Consultation Paper

Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU
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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the ‘send your comments’ button on the consultation page by 08.02.2016. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA’s rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA’s Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.
2. Executive Summary

Directive 2014/49/EU on deposit guarantee schemes (DGSD) introduces a number of innovations to improve the resilience of deposit guarantee schemes (DGSs) in Europe, including the requirement for DGSs to perform stress tests of their systems every three years, with the first test to occur by 3 July 2017.

Stress tests will verify whether the operational and funding capabilities of DGSs are sufficient to ensure deposit protection within the conditions of the Directive in times of increased pressure, thereby contributing to continuous improvement of DGSs. Results of stress tests performed at the level of each DGS will then be put into perspective at European level by way of a peer review to be performed by the EBA at least every five years in line with Article 4(10) of the DGSD.

A sufficient level of quality and consistency is necessary for DGS stress tests to be credible assessment tools and for the EBA peer reviews to be based on comparable data. This is why the EBA is developing own-initiative guidelines containing methodological principles for the conduct of stress tests, prescriptions on the intervention scenarios and areas to be tested, and minimum elements to be tested ahead of the first EBA peer review.

Under these draft guidelines, DGSs should follow a rational and systematic method for the organisation of tests which should start with a program of tests to be performed over a cycle of two to five years, and proceed for each individual test with a sequence of steps including planning, running of and reporting on the exercise.

DGSs should test various types of scenarios in which they might intervene. In line with DGSD, all DGSs should test repaying depositors whose deposits have been determined unavailable. They should also test their ability to contribute to orderly resolution proceedings with a view to ensuring continuous access to depositors’ funds. Where a DGS is entrusted with supporting the prevention of an institution’s failure, it should test its ability to do so, too.

When conducting tests, DGSs should assess their performance in relation to a broad series of operational and financial capabilities, ranging from access to data, staff and other operational resources, communication and payment, funding resources etc. For each of the main areas, the guidelines provide for minimum indicators to be measured by DGSs.

With a view to the first EBA peer review foreseen in 2020, DGSs are required to report results on a minimum block of elements covering the quality of single customer view (SCV) files, operational capabilities and funding capacity in a payout or resolution scenario requiring an intervention of at least the target level. A preliminary cross border cooperation test is also required. This

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foundational series of tests should allow the first meaningful EU-wide overview of the resilience of DGSs in the context of the peer review.
A proportionate approach has been adopted. For example, DGSs retain the ability to calibrate their tests to best fit the reality of their membership (in terms of size, banking model, cross-border footprint, likelihood in case of failure to be subject to resolution proceedings etc.) but specific targets when it comes to the priority tests to feed into the European peer review.
3. Background and rationale

The introduction of stress testing of deposit guarantee schemes (DGSs) is part of several innovations of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (DGSD), alongside other mechanisms such as ex-ante funding requirements and cooperation agreements, aimed at reinforcing the credibility and practical effectiveness of DGSs in Europe.

Pursuant to Article 4(10) of the DGSD:

- Member States shall ensure that DGSs perform stress tests of their systems and that the DGSs are informed as soon as possible in the event that the competent authorities detect problems in a credit institution that are likely to give rise to the intervention of a DGS. Such tests shall take place at least every 3 years and more frequently where appropriate. The first test shall take place by 3 July 2017.

- Based on the results of the stress tests, EBA shall, at least every 5 years, conduct peer reviews pursuant to Article 30 of Regulation (EU) No 1093/2010 (‘EBA Regulation’) in order to examine the resilience of DGSs.

- DGSs shall be subject to the requirements of professional secrecy in accordance with Article 70 of the EBA Regulation when exchanging information with EBA.

Accordingly, based on the results of the first stress tests to be performed by DGSs no later than by 3 July 2017, the EBA must conduct its first peer review at the latest by 3 July 2020.

EBA peer reviews in this area, in line with Article 4(10) of the DGSD, should serve to assess the resilience of DGSs in the EU, and identify strengths as well as weaknesses based on a comparison of the outcomes of stress-tests. Ultimately, these stress tests should aim to help designated authorities and DGSs to address existing inefficiencies and improve the weakest links.

In order to achieve the aims of the DGS peer reviews, stress tests carried out at national level should cover a sufficient range of elements and produce comparable results that can inform the EU-wide exercise.

Against this background, in order to ensure the correct application of the DGSD and contribute to strengthening the European system of DGSs, the EBA has decided to adopt own-initiative guidelines on the content of DGS stress tests that would outline test areas, scenarios and a template.

These guidelines draw on IADI core principle for effective deposit insurance number 6, whereby deposit insurers should have in place effective contingency planning and crisis management.
policies and procedures to ensure it is able to effectively respond to the risk of bank failures and other events\(^2\). The guidelines also benefit from previous efforts of the European Forum of Deposit Insurers to develop guidance and templates in this area\(^3\).

In terms of content, first these draft guidelines lay down a number of methodological principles in order to ensure a systematic and comprehensive approach to planning, running and concluding stress test exercises. In order to ensure that key aspects of a system are covered over a cycle, DGSs are required to adopt a multiannual program shared with the designated authorities and the EBA.

Second, these draft guidelines elaborate on the types of intervention scenarios that should be simulated by DGSs, focusing on the possible use of DGS funds provided under Article 11 of the DGSD, namely repayment, contribution in resolution and support to failure prevention.

Third, when running stress tests DGSs should test a broad range of operational and funding capabilities, covering key areas and main functions activated when a DGS intervenes, such as access to data, operational resources, repayment periods, and of course the ability to meet liabilities with the ex-ante, ex-post and alternative funding means at its disposal.

In order for the peer review to achieve its objectives, national DGS stress tests should be run on a sufficiently comparable basis in terms of scenarios and test areas. The principles laid down in these guidelines will ensure minimum consistency and quality of DGS stress tests and will, thus, facilitate comparability within Europe in the context of the peer reviews performed by the EBA. Considering the novelty of DGS stress tests as an EU regulatory requirement and the diversity of experience in conducting stress tests among the DGSs, the build-up of DGS testing capacities, and the level of sophistication and complexity of such tests, will be progressive.

