POSITION PAPER

ESBG response to the EBA consultation on methods for calculating contributions to Deposit Guarantee Schemes

ESBG (European Savings and Retail Banking Group)

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Dear Sir/Madam,

Thank you for the opportunity to comment on the EBA's consultation on *methods for calculating contributions to Deposit Guarantee Schemes*.

Question 1: **Do you have any general comments on the draft Guidelines on methods for calculating contributions to DGSs?**

In our view, on the one hand, the draft Guidelines reflect DGSs as depicted in Art. 13(1) DGS Directive, for which the "risk-based calculation method" (Art. 13(3) DGS Directive) applies, in a largely appropriate manner. However, the way according to which minimum weights are assigned to risk categories and core risk indicators is not entirely clear to us. It would be very helpful if the EBA could explain in greater detail why it has chosen the indicated percentages.

On the other hand, nevertheless, the draft Guidelines do unfortunately not address in an appropriate manner the DGSs referred to in Art. 13(2) DGS Directive, which are allowed to use "their own risk-based methods for determining and calculating the risk-based contributions by their members". For this calculation method, "the calculation of contributions shall be proportional to the risk of the members and shall take due account of the risk profiles of the various business models. Those methods may also take into account the asset side of the balance sheet and risk indicators, such as capital adequacy, asset quality and liquidity". In Art. 13(3) subparagraph 3 DGS Directive, this calculation method is named the "alternative own-risk-based method".

ESBG very much welcomes that the consultation paper reflects on Institutional Protection Schemes (IPSs – para. 12 Background and Rationale, para. 64 et seqq. Draft Guidelines) and tries to accommodate to the specificities of these systems. However, in our opinion, the proposed draft Guidelines do unfortunately not apply to the specific case of IPSs (in which all members of the IPS are also members of the relevant DGS) which are officially recognised as DGSs according to Art. 1(2)(c) and Art. 4(2) DGS Directive and fall under the "alternative own-risk-based calculation method" detailed in Art. 13(2) DGS Directive. This provision allows DGSs to use their own risk-based methods for determining and calculating the risk-based contributions by their members (see above), which is not in accord with the approach suggested by the EBA of basing the calculation of contributions to a large extent on the amount of covered deposits only. In fact, the possibility to *determine* – and not only to *calculate* – the risk-based contributions in those cases provides for the proper reflection of the risk that needs to be addressed: the size of one or more members in the scheme compared to the rest of the members, irrespective of the amount of their corresponding deposits.

The calculation formula in the EBA's draft Guidelines does unfortunately not provide the necessary room to address needs of these IPSs regarding the contribution system: Due to the division of tasks in such banking networks in respect of deposit-taking the amount of covered deposits in certain institutions may be lower than in others. Therefore, the suggested adjusting factor "systemic role in an IPS" could not be sufficient to ensure an appropriate scaling. In this case these institutions holding a low amount of covered deposits might pay a contribution which does not correspond with its proportion to the risk they bring into an IPS. Thus, the current proposal does not meet the requirement imposed by article 13(2) DGS Directive that "the calculation of contributions shall be proportional to the risk of the members and shall take due account of the risk profiles of the various business models".

Moreover, one needs to bear in mind Art. 26 of Regulation 1093/2010 establishing a European Supervisory Authority (European Banking Authority), according to which "the Authority shall contribute to strengthening the European system of national deposit guarantee schemes […] and provide a high level of protection to all depositors in a harmonised framework throughout the Union, which leaves the stabilising safeguard role of mutual guarantee schemes intact, provided they comply with Union legislation".

Hence, ESBG suggests that the EBA complements the draft Guidelines with a part that regulates the "alternative own-risk-based method", which thus allows for an appropriate reflection of the situation of IPSs according to Art. 1(2)(c) DGS Directive. In order to avoid moral hazard, these IPSs use a calculation method based on the risk of their members as core element for the determination of the contribution, e.g. volume of bail-in able liabilities, profitability, RWA and qualitative aspects. Consequently, this method should be recognised as compliant.

As a general comment, ESBG would furthermore like to underline that a common, consistent understanding across the national competent authorities of the term "covered deposits" is of great importance. In this respect, Art. 2(5) in conjunction with Art. 6 DGS Directive states that "covered deposits" means the "part of eligible deposits that does not exceed the coverage level of EUR 100.000". Art. 13(1) DGS Directive further holds that the contributions to DGSs shall be "based on the amount of covered deposits and the degree of risk incurred by the respective member". In subparagraph five it also contains a sentence stating that Member States may decide that "credit institutions pay a minimum contribution, irrespective of the amount of their covered deposits".

