SRB Addendum to the Public Interest Assessment – Deposit Guarantee Schemes Considerations

The SRB has enhanced its approach to the Public Interest Assessment policy (PIA) in resolution planning to bring further clarity to the PIA in relation to Deposit Guarantee Schemes (DGSs) pertaining to Resolution Objectives 2 and 4. This PIA enhancement strengthens the choice of the best resolution strategy in order to safeguard the resolution objectives.

This enhancement to the policy reiterates that Resolution Objective 4, the protection of covered depositors, in the context of resolution planning[1], should not be considered at risk on the basis of DGSs' inadequacies as the functioning of national DGS is required by the Deposit Guarantee Schemes Directive (DGSD).[2]

However, even if the requirements specified in the DGSD[3] are met by national authorities or private DGSs, should the macro-financial conditions imply that raising extraordinary contributions from the remaining DGS members and source alternative financial means from other members or third parties would place other Resolution Objectives (namely, Resolution Objective 2) at risk, there might be instances in which covered depositors might be at risk as a consequence of the failure of an institution. This would constitute an instance in which Resolution Objective 4 – to protect depositors covered by the DGSD would be at risk.

The DGSD foresees the possibility for the competent authority to defer, in whole or in part, a credit institution's payment of extraordinary ex-post contributions to the DGS if the contributions would jeopardise the liquidity or solvency of the credit institution[4]. Nevertheless, it is possible that in certain circumstances raising ex-post contributions would have a material impact on the solvency or the liquidity of the banking sector and thus, in certain cases, could have a significant adverse impact on financial stability. In these instances, Resolution Objective 2 – to avoid significant adverse effects on financial stability would be at risk.

Consequently, the assessment of DGS-related considerations in the PIA pertaining to Resolution Objectives 2 and 4 comprises the following steps (see also below):

(i) **Checking whether the requirements specified in the DGSD have been met by national authorities.**

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[1] However, in the case of resolution action, RO4 should be assessed in light of the specific circumstances of the case.

[2] Directive 2014/49/EU of the European Parliament and of the Council.

[3] Including, but not limited to, those specified in Article 8(1) DGSD "*DGSs shall ensure that the repayable amount is available within seven working days of the date on which a relevant administrative authority makes a determination as referred to in point (8)(a) of Article 2(1) or a judicial authority makes a ruling as referred to in point (8)(b) of Article 2(1).EN L 173/162 Official Journal of the European Union 12.6.2014*", Article 10(2) DGSD "*Member States shall ensure that, by 3 July 2024, the available financial means of a DGS shall at least reach a target level of 0,8 % of the amount of the covered deposits of its members. Where the financing capacity falls short of the target level, the payment of contributions shall resume at least until the target level is reached again. If, after the target level has been reached for the first time, the available financial means have been reduced to less than two-thirds of the target level, the regular contribution shall be set at a level allowing the target level to be reached within six years. The regular contribution shall take due account of the phase of the business cycle, and the impact procyclical contributions may have when setting annual contributions in the context of this Article*", Article 10(9) DGSD "*Member States shall ensure that DGSs have in place adequate alternative funding arrangements to enable them to obtain short-term funding to meet claims against those DGSs.*"

[4] See Article 10(8) DGSD.

- If these requirements **<u>have not been met</u>**, Resolution Objective 4 should, in the context of resolution planning, not be considered at risk on the basis of DGSs' inadequacies. Proceed to step (ii) only with regard to Resolution Objective 2.
- If these requirements **<u>have been met</u>**, then proceed to step (ii).

(ii) Determine covered deposits pay-out based on the size of covered deposits and **assess whether pay-out can be met** by a combination of available financial means (AFM), capped extraordinary contributions (at 0.5% of covered deposits as per Art. 10(8) DGSD) by remaining members and alternative funding arrangements (AFA).[5]

- If the pay-out **cannot be met** by a combination of AFM, capped extraordinary contributions and AFA, then step (iii).
- If the pay-out **can be met** by a combination of AFM, capped extraordinary contributions and AFA, then Resolution Objective 4 shall be assessed as not being at risk. Then, proceed to step (iii) only with regard to Resolution Objective 2.

(iii) **Assessing whether the impact of meeting the pay-out on the remaining DGS members places Resolution Objective 2 at risk.**

- **If the pay-out can be met by a combination of AFM, AFA and capped extraordinary contributions**: assess whether the impact of capped extraordinary contributions on the solvency or liquidity of remaining DGS members is significant so that financial stability might be at risk[6]. If so, then Resolution Objective 2 shall be assessed as being at risk.
- **If the pay-out cannot be met**: assess whether the impact of uncapped[7] extraordinary contributions (i.e. those needed to meet the payout after AFM and AFA have been considered) on solvency or liquidity of remaining DGS members is significant so that financial stability might be at risk:
  - If yes and the conditions in (i) have been met, i.e. the requirements specified in the DGSD have been met, then Resolution Objectives 2 and 4 shall be assessed as being at risk;
  - If yes but the conditions in (i) have not been met, then only Resolution Objective 2 shall be assessed as being at risk, as in the context of resolution planning, Resolution Objective 4 should not be considered at risk on the basis of DGSs' inadequacies;
  - If no, Resolution Objectives 2 and 4 shall be assessed as not being at risk.

IRTs should perform the assessment taking into account any additional information deemed relevant for the purpose.

[5] As per Article 2(12) DGSD, AFM means *"cash, deposits and low-risk assets which can be liquidated within a period not exceeding that referred to in Article 8(1) and payment commitments up to the limit set out in Article 10(3)"*. Additionally, as per Article 10(8) DGSD, extraordinary contributions means contributions levied to DGS members if AFM *"are insufficient to repay depositors when deposits become unavailable"*. Finally, as per Article 10(9) DGSD, AFA means alternative arrangements that enable DGSs "*to obtain short-term funding to meet claims against [them]*" (e.g. loans, borrowing among DGSs, etc.). The Article 10(9) DGSD states that: "*Member States shall ensure that DGSs have in place adequate alternative funding arrangements to enable them to obtain short-term funding to meet claims against those DGSs.*"

[6] This would correspond to a situation in which capped extraordinary contributions would be needed to meet the immediate payout and would need to be financed from remaining members' in subsequent years until the AFM have been replenished and AFA have been reimbursed.

[7] As per Article 10(8) DGSD, "*If the available financial means of a DGS are insufficient to repay depositors when deposits become unavailable, its members shall pay extraordinary contributions not exceeding 0,5 % of their covered deposits per calendar year. DGSs may in exceptional circumstances and with the consent of the competent authority require higher contributions*".

Figure: Schematic for the assessment of DGS-related considerations in the PIA