In addition, these guidelines lay down a minimum list of priority tests that should be tested and reported by 3 July 2019 ahead of the first peer review. This is without prejudice to the ability of national DGSs to conduct additional tests based on more sophisticated assumptions, or to include the minimum elements as part of more comprehensive tests.

\(^2\) International Association of Deposit Insurers, Core principles for effective deposit insurance systems, November 2014.
\(^3\) www.efdi.eu
4. Guidelines

In between the text of the draft Guidelines that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.
Draft Guidelines

on stress tests of deposit guarantee schemes under Directive 2014/49/EU
1. Compliance and reporting obligations

Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/20104. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the guidelines.

2. Guidelines set the EBA view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010 to whom guidelines apply should comply by incorporating them into their practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

Reporting requirements

3. According to Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by ([dd.mm.yyyy] two months after publication of all language versions of the guidelines). In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website to compliance@eba.europa.eu with the reference ‘EBA/GL/201x/xx’. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities. Any change in the status of compliance must also be reported to EBA.

4. Notifications will be published on the EBA website, in line with Article 16(3).

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2. Subject matter, scope and definitions

Subject matter

5. These guidelines specify minimum principles and content of stress tests which deposit guarantee schemes (‘DGSs’) must perform pursuant to Article 4(10) of Directive 2014/49/EU. These guidelines specify minimum principles and content of stress tests which deposit guarantee schemes (‘DGSs’) must perform pursuant to Article 4(10) of Directive 2014/49/EU.

6. They aim at helping designated authorities and DGSs to increase the resilience of the DGSs’ systems within the European Union by setting a minimum level of consistency, quality and comparability of DGSs’ stress tests.

Scope of application

7. These guidelines apply to DGSs when performing stress tests of their systems in accordance with Article 4(10) of Directive 2014/49/EU.

8. Where designated authorities administer a DGS, they should apply these guidelines when performing stress tests of the DGS’s systems. When a DGS is administered by a private entity, designated authorities should ensure that these guidelines are applied by such DGSs.

Addressees

9. These guidelines are addressed to competent authorities as defined in Article 4(2)(iii) of Regulation (EU) 1093/2010.

10. These guidelines are also addressed to competent authorities as defined in Article 4(2)(i) and (iv) of Regulation (EU) 1093/2010, to the extent that their cooperation, as safety net participants, is required in order to ensure adequate performance of the DGS stress tests.

Definitions

11. Unless otherwise specified, terms used and defined in Directive 2014/49/EU have the same meaning in the guidelines. In addition, for the purposes of these guidelines, the following definitions apply:

<table>
<thead>
<tr>
<th>Term to be Defined</th>
<th>Definition of the term and reference to relevant legislation</th>
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<tbody>
<tr>
<td>Assumptions</td>
<td>means the information and parameters that are</td>
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Internal participants means test participants from the DGS.

External participants means test participants from the affiliated credit institutions or relevant public authorities.

Single Customer View file (‘SCV file’) means the file containing the individual depositor information necessary to prepare for a repayment of depositors, including the aggregate amount of eligible deposits of every depositor.

3. Implementation

Date of application

12. These guidelines apply from [1st June 2016].

4. Objectives of DGS stress tests

13. DGS stress tests should contribute to incrementally increasing the resilience of the European system of DGSs, by:

(i) testing the ability of DGSs to perform the tasks entrusted to them in accordance with Directive 2014/49/EU, including when cooperating with other EU schemes;

(ii) identifying which dimensions of a DGS require improvements or have already improved compared to previous tests;

(iii) producing results which allow comparability and peer reviews.
5. Methodology for stress tests conducted at DGS level

14. In order to ensure a comprehensive approach, stress tests should be programmed over a medium term cycle, and subsequently, for each exercise, follow a number of key phases as described in subsection 5.2.

5.1 Programming of a cycle of stress tests

15. DGSs should define a programme of test exercises with a view to covering, over a period which is not less than two to five years, the intervention scenarios and test areas described in these guidelines.

16. The programme should be shared with the designated authorities and the EBA.

17. The programme should set out the estimated timeframe of foreseen exercises and define the planned scope of each exercise in terms of test areas and types of intervention scenarios.

18. The programme may include targeted tests, for example on SCV file quality, as well as more comprehensive tests that would cover all test areas under a given intervention scenario.

19. The programme should be updated on a regular basis taking into account inter alia the results of previous stress tests (e.g. that would highlight a need for finer assessment of certain areas), actual DGS interventions or regulatory developments (e.g. a shortening in repayment deadlines).

20. Where a real life intervention which occurred during the cycle enables a DGS to assess the resilience part or all of the areas, indicators and scenarios planned for testing under the programme, the DGS may amend the programme to reflect that the real-case-based test will substitute the originally envisaged fictitious-case-based test. In such case, instead of completing all the phases described in section 5.2 the DGS may focus on the reporting and corrective action phases.

5.2 Key phases of a stress test exercise

21. DGSs should complete the following phases when conducting a stress test exercise.

Planning phase

22. DGSs should appoint a steering team or steering officer (hereafter referred to as ‘steering team’) in charge of planning and coordinating the various tasks involved in a stress test
exercise. Senior management should ensure that the steering team is provided with all the
information necessary and receives full cooperation from the rest of the staff of the DGS.

23. Ahead of each exercise, the DGS should define the timeframe for executing the tests and
identifying the participants involved, including, where relevant, the affiliated credit
institutions and other public authorities.

24. Based on the programme defined in subsection 5.1, the steering team should define in more
details the focus of the test, scope of the intervention scenario, test areas, indicators to be
measured, and assumptions underpinning the exercise (e.g. level of losses incurred by the
institution, level of pay-out in liquidation, credit institutions to be covered by SCV quality
checks).

25. Without prejudice to section 8, tests may be targeted tests which cover only a partial range of
test areas (e.g. operational capabilities, or access to data), or even measure a given area
without running an intervention scenario (e.g. routine SCV check), provided the various
intervention scenarios, areas and indicators laid down in these guidelines are tested over the
programme cycle referred to in subsection 5.1.

26. The DGS should identify and allocate the necessary resources for the test in terms of staff,
budget, and infrastructure. The adequacy of these means should be continuously reviewed
during the development of the exercise.

