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Financial Contributions and Bank Fees in the Banking Union

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The banking union has brought substantial changes to the functioning of the financial sector in the EU, including new bank fees and contributions. This article reviews the different fees and contributions introduced by the new framework, paying particular attention to those imposed at the EU level. The crisis marked a turning point, and the focus is now on breaking the vicious cycle between private banks and public finances by transferring the costs of any future failure to the credit institutions themselves.

Overview of bank fees and contributions

In response to the financial crisis that emerged in 2008, the European Commission pursued a number of initiatives, in line with de Larosière report, to create a safer and sounder financial sector for the single European market. These include stronger micro and macro prudential requirements for banks, unified rules for crisis management and in a later phase improved depositor protection. As the crisis evolved and turned into the euro area sovereign debt crisis, it became evident that a deeper integrated framework in the euro area was needed. This led to a new institutional structure and the creation of the Banking Union for the euro area.

As a result of the implementation of the first two pillars of the Banking Union – the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM),[2] the European Central Bank (ECB) has been conferred with supervisory tasks and a new EU agency – the Single Resolution Board (SRB), has been created as a separate legal entity. In line with the practice in many European countries, the costs of their functioning will be fully covered by the banking sector (see Figure 1 for an overview of administrative fees). The introduction of new European-wide fees is without prejudice to the right of national authorities to impose bank levies in accordance with national law, as many have already done before or during the financial turmoil. As such, the EU-wide and national administrative fees will co-exist in many country cases.

Besides the administrative fees, which aim at covering the costs of functioning of the new in-

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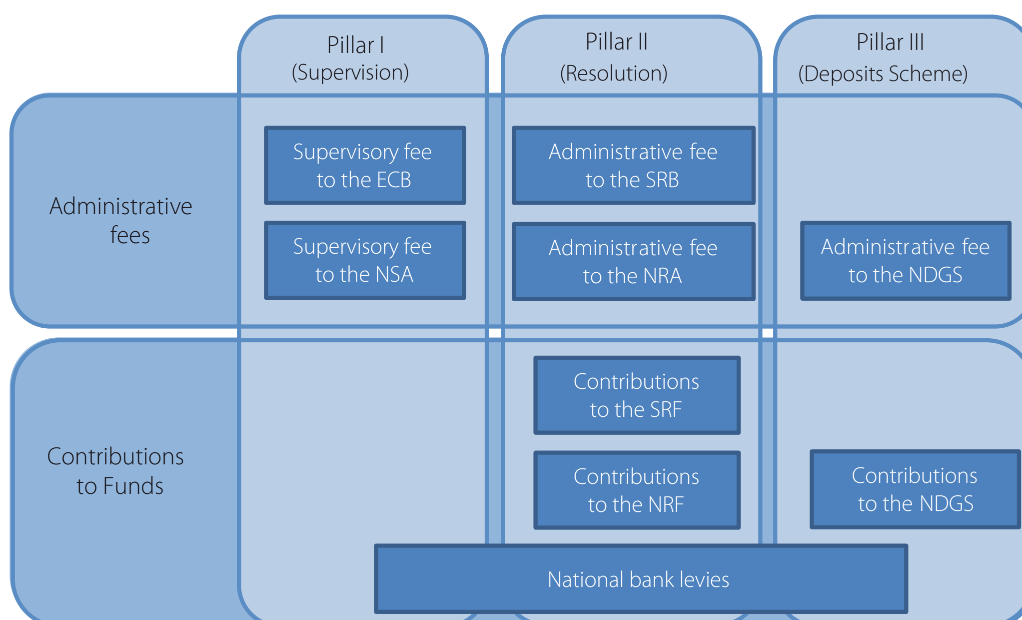
2 For further details on the Single Supervisory Mechanism (pillar I) refer to Čillíková and Pénzeš (2012) and on the Single Resolution Mechanism (pillar II) to Čillíková et al (2013).

Figure 1 Overview of bank fees and contributions



Source: Authors.
Notes: National administrative fees as well as national bank levies are subject to national discretions and might not be automatically applied in all countries. NSA refers to national supervisory authority, NRA to national resolution authority, SRF to Single Resolution Fund, NRF to national resolution fund and NDGS to national deposit guarantee scheme.

