



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

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Director General

Micro-Prudential Supervision III

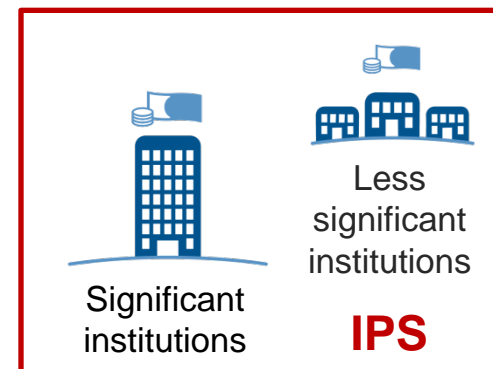
EUROPEAN CENTRAL BANK

# Public consultation on how to assess institutional protection schemes

31 March 2016

## What is an institutional protection scheme?

- An institutional protection scheme (IPS) is a contractual or statutory liability arrangement **which protects its member institutions** and in particular ensures that they have the **liquidity and solvency** needed to avoid bankruptcy



Solidarity  
mechanism

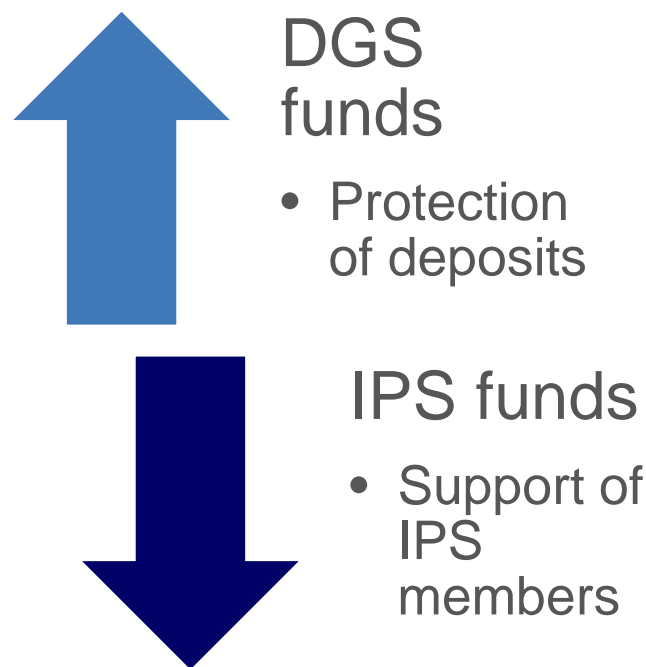
No  
consolidated  
banking group  
-  
IPS members  
are  
autonomous  
institutions that  
are supervised  
individually

Significant and  
less significant  
institutions may  
be members of  
the same IPS

Two main  
sectors  
currently  
covered by  
IPS:  
cooperative  
and savings  
banks


# What is the relationship between IPS and Deposit Guarantee Schemes (DGS)?

- An IPS may be **officially recognised as a DGS** (and be subject to all provisions of the DGS Directive) or it may continue its activity as a **pure IPS** (its members need to belong to an officially recognised DGS).
- **NCA**s remain competent for recognition and supervision of IPS as DGS according to the DGS Directive requirements.
- The target level for **ex ante funds of DGS** is **0.8%** of their covered deposits is to be reached by 3 July 2024.



## What is the prudential treatment of IPSs and its members?

Preferential treatment of IPS member institutions is only possible if the conditions set out in CRR are met (Article 113(7) CRR)



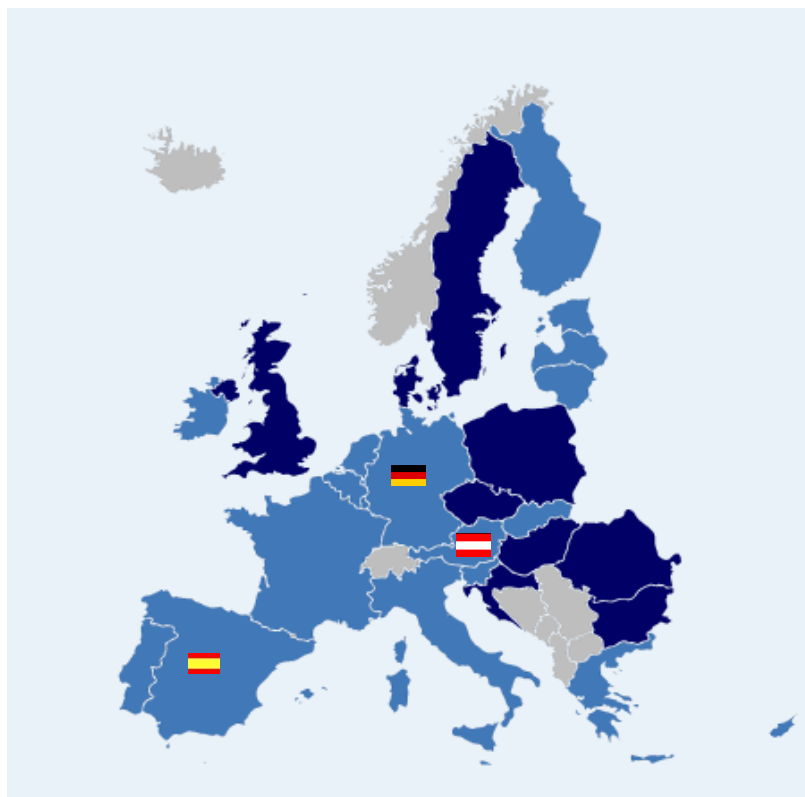
0% risk weight for exposures to other IPS members  
No large exposure limits for exposures to other IPS members