27. DGSs should make arrangements to ensure objectivity in the definition of assumptions for the
stress test, the running of the test and the elaboration of unbiased conclusions. Such
arrangements should ensure that objectivity requirements apply to all participants to the test
and be documented by the scheme. They should establish a separation between the steering
team and other participants who, within the DGS, also take part in the exercise. Alternatively,
those arrangements should provide for the participation of external observers of the process.
Observers may be the designated authorities, where they are not themselves administering
the schemes, other public authorities, consultancy firms or other DGSs. Observers should
strive to verify that the process is being led objectively and, in case of doubt, express their
corns to the steering team. Observers should have access to the relevant information
regarding all phases of the process. Any information shared in this context should be
subject to professional secrecy requirements.

28. The requirement to establish separation or involve observers should not apply to the tests of
SCV files.

| Question 1: |
| What is the best way to ensure the objectivity of the stress tests assumptions and process? |
| Do you support systematically requiring separation between the steering staff and stress test participants? If not, do you support concrete alternatives, for example external audit? |
| What additional details could be laid down with regard to external intervention? |
29. The steering team should contact the internal and external participants who will be involved in the various stages of the exercise and secure mutual understanding as to the role expected by everyone in the exercise.

**Running phase**

30. When running the test, the steering team should request and collect from test participants the information necessary to assess the performance of the DGS’s systems in relation to the test areas and indicators described in section 7.

31. Tests may be run in various formats, including live roleplaying sessions where internal and external participants simulate the actions and decisions they would take in a given intervention scenario, or back-office exchanges (e.g. where the DGS steering team or an internal department of the DGS requests SCV files from an institution and measures the accuracy of the information).

32. Participants in the running phase should represent those authorities, entities, divisions, including within the DGS, which would have to take the necessary actions or decisions or provide the necessary information in a real life scenario (for example, credit institutions for SCV files check, internal departments in charge of funding issues within the DGS, resolution authorities which would instruct the DGS to contribute to resolution).

**Reporting and corrective action phase**

33. The steering team should process and interpret the results of the test with a view to making an objective assessment of the resilience of the DGS in the areas measured.

34. The steering team should record results in a consistent manner over time, using a template such as the template developed by the European Forum of Deposit Insurers. DGSs should report the stress tests results to the designated authorities at least annually.

35. Stress tests should be part of a continuous improvement process. Accordingly, where weaknesses in a DGS’s systems are identified in the context of a stress test, the DGS should take corrective measures. Where weaknesses have been identified that are attributable to credit institutions, for example flaws in the quality of SCV files, the DGS should seek corrective measures, if necessary via the competent authority in charge of the supervision of those institutions. The DGS should then seek to ascertain, in subsequent tests, that the weaknesses have been remedied.

**5.3 Cooperation with public authorities**

36. DGSs should keep designated authorities fully informed when planning and conducting stress tests, unless the DGS is also the designated authority.
37. For this purpose, DGSs should submit their programme of test exercises, as referred to in section 5.1, to the designated authorities. Subsequently, when planning each exercise, they should inform designated authorities of the scope of the test in terms of participating credit institutions, test areas, scenarios etc. and allow sufficient time before the start of the exercise to give the designated authorities ample time to provide comments.

38. Before testing an intervention scenario as defined in section 7, DGSs should inform the public authorities that would be involved in the kind of scenario being tested. At a minimum, the ‘relevant administrative authority’ identified pursuant to Article 3(1) of Directive 2014/49/EU, as well as the competent authority, should be informed when testing a repayment scenario. The competent and resolution authorities should be informed when testing a resolution scenario.

39. DGSs should seek the opinion of those authorities on assumptions for the test and offer participation in the running phase. Where a DGS is separate from the designated authority, such participation or consultation may be organised via the designated authority.

40. Competent and resolution authorities should cooperate, directly or via the designated authority, in defining scenarios and running tests.

6. Intervention scenarios

41. In order to comprehensively assess their capacity to effectively deal with cases of institution failure, DGSs should test intervention scenarios as prescribed in this section.

42. DGSs may simulate the failure of existing or fictitious institutions. They may use assumptions and data from previous intervention cases and assess the way in which the DGSs systems performed. They may also simulate the way in which, under the current conditions, their scheme would behave if it were faced with a similar situation.

6.1 DGS functions to be covered by scenarios

43. DGSs should test their ability to fulfil their tasks in all the types of intervention set out in Directive 2014/49/EU, namely:

- To compensate depositors in the event of a credit institution’s insolvency pursuant to Article 11(1) of that Directive (‘repayment function’);

- To finance the resolution of credit institutions in order to preserve continuous access to deposits in pursuant to Article 11(2) of Directive 2014/59 and Article 109 of Directive 2014/59/EU (‘contribution to resolution function’);
- To use their available financial means for alternative measures in order to prevent the failure of a credit institution, if allowed under the law of the Member State where the DGS is established, pursuant to Article 11(3) of Directive 2014/49/EU (‘Failure prevention function’);

- To use their available financial means to finance measures to preserve the access of depositors to covered deposits in the context of national insolvency proceedings, if allowed under the law of the Member State where the DGS is established, pursuant to Article 11(6) of Directive 2014/49/EU (‘contribution to insolvency-scenario’).

Repayment function

44. All DGSs should test their ability to repay depositors as provided for under Article 11(1) of Directive 2014/49/EU. No DGS should be able to abstain from testing repayment on the ground that it tests the resolution or failure prevention functions described hereafter.

45. In a repayment scenario, the DGS should simulate the failure of one or several institutions in order to assess whether the repayable amount would be available within the repayment periods prescribed in Article 8 of Directive 2014/49/EU.

46. Over the time of the programme cycle, DGSs should test the areas and apply the indicators described in section 7.

Contribution to resolution

47. Resolution scenarios should assume intervention in relation to an affiliated credit institution that has been placed under resolution in accordance with Directive 2014/59/EU and for which a DGS contribution is required under Article 109 of that Directive.

48. DGSs should consult resolution authorities in designing the scenario and running the test, and should invite them to participate in the test.