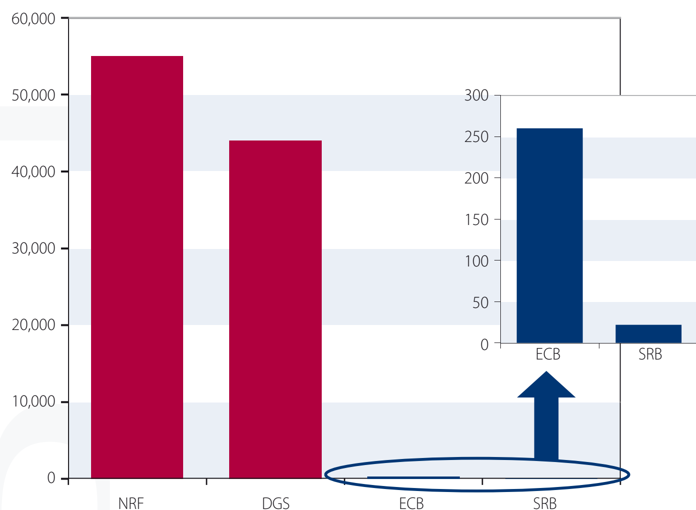
3 Article 100 of Directive 2014/59/EU and Article 10 of Directive 2014/49/EU.
4 The national fees and contributions are subject to national discretion and might not be applied in all Member States. In parallel, some banks may be exposed to other administrative costs at the national level, such as an annual fee for audit services in the case of the Slovak Republic.
5 For more details, see references to relevant (draft) legislative acts at the end of this article.
6 Moreover, if the institution fails to provide data, the competent authority has the right to determine the missing risk indicators or to assign to the entity the highest risk profile.
7 For example, the review of the regulation on supervisory fees will be carried out by 2017 and the review of the implementation of the BRRD directive in 2018.

stitutional framework, a decision has been made following the financial crisis that credit institutions should financially participate in an effective resolution of a failing bank and the related protection of depositors. This decision needs to be seen in a broader perspective of government interventions into the financial sector during the recent financial turmoil. To avoid a collapse of the entire system, many national authorities within the EU intervened by providing banks with credit lines, loan guarantees and capital injections. However the collapse of the banking sector was avoided at staggering costs: As estimated by the European Commission (2012), the level of guarantees and liquidity measures accounted for 5.4% of GDP and recapitalisation and costs of impaired assets for 0.25% of GDP (€682.9 billion and €31.7 billion respectively). To lower the probability of occurrence of banking crisis and to internalise the costs of bank distress within the EU, policy makers have agreed on unified EU-wide rules, imposing financial contributions of credit institutions to the resolution funds and to the deposit guarantee schemes. It is worth mentioning that the national resolution funds of all countries participating in the Banking Union will be replaced by the Single Resolution Fund (SRF) as of 2016 and the bank contributions will be gradually mutualised (for more details, see one of the following sections). However, no joint deposit guarantee scheme, where the cost of insuring depositors is shared within the euro area, has been agreed up to date. The deposit guarantee schemes will thus remain so far at the national level.

Furthermore, as a reaction to the crisis, some European countries introduced national bank levies. They could be seen as a special category among bank contributions as the European legislation foresees that mandatory contributions from these schemes could be taken into account for the resolution funds as well as for the deposit guarantee schemes.[3] Furthermore, as indicated in Figure 1 and in line with national legislation, they could be used for different purposes within the three pillars of the Banking Union (for more details, see one of the following sections).

Figure 1 provides an overview of all possible fees and contributions imposed on credit institutions operating within the Banking Union.[4] As the whole framework has been created only recently, most of the newly introduced fees will be phased in as of 2015. Figure 2 therefore provides an illustrative quantification of expected costs to be paid by all liable European entities in 2015. The data are based on publicly announced estimates of different bank fees and contributions, with the contributions to the funds representing the bulk of the overall financial obligations of the credit institutions.

Figure 2 Bank fees and contributions in in 2015 (EUR millions)



Source: Authors´ compilation based on different public announcements.
Note: Abbreviations as in Chart 1.