Further derogations and waivers may be authorised

## Relevance of institutional protection schemes in the euro area

50% of the total number of credit institutions in the euro area are members of an IPS, representing 10% of the total assets of the euro area banking system



### AUSTRIA



8 IPS / ~370 member institutions

Cooperative and savings bank sector

### GERMANY



2 IPS / ~1,465 member institutions

Cooperative and savings bank sector

### SPAIN



2 IPS

Credit unions

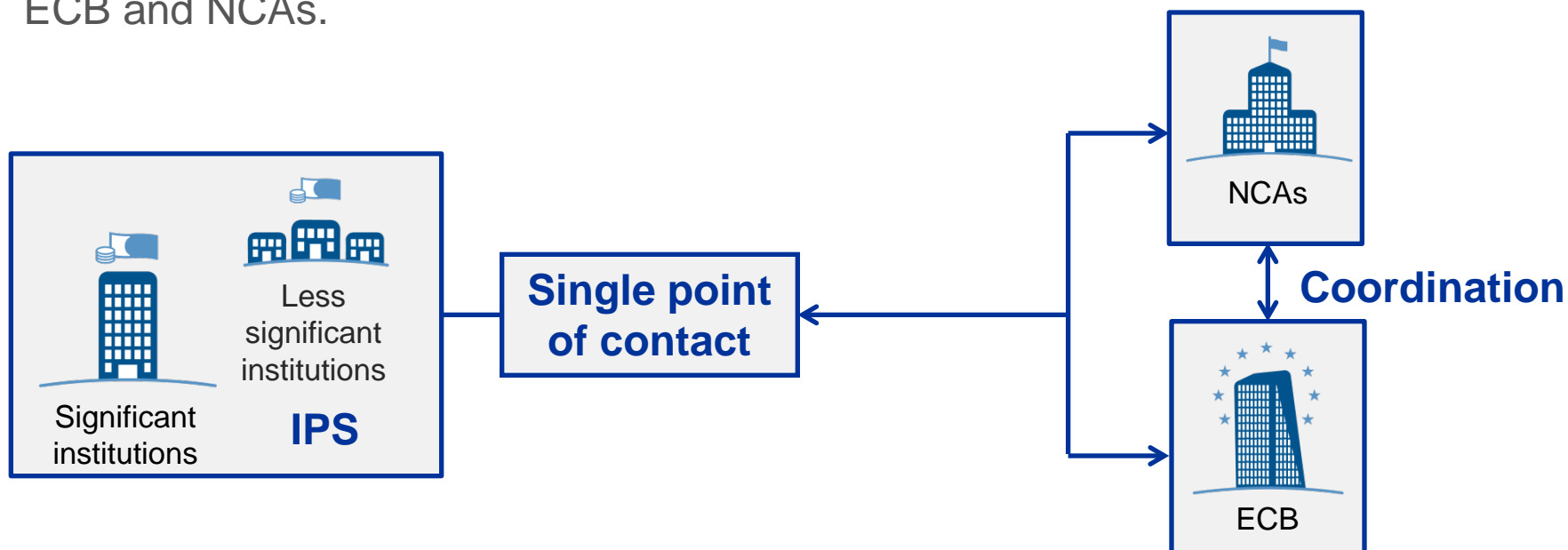
## Main objectives of the ECB's work related to IPS

- Development of common approach for the recognition of IPS for prudential purposes in the SSM to ensure consistency
  - Guidance on how new IPS applications will be assessed in the SSM
  - Common criteria will be used by the ECB and national competent authorities (NCAs)
  - Ensuring a level playing field between (i) significant and less significant institutions and (ii) institutions belonging to IPSs across the SSM area
  - On-going compliance with common IPS requirements



## Organisational aspects

- Coordinated decision making in case significant and less significant institutions are affected.
- Joint monitoring of IPS by ECB and NCAs.
- IPS should appoint a single point of contact to facilitate the communication with ECB and NCAs.



## Main criteria for the assessment of IPS

- The IPS needs to be able to provide sufficient support in a timely manner in the event that a member institution faces severe financial constraints

- Clear commitment of the IPS to provide support when necessary

- The IPS framework comprises a series of possible actions, proportionate to the riskiness and financial constraints of the beneficiary IPS member

- Governance structure and decision making process allows timely support

- Financial capacity to provide support from funds readily available – existence of an ex-ante fund with sufficient funds

- Support measures may be linked to conditions to avoid moral hazard

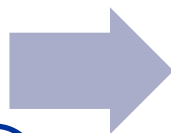


## Main criteria for the assessment of IPS

- Clear commitment of the IPS to provide support when necessary
  - Intervention where no alternative private-sector measure (including recovery measures) would prevent the failure of a member institution
  - Ensure that IPS member institutions permanently comply with regulatory own funds requirements

### Breach of Pillar 1 requirements

- There should be a clear commitment from the IPS to intervene if an IPS member institution does not comply with the minimum Pillar 1 own funds requirements.