49. Stress tests of resolution scenarios may be performed on a stand-alone basis or may be part of a broader resolution test performed under the leadership of resolution authorities, provided that all areas and indicators described in section 7 are tested and applied, respectively. Competent authorities and resolution authorities should cooperate with the DGSs and provide them with the necessary information, either directly or through the designated authorities, to design and run stress tests.

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50. The assumed level of DGS contribution to resolution financing should be calibrated in consideration of the rules laid down in Articles 108 and 109 of Directive 2014/59/EU and the profile of credit institutions selected for at test involving a resolution scenario.

51. In exceptional cases, a DGS may abstain from testing resolution scenarios where it concludes, after consulting the resolution authority, that no member of the DGS is likely, in case of failure, to be subject to resolution proceedings, as described in section 6.2.

**Failure prevention**

52. Where allowed to use funds for the prevention of failure pursuant to Article 11(3), DGSs should perform at least two types of tests:

- tests simulating a significant deterioration of the financial situation of one or several members, including their capital position, asset quality and liquidity position. In this context, the test should assess whether the DGS would be able to prevent failure, including by considering the type of alternative measures that could be implemented and whether the DGS would have the funding capacity to provide the necessary support; or

- tests of the risk monitoring systems of the DGS. Where distress situations have been recorded in the past, DGSs should determine whether the monitoring systems have been able to detect the imminence of the risk.

**6.2 Selection of credit institutions to be included in intervention scenarios**

53. DGSs should select affiliated credit institutions to be included in intervention scenarios based on objective criteria such as the planned focus of the test (e.g. type of function tested, severity, geographical reach) and the profile of those institutions.

54. For this purpose, DGSs may, after consulting the resolution authority, identify credit institutions which, given their size, would be likely in case of failure to be subject to resolution proceedings and would be included only in resolution scenarios, based on the following criteria:

- Credit Institutions established in Member States which participate in the Single Supervisory Mechanism (‘SSM’) as defined in Article 2(9) of Regulation (EU) No 1024/2013 and belonging to groups.

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- Credit institutions established in Member States which do not participate in the Single Supervisory Mechanism (‘SSM’) as defined in Article 2(9) of Regulation (EU) No 1024/2013 but meeting the criteria of significance set out in Article 6(4) of Regulation (EU) No 1024/2013.

Question 2

Do you agree with the approach proposed, which draws on the methodology developed by the Commission for assessing Member State requests under Article 10(6) of the DGSD?

6.3 Severity and complexity of scenarios

55. DGSs should test scenarios assuming different levels of severity and complexity. Over time DGSs should apply increasingly sophisticated and severe scenarios.

56. In order to ensure historical relevance, DGSs should, over the cycle, test scenarios assessing the capacity of their systems to deal with interventions cases of a type and intensity experienced in the past, and in particular during the 2008-2012 period. This prescription is without prejudice to the need to test broader or more severe scenarios with a view to assessing the ability of the DGS to perform its functions in the future.

57. Different geographical scopes should be tested, with a progressive introduction of scenarios requiring intervention in support of depositors at branches in other Member States. This requirement is not applicable where no affiliated institution has any branch in other Member States.

7. Test areas and indicators

58. Stress tests should cover two main risk areas: (i) operational risks, i.e. the risk that the DGS cannot meet its obligations due to inadequate or failed internal processes, inadequate staffing and systems, and (ii) funding risks, i.e. the risk that the funding sources provided for in Article 10 of Directive 2014/49/EU (regular contributions, extraordinary contributions and alternative funding arrangements) are insufficient to enable the DGS to meet its potential liabilities, or to meet them within the time periods required by national or Union law.

59. Stress tests should cover various operational stages of a DGS intervention, from pre-failure planning to preparation upon failure, to execution of intervention, including repayment, contribution to resolution etc. They should apply both quantitative and qualitative indicators, and should at a minimum measure the indicators set out in this section.
60. Operational and funding capabilities should be tested under the intervention scenarios described in section 6. In addition, DGSs may also run targeted exercises independently of any scenario, for example regular check of SCV file of a given institution.

61. In relation to DGS intervention in resolution, test areas and indicators may focus on the collection of data, transmission of data to resolution authorities, and funding mechanisms and arrangements.

7.1 Operational capabilities

62. DGS stress tests should cover the DGS’s capacity to run the processes and mechanisms involved in an intervention, including access to data, staff and other operational resources, communication, payment systems, time measurement, and home-host cooperation.

1) Access to data:

63. Access to good quality data on institutions, depositors and deposits should be tested as a matter of priority in order to ensure that DGSs are prepared to perform their tasks at all times.

a) Information on institutions, depositors and deposits

64. DGSs should test the arrangements in place for requesting and obtaining SCV files from institutions, and assess the quality of those files and the timeliness of transmission.

65. SCV file quality may be assessed in the context of a scenario-based test or in the context of regular routine tests with some or all of the affiliated credit institutions.

66. The quality of an institution’s SCV may be tested based on samples provided i/ the sampling method is determined by the DGS, not the institution, ii/ the sample is sufficiently large and diversified to be representative of the institution’s full SCV file.

67. The quality of the SCV files should be assessed in relation to whether it would provide the DGS, in case of failure, with all the information necessary to complete its intervention in relation to a depositor, including the identity of depositors, their contact details, accounts held and corresponding amounts, amounts of eligible and covered deposits. For this purpose, DGSs should define criteria for a valid or invalid SCV file (e.g. incorrect identification numbers, incorrect addresses, different names with the same identification numbers, several records for the same depositor etc.) and measure the number of invalid SCV files as a share of the institution’s records or, where applicable the sample.

68. Where insufficient quality has been observed at an institution, a follow-up check should be conducted within two years to assess progress. The DGS may adjust this two year period where, considering the human and other resources available, it is necessary to prioritise tests.
at other credit institutions which raise concerns in terms of SCV quality or on the basis of the DGS’s general risk assessment of credit institutions.

Indicators:
- Arrangements in place for requesting and obtaining SCV files (qualitative)
- Time to obtain transmission of SCV files (quantitative)
- Quality of SCV files (qualitative and quantitative)

Question 3

Is it sufficient to test an institution’s SCV files on the basis of a sample, or should all SCV files tested?