Their calculation and payment is based on a set of regulations and legislative acts,[5] which impose different obligations on the liable entities. They have an obligation to provide relevant information to different responsible authorities, such as contact details for the fee notice or data for the calculation of the bank contribution. The non- provision of these details is considered as a breach of the respective legislative act and may trigger sanctions.[6] Furthermore, they are obliged to pay their part within the deadline (usually due between 30 and in 35 days after the issuance of the fee notice). In case of partial payment or non-payment of the fees, the responsible authority is entitled to accrue interest on a daily basis on the unpaid amount, accrued at a rate of the ECB main refinancing rate plus 8 percentage points per annum from the date on which the payment was due until the date preceding the date on which the unpaid amount was credited, as well as to impose sanctions on the violating entity.

Table 1 summarises some of the obligations foreseen on credit institutions during the period 2014-2015, namely with reference to the administration fees paid to the ECB and the SRB as well as the contribution to the national resolution funds (NRF). This list is not exhaustive as it does not include reporting obligations with respect to fees imposed at the national level, or the obligations resulting from the legislation which is currently in the consultation phase. It should be acknowledged that the fee and contribution framework is still in its creation phase and individual legislative acts have been created in certain separation. This might thus have resulted in some overlaps and parallel obligations towards different layers of the institutional framework. Given this fact as well as the general increase in the reporting obligations of all credit institutions, some harmonisation in the reporting obligations with respect to the bank fees and contributions could be foreseen going forward, i.e. as part of the planned review of the relevant regulations.[7]

EU-wide Administrative Fees

As of 2015, credit institutions will be exposed to new EA-wide administrative fees related to the creation of the Single Resolution Board (SRB) and

Table 1 Key dates in 2014 and 2015

Date	Event
31 December 2014	Nomination of a fee debtor
(2015)	Instalment notice by the SRB
1 March 2014	Providing contact details of a fee debtor
(2015) + 30 days	Payment deadline for the SRB administrative fee
1 July 2015	Submission of fee factors to the ECB
1 September 2015	Submission of information for calculation of contributions
(H2 2015)	Issuance of a fee notice by the ECB
(H2 2015) + 35 days	Payment deadline for the ECB supervisory fee
30 November 2015	Notification of contribution by the NRF
31 December 2015	Payment deadline for the contribution to the NRF

Source: Authors' compilation based on (draft) legislative acts.
ECB supervisory fee Contribution to NRF SRB administrative fee

to the delegation of supervisory tasks to the ECB. According to legislative acts,[8] they will largely follow the same principles (see Figure 3).

First, the calculation and payment of the administrative fees will be executed at the group level and at the highest level of consolidation within the participating EU Member States.[9] Given the fact that the fees are paid on a consolidated basis (and not at individual institution level), it is difficult to estimate their impact on the national banking systems. It is however worth noticing that in line with the ECB regulation[10] the supervised group can nominate any of the entities in the group to serve as a fee debtor. The fee debtor will be a single entity nominated from among all entities of the supervised group and it will take the role of a fee debtor on behalf of the whole group. In other words, the fee debtor will not necessary be the 'parent' institution, but it could be any of its subsidiaries. For the sake of transparency in the nomination process, a notification about a fee debtor must be signed on behalf of all supervised entities within the group. Furthermore, the ECB provides for additional flexibility with respect to these nominations: The group has the right to notify the ECB each year in case of any changes to the fee debtor.

Second, the calculation of the fees will be based on the full cost principle, including both direct costs for their core functions (supervisory functions in the case of the ECB) and indirect costs from supporting services. The reimbursable costs will cover expenditures related to premises, accounting, legal services, HR management, internal audit, as well as statistical and IT services. The ECB will not recover costs that were incurred before it resumed its supervisory powers, i.e. before 4 November 2014. The contrary is true for the Single Resolution Board (SRB). It will become fully operational its powers as of 1 January 2016 (with some tasks exercising as of 1 January 2015), however it has an autonomous budget as of 19 August 2014 and it will thus collect instalments during the provisional period of 2014 and 2015.

The credit institutions will be charged in advance, based on the qualified estimates of costs to perform their tasks in that particular year. The first fee notices will be issued in 2015 and will cover both the advance payment for 2015 and payment for the first fee period of 2014 (i.e. August - December in the case of the SRB and November - December in the case of the ECB). Any surplus or deficit from a previous year, arising from the difference between the amount collected and the actual expenditure, will be deducted or added to the next advance payment.