### Breach of Pillar 2 requirements

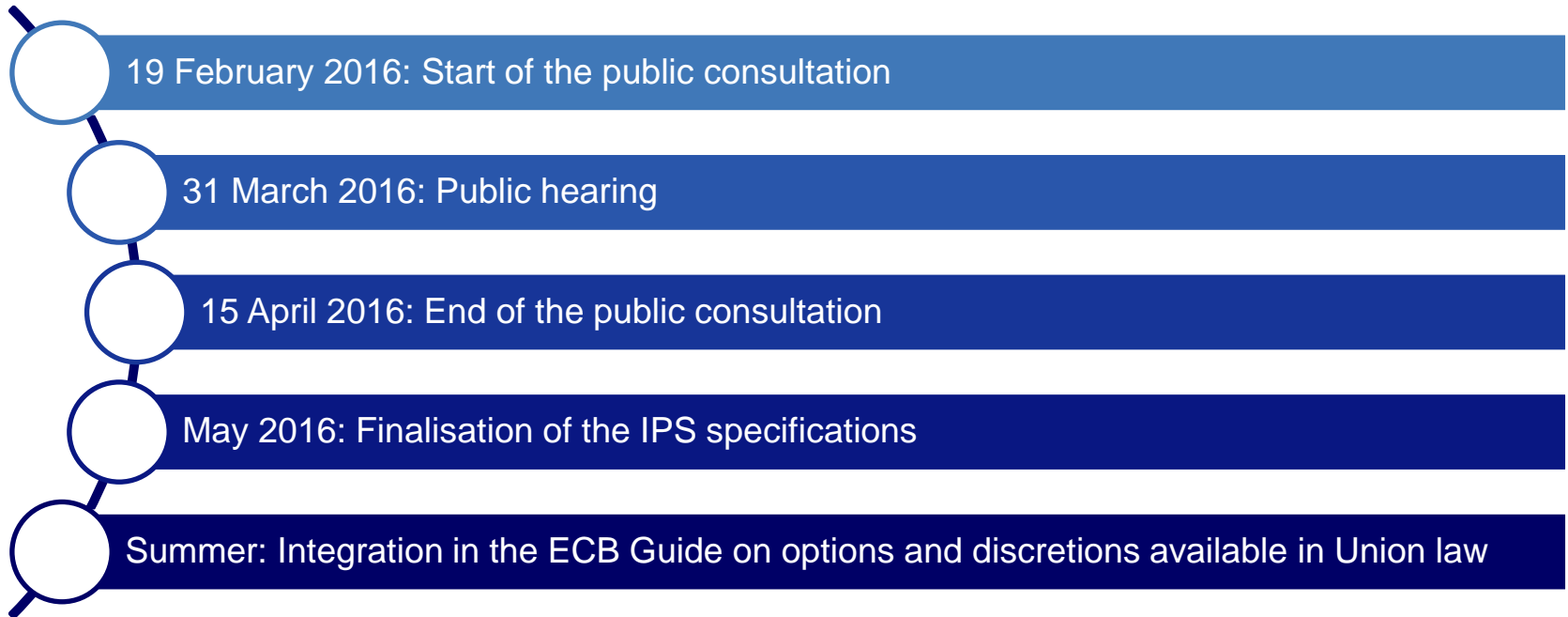
- The IPS would be expected to intervene in case the management and owners of an institution are not able to cover a shortfall within a given timeframe as defined by the competent authority.

## Main criteria for the assessment of IPS

- The IPS needs to be able to identify financial problems of an IPS member at an early stage and to take preventive action

- |   |
|---|
| <ul style="list-style-type: none"><li>• Definition of uniform standards and methodologies for the risk management by IPS members</li></ul>  |
| <ul style="list-style-type: none"><li>• The IPS monitoring systems classify the IPS members according to their riskiness in order to allow early intervention</li></ul>                                     |
| <ul style="list-style-type: none"><li>• The IPS member institutions are obliged to provide data on their risk situation at regular intervals – appropriate data flows and IT systems are in place</li></ul> |
| <ul style="list-style-type: none"><li>• The IPS has the possibility to influence the risk situation of the IPS member institutions by issuing instructions, recommendations, etc.</li></ul>                 |
| <ul style="list-style-type: none"><li>• The IPS members are informed of their risk classification</li></ul>   |

## Timeline



## Submitting comments

- Comments can be submitted by 15 April 2016
- Comments can be submitted via e-mail or traditional mail
- Details about how to submit a comment can be found on our website [www.bankingsupervision.europa.eu/legalframework/publiccons/html/institutional\\_protection.en.html](http://www.bankingsupervision.europa.eu/legalframework/publiccons/html/institutional_protection.en.html)