Which process should a DGS follow in order to define a sample of the SCV file to be tested, and to consider that the sample tested is sufficiently representative of the institution’s full SCV file?

69. DGs should also assess the quality of institutions’ arrangements in place for identifying and dealing with temporary high balances (‘THBs’) as defined in Article 6(2) of Directive 2014/49/EU and beneficiary accounts as governed by Article 7(3) of that Directive.

70. Such arrangements could include pre-failure cooperation with professionals exposed to beneficiary accounts such as notaries and contingency planning allowing a flexible increase in the DGs resources.

Indicators:
- Quality of arrangements in place for identifying THBs deposits and deposits on beneficiary accounts (qualitative).

Question 4

It is difficult to forecast the financial impact of covering THBs protected under Article 6(2) of the DGSD, or beneficiary accounts (protected under Article 7(3) of the DGSD. The ability to perform stress tests in relation to THBs and beneficiary accounts depends on national arrangements, for example the existence of particular kinds of deposits where temporary high balances are earmarked ex-ante. Nevertheless, do you agree on the need to undertake, at least at a very general level and in a qualitative way, an assessment of the arrangements in place in order to identify THBs and deposits on beneficiary accounts upon failure?
b) Information on problems detected at a credit institution that are likely to give rise to the intervention of a DGS.

71. DGSs should assess the arrangements in place (legal or administrative provision, memoranda of understanding etc.) for obtaining, as provided for in Article 4(10) of Directive 2014/49/EU, information on problems detected at a credit institution that are likely to give rise to the intervention of a DGS. In this regard they should assess whether these arrangements would allow sufficiently early information, for example where competent authorities exercise powers under Article 27 of Directive 2014/59/EU (early intervention) or Article 104 of Directive 2013/36/EU8 (supervisory powers), or where competent or resolution authorities determine under Article 32 of Directive 2014/59/EU that an institution is failing or likely to fail.

Indicators:
- Quality of the arrangements in place for obtaining information from competent or resolution authorities on problems detected at a credit institution which could give rise to DGS intervention, including whether they ensure receiving timely information on early deterioration of an institution’s financial situation

2) Staff and other operational resources

72. DGSs should test, under the scenarios described in section 6, whether they would have at their disposal the necessary resources to cope with the sudden increase of activity caused by an intervention, in terms of budget, staff, office space, IT equipment, call centres etc., including by reallocating existing permanent resources or entering into temporary outsourcing arrangements.

73. A conclusive assessment in this regard should not exclusively rely on hypothetical budget increase but should at least in part reflect contingency mechanisms arranged for in good times (e.g. some provisioning for employing staff on a temporary basis).

Indicators:
- Extra staff, budget and other resources that would be available at short notice when needed (quantitative)

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- Adequacy of the extra resource

3) Communication with depositors and the wider public

74. DGSs should make an assessment of the communication processes that would be applied on the occurrence of a repayment scenario, reviewing the communication strategy and resources.

**Indicators:**
- Time to set up call centres and ad hoc websites or webpages
- Capacity of website or call centres in terms of number of connections or calls (quantitative)

4) Payment instruments

75. DGSs should test their ability to proceed with payments to depositors, i.e. to effectively transfer the repayment amounts to depositors.

76. To that effect, they should assess the quality of existing processes for collecting payment details, the payment instruments available (e.g. bank transfers, cheques, prepaid cards) and where applicable their capacity to pay in foreign currencies.

77. Once they have reviewed the various processes and instruments available, they should verify their capacity to apply them swiftly in stress situation involving a high number of payments.

**Indicators**
- Review of payment instruments available for payout scenarios (qualitative)
- Adequacy when applied to a high number of payments, as defined in the scenarios (qualitative)

5) Repayment and contribution periods
78. DGSs should measure the time from the determination of unavailability of deposits until the point in time when the repayable amount must be available\(^9\) in accordance with Article 8(1) of Directive 2014/49/EU and, on that basis, measure any delay compared to the repayment periods provided for under Article 8(2) to 8(5) of such Directive.

**Indicators:**

- For repayment scenarios, time from determination of unavailability to repayment of depositors (quantitative)
- For resolution scenarios, time from resolution authority request to payment of contribution

79. Where applying resolution scenarios, DGSs should measure the time necessary to pay their contribution pursuant to Article 11(2) of Directive 2014/49/EU.

6) **Home-host cooperation**

80. DGSs should test the systems in place for repaying depositors at branches set up by their affiliated credit institutions in other Member States.

81. First, DGSs should verify that they are able to retrieve SCV files regarding depositors at such branches.

82. Second, they should measure the time taken to prepare payment instruction files and submit them to the DGSs of host Member States within the deadlines provided for in the [draft Guidelines on cooperation agreements between deposit guarantee schemes].

83. Third, they should submit a sample file to the DGSs of host Member States in order to test that communication channels are properly established and obtain confirmation from those DGSs that the file would contain all necessary information to effect a payment.

84. DGSs for which no affiliated credit institution has any branch in another Member State may abstain from applying the prescriptions of this subsection 6).

**Indicators:**

- Ability to extract earmarked SCV information on depositors at branches set up by their affiliated credit institutions in other Member States

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\(^9\) The moment when the repayment is “available” does not necessarily coincide with the moment of the actual transfer which may necessitate action on the part of the depositor, for example to use a prepaid card – but the moment at which the depositor has been provided all the information necessary to obtain payment without delay. For example, this moment may be the expedition of a letter or email with necessary details to obtain repayment without delay. This necessarily implies that, at that moment, the payment facilities and funding are already settled.
(qualitative);

- Time to produce and transmit to host authorities payment instruction files, from transmission of SCV files by institution (quantitative);

- Quality assessment of channels for the transmission of payment instruction file;

- Confirmation from host DGSs that the payment instruction files would be adequate for repaying depositors;

- Ability to meet the deadlines laid down in the [draft Guidelines on cooperation arrangements between deposit guarantee schemes].

7.2 Funding capabilities

85. In addition to operational capabilities, DGSs should test the adequacy of their funding means in order to meet their payment obligations under the intervention scenarios described in section 6.