Contributions to the Resolution Fund

As of 1 January 2015, all EU Member States will create a National Resolution Fund (NRF).[11] In case of those EU countries participating in the second pillar of the Banking Union, the NRF will be replaced by the Single Resolution Fund (SRF) as of 1 January 2016.[12] The main aim of the resolution fund is to raise financial resources, which could be used by the resolution authority in times of a distress for an effective application of the resolution tools and powers.

Contributions to both the NRF and the SRF are based on the same principles and methodology, specified in detail in the delegated acts.[13] First, the contributions to the resolution funds are raised on individual basis (as opposed to their calculation at the group level). Second, the contributions partially reflect the size of the liable institutions, measured by their relative share of the amount of liabilities excluding own funds and covered deposits. The size of an institution could be regarded, within the resolution framework, as the first indicator of the risk. This is given by the fact that the larger an institution is the more likely it is, in case of distress, that it would be resolved and the resolution funds will be used. Third, the basic contribution (based on the size) is further adjusted by the risk profile of an institution, with a risk adjusting multiplier ranging between 0.8 and 1.5. As for the definition of the risk profile of institutions, a rather complex system has been agreed (see Box 2). It is based on four risk pillars with different indicators, including some newly proposed indicators introduced by the CRDIV/CRR. This

8 *The primary legislative acts represent the SRM Regulation (Regulation No 806/2014, namely Articles 59 and 65) and the SSM Framework Regulation (Council Regulation No. 1024/2013, namely Article 30). The ECB supervisory fees are further specified in the ECB Regulation No. ECB/2014/41 and the administrative fees to the SFR in the Commission Delegated Regulation (EU) No 1310/2014.*

9 *Euro area countries and non-euro area Member States that voluntarily participate in the SSM and the SRM.*

10 *ECB Regulation No. ECB/2014/41*

11 *The creation of the NRF is subject to the transposition of the relevant legislation (Directive 2014/59/EU, further referred as "BRRD Directive")*

12 *There is currently some discussion ongoing about keeping the NRF for collecting contributions from entities not contributing to SRF.*

13 *Commission Delegated regulation (EU) supplementing Directive 2014/59/EU with regard to ex ante contributions to resolution financing arrangements..*

Figure 3 Key characteristics of different bank fees and contributions

	Administrative fees		Contributions to funds		
	ECB	SRB	SRF	NRF	NDGF
Fee calculation	Group level	Group level	Individual level	Individual level	Individual level
Criteria	Size + Risk profile	Size 1)	Size + Risk profile	Size + Risk profile	Size 2)
Base/Coverage	SSM	SRM	SRM	National	National
Target	Full cost coverage	Full cost coverage	1% of covered deposits	1% of covered deposits	0.8 % of covered deposits
Starting date	4 November 2014	17 August 2014	1 January 2016	1 January 2015	n.a.
Period	Annually	Annually	Annually (2016-2024)	Annually (2015(-2024)) 3)	Annually (until 2024)
Legislation	COM & ECB Regulations	SRMR/DA	SRMR/IA	BRRD/DA	DGSD

Source: Authors.
Notes: Only bank fees and contributions based on EU legislation are presented. Abbreviations as in Chart 1. SRMR refers to Regulation (EU) No. 806/2014, BRRD to Directive 2014/59/EU, DGSD to Directive 2014/49/EU, IA to an implementing act and DA to a delegated act.
1) This refers to the transitional period after which the risk profile will be included. 2) Ongoing discussion about introducing the risk profile. 3) Institutions involved in the SRM will pay to the NRF in 2015 only and their contribution for 2015 will be transferred to the SRF afterwards.

might pose some challenges for the calculation of the risk profile of credit institutions in 2015, in particular due to limited data availability, as the risk profile will be quantified based on 2013 data. Moreover, some might argue that the definition of recently introduced indicators has not been fully standardised and for the sake of objectivity, they should be rather excluded from the assessment. In this robust framework, small institutions have been granted an exception to the risk-based approach. They will pay a lump-sum instead (divided into six categories).

