to be transposed shortly, includes a requirement for Member States to set up resolution funds that are to be prefunded by contributions from institutions. Consequently, banks will be required to pay contributions into the domestic BRRD fund in 2015.

From the start of 2016, Irish banks will come under the remit of the Single Resolution Mechanism (SRM), and therefore contributions will be paid into the single resolution fund (SRF) with their BRRD 2015 contributions also being transferred into this fund. As credit unions are not within the scope of the BRRD they will therefore continue to come under the CBCIR domestic resolution scheme.

As there is a requirement under EU law for banks (both domestic and international) to come under the scope of BRRD for resolution purposes and to contribute accordingly, the Minister has decided that it is not possible for banks to also contribute to the CBCIR fund as they will not derive any benefit from it going forward. Therefore for this reason only credit unions will contribute to the CBCIR fund from 2015 onwards.

Department of Finance
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