86. First, DGSs should assess the adequacy of the ex-ante funding available at the moment of the exercise to the necessary repayment or resolution contribution. In this regard, the adequacy test should consider the amounts that would effectively be available within the repayment period. This implies an assessment of the liquidity of the invested available financial means and payment commitments, including under market stress.

87. Second, where ex-ante funding is insufficient, DGSs should assess the adequacy of extraordinary ex-post contributions and alternative funding means to meet the shortfall within the repayment deadline. In this regard, reliance on ex-post funding should take into account the constraints laid down in Article 10 (8) of Directive 2014/49/EU, including whether some institutions’ payments may be deferred in whole or in part on the ground that the payments would jeopardise their liquidity or solvency position. Likewise, DGSs should consider whether the necessary extraordinary ex-post contributions would meet the annual 0.5% ceiling laid down in that provision. Where this is not the case, they should make an explicit judgement as to whether they would be able to raise the 0.5% ceiling.

88. Reliance on alternative funding means, such as loans or credit lines from public or private third parties, should be based on an objective assessment of elements known at the time of

10 See EBA: Technical Advice on Delegated Acts on the Deferral of Extraordinary Ex-Post Contributions to Financial Arrangements on criteria for the deferral decision in the context of resolution funds (BRRD, SRMR)
the test, such as mutual lending commitments entered into via written cooperation agreements, formal credit lines, etc.

Indicators:

1. Amounts of funds required by the intervention;
2. Amount of ex-ante funds used for the intervention (according to the simulation);
   a. Including upon calling payment commitments;
3. Intervention amount covered by ex post extraordinary contributions;
4. Intervention amount covered by alternative funding arrangements;
5. Shortfall remaining after the use of the amounts referred to in (2) to (4).

8. EBA peer reviews

89. With a view to the first EBA peer review, by 3 July 2019 DGSs should apply and report results on the following tests:

1) SCV FILE TESTS- Formal routine checks of SCV files of all institutions. These tests should also ensure that the SCV files earmark deposits at branches in other Member States.
2) OPERATIONAL CAPABILITY TEST- A test applying a payout scenario, regardless of size, and measuring the operational capability indicators described in section 7;
3) FUNDING CAPABILITY TEST - A test measuring the financial capability areas and indicators described in section 7 in either a payout or a resolution scenario, involving a single or multiple failure, and assuming a DGS intervention of a level of at least the target level set under national law in application of Article 10(2) and (4) of Directive 2014/49/EU.
4) OPERATIONAL CROSS BORDER COOPERATION TEST – A test run in cooperation with at least one other DGS and assessing at least whether the DGS is able to effectively transmit to a host DGS a payment instruction file regarding depositors at a foreign branch of a given institution, with confirmation from the host DGS that the file contains all the information necessary to effect the payment. This prescription is not applicable to DGSs for which no affiliated credit institution has any branches in other Member States.
90. Any of the tests above may be conducted jointly.

91. DGSs should report results on the above priority tests to the designated authorities and the EBA using the template in Annex 1.

92. The first programme cycle referred to in section 5.1 should include the completion of the priority tests specified in this section. This programme should be shared with the designated authorities and the EBA by 3 July 2017.

Question 5

Do you agree with the list of priorities above and the 2019 time horizon?

Do you agree that as a matter of priority operational tests should focus on payout? Do you believe minimum size criteria should be set in this regard, and if so, which absolute or relative thresholds would you suggest?

Do you agree with the calibration of the funding test, and if not what concrete suggestion would you make?

Is the limited cross border test sufficient, or should the requirement be strengthened and prescribe, for example fully-fledged cross-border simulation, in light of the Guidelines on Cooperation Agreements currently under development?

Annex 1 – Template for reporting results

INCLUDED IN THE ENCLOSED EXCEL DOCUMENT

Question 6 for public consultation

Do you agree with the template? Suggest amendments or complements.

9. Accompnying documents

9.1 Draft cost-benefit analysis / impact assessment

Article 16(2) of the EBA Regulation provides that the EBA should carry out an analysis of ‘the potential related costs and benefits’ of any guidelines it develops. This analysis should provide an
overview of the findings regarding the problem to be dealt with, the solutions proposed and the potential impact of these options.

A. Problem identification

DGSs play an essential role in the protection of financial stability by building depositor confidence, protecting against bank runs and preserving insured depositors from the consequences of a credit institution’s failure.

The protection provided to depositors by DGSs has been strengthened in the 2009 and 2014 reforms of the DGSD, with an increased coverage level and shortened repayment periods.

In the meantime the amount of deposits and customer deposits in the balance sheets of large European banks covered by the EBA Key Risk Indicators has increased steadily over the last couple of years\(^{11}\). This equally holds for the share of deposits to total liabilities as well as for the share of customer deposits to total deposits. According to a recent estimate, covered deposits in the EU amounted to around 7 000 bn EUR (end 2012), two thirds of eligible deposits (10 500 bn) and nearly half of the total deposits (14 650 bn EUR) held with EU credit institutions\(^{12}\). The increasing importance of deposits and, in particular, customer deposits as funding sources can be observed across a large number of EU Member States.

Against this background, in order to efficiently fulfil their missions, which by definition are exercised in crisis situations, the new DGS Directive requires DGSs\(^{13}\) to regularly perform stress tests of their systems\(^{14}\) and, based on the results of these tests, entrusts the EBA with the task of conducting EU wide peer reviews of the resilience of DGSs.

In this context the problem which the EBA is faced with is twofold:

First, lacking guidance at EU level on the minimum content and methodologies of DGS stress tests, there is a risk that stress tests are performed with very different levels of sophistication and robustness, which could undermine the overall quality of the European system of national deposit guarantee schemes, particularly in cross-border crisis management situations\(^{15}\).

Second, without sufficient consistency in the manner in which stress tests are performed, results could fall short of being comparable and reviewed effectively across Member States in the context of the peer review required under Article 4(10) of the DGS Directive.

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\(^{11}\) EBA: Risk Assessment of the European Banking System (June 2015)


\(^{13}\) DGS Directive Art. 4(10)

\(^{14}\) Those provisions of the DGS Directive are consistent with recommendations of the FSB: Thematic Peer Review on Deposit Insurance Schemes (2012) and IADI: Core Principles for Effective Deposit Insurance Systems (2014).