Despite the same methodology for defining the contributions for the NRF and the SRF, there is a substantial difference in terms of the scope or coverage of the respective funds. Within the NRF, the target level as well as the relative riskiness of any individual institution is defined with respect to all the institutions authorised in the territory of a single country (e.g. Germany), whereas within the SRF, they are calculated with respect to all the institutions authorised in the territory of all participating EU Member States. Given the difference in the scope, the transition from one approach to another might lead to important variations in the annual contributions of some institutions between 2015 and 2016. This is in particular true for coutries with institutions which hold relatively smaller (larger) amounts of covered deposits and thus their contributions would be higher (smaller) under the single target level of the SRM compared to the national target level. Furthermore, the relative riskiness of an institution also impacts the calculation, i.e. an institution could be regarded as relatively risky within the national borders whereas it might pursue conservative policies when an EU-wide comparison is drawn, which might reduce the contribution under the EU-wide approach. Given the discrepancies between the two systems (the national and SRM scope), an adjustment mechanism during the initial period of eight years has been proposed in the implementation act.[14] It is based on a non-linear phasing-in of the contributions calculated on the basis of a single target level and phasing-out of the contributions calculated on the basis of national target levels. The phasing-in/out principle reflects the idea of progressive mutualisation of national contributions, registered in the so-called 'national compartments' in the transition period of eight years, after which they will cease to exist.

The resolution authorities have to ensure that by the end of 2024[15] the resolution fund will reach at least 1% of the amount of covered deposits of all credit institutions (authorised in a single EU Member State for the NRF or in all of the participating EU Member States for the SRF). During that period, the annual contributions should be determined and spread out in time as evenly as possible until the target level is reached, with taking due considera-

14 *Proposal for a Council Implementing Regulation (COM (2014) 710 final).*
15 *This date is explicitly specified in the BRRD (Directive 2014/59/EU) and implicitly in the SRM regulation (Regulation No 806/2014), subject to certain provision of the latter legislative act coming into force.*

Box 1

ECB supervisory fees

As of 4 November 2014, the ECB has assumed responsibility for euro area banking supervision. As part of the SSM, which comprises of the ECB and national competent authorities of participating EU Member States, the ECB directly supervises 120 significant banking groups. As for all other 3500 less significant credit institutions, it sets and monitors supervisory standards. The difference in the supervisory effort of the ECB has been reflected in the system for calculation of the annual supervisory fee. The annual costs will be allocated to the two categories of supervised entities on the basis of the costs assigned to the relevant ECB functions (direct supervision and indirect supervision, respectively). In the second step, the costs of the ECB horizontal functions will be divided between the two categories on the basis of each category's share in the direct costs.

The fee consists of a minimum fee component, which will cover 10 percent of the total costs within each category split equally among the fee debtors in that category, and a variable fee component. The minimum fee component reflects a contribution for participating in the system or a floor in the fee per supervised entity. For smaller significant institutions with total assets of €10 billion or less, the minimum fee component is halved. The variable fee component covers the remaining amount of the fee after the deduction of the minimum fee component. It reflects the relative importance of each institution, measured by the total value of assets, and the risk profile of each entity, measured by total risk exposure. They are calculated at the highest level of consolidation of supervised banks and receive equal weight. This means that larger and riskier banks that require more supervisory effort pay a higher variable fee component.

tion to the phase of the business cycle and any impact of pro-cyclical measures on the financial position of contributing institutions. The funds should be raised primarily by annual ex-ante contributions, which will be collected until the target level is reached. The legislation also foresees extraordinary ex-post contributions, which will be called upon in cases when the available financial resources in the resolution fund are not sufficient to cover any losses, costs or other expenses incurred.

Contributions to the Deposit Guarantee Schemes

The financial crisis led to a substantial revision of the European legislation on deposit guarantee schemes. Despite increased harmonisation of the approach, no progress has been achieved so far with respect to the implementation of the third pillar of the Banking Union and the creation of a single deposit guarantee scheme. Deposit guarantee schemes thus remain at the national level.

Originally implemented in 1994 with the minimum harmonisation approach, the financing of the deposit guarantee schemes was left entirely to the EU Member States. Following the financial crisis, a decision was made to gradually increase the level of deposit protection to uniform EUR 100 000 by the end of 2010 and to unify the methodology for calculating the contributions to the national schemes.[16] Furthermore, all national schemes need to ensure that they possess sufficient financial means, reaching at least a target level of 0.8% of the amount of the covered deposits within their respective EU Member State

16 *Further harmonisation was achieved as regards the shortening of the repayment period, with its gradual reduction to 7 days until 2024.*

Box 2

Risk pillars

	Weights	
Risk exposure		**50%**
Own funds and eligible liabilities held in excess of MREL	25%	
Leverage ratio	25%	
Common Equity Tier 1 Capital Ratio	25%	
Total Risk Exposure / Total Assets	25%	
Stability and variety of sources of funding		**20%**
Net Stable Funding Ratio	50%	
Liquidity Coverage Ratio	50%	
Importance of an institution to the stability of the financial system		**10%**
Share of interbank loans and deposits	100%	
Additional risk indicators, as determined by the resolution authority		**20%**

Source: Draft Commission Delegated Regulation (C(2014) 7674/3).