Bearing these provisions in mind, ESBG would like to ask the EBA to clarify whether our assumption is correct that only covered deposits, i.e. deposits up to EUR 100.000, should be taken into account when calculating the banks' contributions. If this interpretation was not correct, there would be a possibility for national competent authorities to require banks to take into account the total amount of each deposit regardless whether or not they are above the EUR 100.000 coverage threshold. This would be more onerous in terms of contributions compared to the approach where deposits are only counted up to EUR 100.000 for calculation purposes. By clarifying and ensuring a common understanding, the EBA would be promoting a level playing field within the EU.

The answers given in following paragraphs (except for the second and third paragraph of the response to question no. 5) solely refer to the "risk-based calculation method" of Art. 13(3) DGS Directive, which applies to DGSs as depicted in Art. 13(1) DGSD.

***Question 3:* Is the proposed formula for calculating contributions to DGS sufficiently clear and transparent?**

Yes. Moreover, the given examples help understand the formula.

***Question 5:* Do you agree with the core risk indicators proposed in these Guidelines? If not, please specify your reasons and suggest alternative indicators that can be applied to institutions in all Member States. Do you foresee any unintended consequences that could stem from the suggested indicators?**

Generally speaking, ESBG agrees with most of the core risk indicators proposed in the Guidelines. However, we would like to add that the core risk indicators should be as similar as possible to the methods for calculating ex-ante contributions to resolution financing arrangements in order to facilitate the data collection for institutions. Besides, for institutions being supervised by the SSM, it would be convenient that risk indicators were consistent with the RAS (risk assessment) framework. In fact, some risk indicators are considered in both frameworks: for example, the leverage ratio, the Common Equity Tier 1 (CET1) ratio the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

What has been said above implies that some other indicators are a bit more challenging to deal with: Particularly the non-performing loan (NPL) ratio, the return on assets (ROA) ratio and the unencumbered assets ratio. These ratios may be problematic in terms of content and definition.

- The disadvantage of the NPL ratio has to do with the fact that this ratio cannot be based on a single uniform definition, and consequently it may cause an unlevel playing field between Member States.
- Generally, there are doubts about the contents of the ROA ratio because this ratio is deemed to be rather inaccurate for the purpose of measuring the default risk.

Moreover, as mentioned above, ESBG welcomes the recognition of IPS as an indicator in the draft Guidelines. Nevertheless, the wording of paragraph 65 could lead to the conclusion that the extent to which a single member of an IPS could benefit from a reduced contribution to the DGS depends exclusively on the (quantitative) level of the IPS ex-ante funds. However, with reference to the requirements set in Art. 113(7) Capital Requirements Regulation (CRR) – which the competent authority has approved – qualitative requirements, such as early warning systems, quarterly reports, uniform risk assessment, legal obligation and the ability to grant support, funding measures (establishment of an ex-ante IPS-fund), homogeneous business profile and an annual consolidated/aggregated report are substantial characteristics that play a key role in the risk-mitigation of an IPS.

Accordingly, the existence of an IPS-fund is only one of several characteristics. ESBG therefore asks the EBA to appropriately recognise such qualitative measures in the final Guidelines.

<u>Question 6:</u> Do you agree with the option to use either capital coverage ratio or Common Equity Tier 1 ratio as a measure of capital? Would you favour one of these indicators rather than the other, and why?

ESBG would prefer the CET1 ratio as a measure of capital for two reasons: firstly for the sake of coherence with the ex-ante contributions to resolution financing arrangements (Commission Delegated Regulation (EU) 2015/63) and secondly because of the ratio's good comparability across banking institutions.

About WSBI-ESBG (European Savings and Retail Banking Group)

ESBG brings together savings and retail banks of the European Union and European Economic Area that believe in a common identity for European policies. ESBG members support the development of a single market for Europe that adheres to the principle of subsidiarity, whereby the European Union only acts when individual Member States cannot sufficiently do so. They believe that pluralism and diversity in the European banking sector safeguard the market against shocks that arise from time to time, whether caused by internal or external forces. Members seek to defend the European social and economic model that combines economic growth with high living standards and good working conditions. To these ends, ESBG members come together to agree on and promote common positions on relevant matters of a regulatory or supervisory nature.

ESBG members represent one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of over €7,300 billion, non-bank deposits of €3,480 billion and non-bank loans of €3,950 billion (31 December 2012).

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