\(^{15}\) JRC: Investigating the Efficiency of EU Deposit Guarantee Schemes (2008) and IADI: Cross-Border Deposit Insurance Issues raised by the Global Financial Crisis (2011)
B. Policy objectives

At high-level, these guidelines are expected to contribute to enhancing the financial stability ensured by fully functioning and effective DGSs. These guidelines should facilitate the functioning of the Internal Market for banking services and the protection of depositors in the EU.

More specifically, these guidelines aim at increasing the resilience of the European system of deposit guarantee schemes and strengthening the credibility of national stress tests by ensuring that DGS stress tests:

(i) test the ability of deposit guarantee schemes to fulfil their missions;

(ii) identify areas requiring improvements; and

(iii) produce results in a manner allowing comparability and peer reviews.

At the operational level, these guidelines are intended to ensure that national DGS stress tests cover a sufficient range of elements and ensure minimum level of consistency and quality in stress tests performed at national level. They should provide national schemes with good practices and tools.

C. Baseline scenario and options considered

Under the baseline scenario, pursuant to Article 4(10) of the DGS Directive, Member States shall ensure that DGSs perform stress tests of their systems. Based on the results of the stress tests, EBA shall, at least every 5 years, conduct peer reviews pursuant to Article 30 of the EBA Regulation in order to examine the resilience of DGSs.

The first set of options considered by the EBA refers to:

C1. Regulatory intervention on stress tests, and whether the EBA should:

(i) abstain from additional regulatory intervention on peer reviews of DGS stress tests (Option 1.1)

(ii) issue guidelines on its own initiative pursuant to Article 16 of the EBA Regulation (Option 1.2)

Concerning the content of these guidelines, five further sets of options have been considered concerning the following issues:

C2. The organisation of stress tests:

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16 For comparison with guidance on stress test methodology for the EU banking sector see EBA: Methodological Note on EU-wide Stress Test (2014) and for the EU insurance sector EIOPA: Insurance Stress Test (2014).
(i) abstain from providing guidance on the organisation of stress tests (Option 2.1)

(ii) provide guidance on the organisation of stress tests (Option 2.2)

C3. Test scenarios:

(i) Scenarios should not only cover liquidation or resolution or early intervention (3.1.1), but all types of interventions (3.1.2)

(ii) scenarios should cover not only domestic (3.2.1), but also cross-border failures (3.2.2)

(iii) scenarios should cover not only mid-size (3.3.1), but also large and multiple failures (3.3.2)

C4. Test areas:

(i) test the operational capability of DGS (Option 4.1)

(ii) test the financial capacity of DGS (Option 4.2)

(iii) test both, the operational capability and the financial capacity of DGS (Option 4.3)

C5. Concrete tests to be required ahead of the first EBA peer review:

(i) do not ask specific tests to be prioritised (Option 5.1)

(ii) define priority tests to be run and reported by mid-2018, to feed into an early peer review exercise which itself could provide useful input to the 2019 review of the Directive (Option 5.2)

(iii) define priority tests to be run and reported by mid-2019 for review mid-2020, without connection to the 2019 review of the Directive (Option 5.3).  

C6. Prioritisation of tests:

(i) Priorities in C.5 should be defined top-down by setting concrete figures in terms of minimum size of failure or intervention (Option 6.1).

E.g. a failure involving a DGS payout of 1.3% of covered deposits; an average failure of the 2008 crisis; or a bank of a certain determined size.

(ii) Priorities should be defined bottom-up by providing an analytical framework which DGS should apply to their membership in order to define themselves the tests to be prioritised (Option 6.2).
E.g. apply a loss distribution model and deduce, in line with a certain confidence level, the quantity of DGS intervention which should be tested.

D. Cost-Benefit Analysis\textsuperscript{17} and preferred options

In April 2015, EBA conducted a special survey amongst national DGS and designated authorities. 16 Member States responded to that survey (out of which 10 Euro Area Member States). In total, 18 DGS answered the questionnaire because for one Member State three DGS responded.

D1. Options concerning regulatory intervention on stress tests

Whereas two thirds of the respondents indicated that they, or the DGSs they supervise, conduct some type of stress test, one third currently does not test their scheme at all. Furthermore, amongst those already conducting some form of stress test, every third DGS is only tested with respect to its operational capacity. Also other test characteristics (frequency, type of scenarios, areas) vary widely across Member States. Overall, practices on DGS stress tests are very heterogeneous\textsuperscript{18}, with a significant number of respondents not conducting any dedicated stress test at all. In order to achieve the aims of the DGS peer reviews, stress tests carried out at national level should cover a sufficient range of elements and produce comparable results that can inform the EU-wide exercise. Against this background, the EBA has decided to adopt own-initiative guidelines on the content of stress tests that would contain scenarios and a template (Option 1.2).

D2. Options concerning the organisation of stress tests

Besides guidance on stress scenarios and areas, these guidelines could also provide guidance on the organisation of stress tests (phases of the test). The provision of guidance on the organisation of national stress tests would probably cause only small incremental costs.

At the same time, a more harmonised approach to the organisation of DGS stress tests (Option 2.2) would contribute to making the results more comparable and reliable and consequently is the preferred option.

D3. Options concerning concrete test scenarios

More generally, concerning the test scenarios the guidelines could either only cover a narrow set (Options 3.1.1, 3.2.1, 3.3.1) or extend to a broader set of scenarios (Options 3.1.2, 3.2.2, 3.3.2) regarding type of interventions, geographical scope and severity. In general, the broader the set of scenarios covered, the higher the costs for DGS and other safety net participants, and credit institutions for conducting the stress tests. Similarly, the benefits for depositors, and the financial system and real economy at large should be higher in case of a broader set of scenarios tested. Protection of depositors, financial resources of DGS and potentially other safety net participants and the stability of the financial system would benefit from a broader coverage of scenarios. Taking into account the objectives of these guidelines, the broader coverage of scenarios with

\textsuperscript{17} Complementary, refer to EC: Impact assessment accompanying the Directive on Deposit Guarantee Schemes and report on its review (2010)

\textsuperscript{18} This finding is consistent with earlier surveys at global level, published in IADI: Organizational Risk Management for Deposit Insurers (2007) and IADI: Evaluation of Deposit Insurance Fund Sufficiency on the Basis of Risk Analysis (2011).
respect to types of failure, geographical scope and severity is generally the preferred option (Option 3.1.2, Option 3.2.2, Option 3.3.2)\(^{19}\).