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13. Regulation of the European Central Bank of 22 October 2014 on supervisory fees (ECB/2014/41, OJ L 311, 31.10.2014).
14. Zákon č. 384 Z. z. o osobitnom odvode vybraných finančných inštitúcií a o doplnení niektorých zákonov.

Box 3

National Bank Levies: Anecdotal evidence for their future application

The national bank levies introduced in many EU countries in the wake of financial crisis could be seen as predecessors for the unified EU-wide contributions to the resolution funds. Over the period between 2009 and 2012, fourteen EU countries[1] have implemented them, in line with the IMF recommendation (IMF 2010) to use them as a tool to increase revenue collection from the financial sector as well as to contribute to financial stability by incentivizing banks to adopt less risky capital structures.

They differ substantially in design, with 11 EU Member States levying some total liabilities (mostly net of covered deposits), whereas three countries have adopted bank levies that are conceptually quite different, with France considering the minimum amount of capital necessary to comply with the regulatory requirements as the taxable base and Hungary and Slovenia levying total assets.[2] Contrary to the new EU approach, the bank levy is considered as a contribution to the state budget in most cases (with a few country exceptions where a specialised fund was created). This approach should be seen primarily in a broader perspective as most of the countries, with the exception of Slovakia and Hungary, directly contributed to the bank rescue during the recent crisis. Also, levy rates vary substantially, with most countries implementing a flat rate. For the group of countries with a broadly similar tax base, defined as total liabilities minus covered deposits, the rate varies from 0.01% (Portugal) to 0.2% (Slovakia).[3]

The anecdotal evidence points to a different approach to the future of national bank levies after the implementation of the common EU-wide rules for bank contributions to resolution funds. The Federal Ministry of Finance of Germany declared that the current national system will be replaced by the new European bank levy. On contrary, Austrian representatives stated in April that the national bank levy would remain active as a contribution of the banking sector to the state aid provided in the past, whereas the single European resolution mechanism is regarded as an instrument for any future bank distress. Another country that is considering keeping the national bank levy is Slovakia.

In light of all obligations imposed on the banking sector from the new regulation as well as from all new EU-wide bank fees and contributions, It is worth emphasising that any additional national bank levy needs to be carefully considered against the back of high concentration within the single European market for financial services.

1 Austria, Belgium, Cyprus, France, Germany, Hungary, the Netherlands, Latvia, Portugal, Romania, Slovakia, Slovenia, Sweden and the United Kingdom.
2 For further details see Devereux et al (2013).
3 The original rate of 0.4% was halved after the total levy paid by banks reached €500 million in Slovakia.

by mid-2024. The financial means are collected from credit institutions via ex-ante contributions and in case of distress, extraordinary ex-post contributions could also be introduced. Furthermore, and in line with the general approach, there is currently an on-going discussion about changing the calculation of the bank contributions towards more risk-based approach.

Conclusions

The lessons learned from the financial crisis coupled with the introduction of the new institutional framework has brought an overhaul to the then existing structure of bank fees and contributions at both the European and the national levels. With the unification of the supervisory practices and rules, one could observe an introduction of several EU-wide bank fees and contributions.

Although the final framework is still being shaped and is thus subject to changes, an overarching principle has emerged: A strong emphasis is placed on the risk approach where the credit institutions with high leverage and risk exposure are contributing more to the system. It reflects the increased effort of different competent authorities in monitoring its health and higher impact of their possible failure for the overall stability of the financial sector.

Given the scope and extend of the changes, both in terms of the new prudential requirements as well as in terms of the new structure of bank fees and contributions, it is difficult to predict the overall impact of the new framework on the financial sector. There is strong premise that the new reality will lead to an effective and more resilient European financial system and the end of the vicious cycle between the sovereign and banks.