D4. Options concerning concrete test areas

In general, the more areas are tested, the higher the costs for DGS and other safety net participants, and credit institutions for conducting the stress tests. According to the survey results, half of DGSs currently conduct some kind of operational stress test, in particular related to the timely availability and quality of information (SCV files). Of the ones who responded, only a few Member States currently conduct systematic tests of the availability of sufficient funding. The harmonisation and (on average) increase of the coverage level to 100 000 EUR was only introduced by the 2010 revision of the Directive. Given the possibility of inter-DGS borrowing, use of DGS resources for resolution purposes and the prevailing risk of failure of cross-border groups, financial capacities of DGS are increasingly important in the new European DGS framework. For DGSs to effectively establish credibility and fulfil their function, both, the operational capability as well financial capacity are crucial. Consequently operational and financial areas should both be tested (Option 4.3).

D5. Options concerning the concrete tests to be required ahead of the first EBA peer review

The Guidelines aim at laying down good principles for the conduct of tests in all Member States and for all schemes. On the basis of those principles each and every DGS will be able to design and apply tests that are most adequate in relation to their situation. In Option 5.1 it would be assumed that the minimum principles are sufficiently straightforward to ensure that, by the time the first peer review is exercised, EBA will have at its disposal results on a sufficiently consistent range of tests in order to be able to draw conclusions on the overall resilience of DGSs in Europe. This is not realistic because starting points are different across Europe in terms of level of expertise and experience in stress testing. It is therefore necessary, in order for the EBA peer review to be based on a sufficiently common ground, to at least define a small set of tests which should be consistently performed by all DGSs.

In terms of timing, two options were considered bearing in mind that a review of the application of the Directive is foreseen in 2019 with a Commission report and several EBA contributions. In this regard it was envisaged to collect some results and conduct a peer review that would produce useful conclusion ahead of the 2019 review (Option 5.2). However, considering that the first tests are due in mid-2017, that a peer review would take at least a few months and that for the Commission to produce its report in 2019 the EBA should deliver its own contribution several months in advance, results would have to be collected in 2018, which would leave little time for DGSs to conduct a meaningful series of tests.

In contrast, it seems preferable to define a compact series of tests to be prioritised by 1\(^{st}\) July 2019, for the first peer review to be delivered mid-2020 five years after the transposition deadline (Option 5.3).

D6. Options concerning the way of defining the concrete tests to be prioritised ahead of the first EU-wide peer review

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\(^{19}\) EBA: Guidelines on the range of scenarios to be used in Recovery Plans (2014)
The principles laid down in these guidelines are defined in broad terms, leaving to each DGS the task of applying them in the manner that suits best their situation and that of their members. Many DGSs regularly conduct very sophisticated stress tests and will keep on doing so beyond the scope of tests that will be required ahead of the peer review.

In contrast, the tests that will serve as a basis for the peer review should rely on sufficiently homogeneous assumptions in order to produce meaningful comparisons. For that specific series of tests, a tailor-made approach would not produce the desired effects. Therefore, without prejudice to other tests which DGSs will conduct in applying these guidelines, it seems indispensable to define, using benchmarks such as intervention amounts, concrete tests to be prioritised ahead of the peer review. Preferably, the priorities are defined in a relative manner (e.g., as a percentage of covered deposits) or allow significant margin of appreciation (e.g., a definition of intervention amounts leaving the choice of the intervention scenario) to avoid undesirable rigidity (Option 6.2). Setting concrete figures (top-down) for the prioritisation of specific test areas would risk not taking national circumstances sufficiently into account (Option 6.1).

The list of priorities set out for the first peer review has been defined with a view to striking a balance between the need to cover sufficient ground ahead of the first peer review, without aim for an exhaustive series of tests which would not be realistic by mid-2019. In this regard, the priority regarding funding capability testing is calibrated around the target level because it is assumed that, in the steady phase, as a result of the introduction of the financing requirements in the DGSD, DGSs should at least be able to bear an intervention of that level. At the same time it is expected that by the time DGSs run this test many of them will not have reached the target level. Far from being an obstacle to the conduct of that test, this will allows assessing the progress in build-up of financing capacity and the ability of schemes to activate other types of funding means such as ex post contributions and alternative funding means.
9.2 Overview of questions for consultation

1) What is the best way to ensure the objectivity of the stress tests assumptions and process? Do you support systematically requiring separation between the steering staff and stress test participants? If not, do you support concrete alternatives, for example external audit? What additional details could be laid down with regard to external intervention?

2) Do you agree with the approach proposed, which draws on the methodology developed by the Commission for assessing Member State requests under Article 10(6) of the DGSD?

3) Is it sufficient to test an institution’s SCV files on the basis of a sample, or should all SCV files tested? Which process should a DGS follow in order to define a sample of the SCV file to be tested, and to consider that the sample tested is sufficiently representative of the institution’s full SCV file?

4) It is difficult to forecast the financial impact of covering temporary high balances protected under Article 6(2) of the DGSD, or beneficiary accounts (protected under Article 7(3) of the DGSD. The ability to perform such assessment depends on the circumstances, for example the existence of certain kind of deposits which can be earmarked. Nevertheless do you agree on the need to undertake, at least at a very general level and in a qualitative way, an assessment of the arrangements in place in order to identify THBs and deposits on beneficiary accounts upon failure?

5) Do you agree with the list of priorities above and the 2019 time horizon? Do you agree that as a matter of priority operational tests should focus on payout? Do you believe minimum size criteria should be set in this regard, and which absolute or relative thresholds would you suggest? Do you agree with the calibration of the funding test, and if not what concrete suggestion would you make? Is the limited cross border test sufficient, or should the requirement be strengthened and prescribe, for example fully-fledged cross-border simulation, in light of the Guidelines on Cooperation Agreements currently under development?