BANKING STAKEHOLDER GROUP

CONSULTATION ON EBA/CP/2015/19
"GUIDELINES ON STRESS TESTS OF DEPOSIT GUARANTEE SCHEMES
UNDER DIRECTIVE 2014/49/EU"

General Comments and Replies to Questions

BY THE EBA BANKING STAKEHOLDER GROUP

8th February, 2016

Foreword

The EBA Banking Stakeholder Group ("BSG") welcomes the opportunity to comment on the Consultation Paper EBA/CP/2015/19 on guidelines on stress test of deposit guarantee schemes (DGSs).

DGSs are mandated by Directive 2014/49/EU (DGSD) to perform stress tests of their systems at least every three years, starting in July 2017, to verify whether their operational and funding capabilities are appropriate to ensure deposit protection. The ultimate goal is to address any existing inefficiencies and improve the weakest links where necessary. In connection with the above, EBA is mandated to perform a peer review in order to examine the resilience of DGSs at least every five years (the first being foreseen in 2020).

This response has been prepared on the basis of comments circulated and shared among the BSG members,and outlines some general comments by the BSG, as well as our detailed answers to some questions indicated in the Consultation Paper.

General comments

We support the EBA's own-initiative to issue guidelines on stress testing to be performed by DGS, since the Directive mandates it to perform stress tests but without providing further guidance. This is a sensible step to properly fulfil the mandate set by the DGSD for the EBA to conduct peer reviews which requires comparable data. Furthermore, we agree that these guidelines are necessary to promote the performance of high quality and consistent stress tests across Member States.

EBA recommends that DGSs start with the design of a programme of tests covering a period of several years, and including a number of key phases for each exercise (planning, running, reporting and corrective actions). This approach will help learning from real life interventions and substitute or complement fictitious-case-based tests by real-case-based tests where appropriate, and will provide credibility to the exercises.

BSG agrees with the comprehensive approach followed in these guidelines, which cover the main issues to be considered by a DGS when undertaking stress tests. The guidelines provide detail on the types of intervention scenarios to be tested, as well as on the key areas to be assessed (broad range of operational and financial capabilities). DGSs will test the various possible uses of funds provided for under the DGSD. These include pay-outs to depositors, contributions to resolution funding and, where allowed under national law and in accordance with the DGSD, contributions to failure prevention. Nevertheless, the guidelines are mainly principle-based and as such aimed at ensuring minimum consistency and quality, given the novelty of the DGS stress test as an EU regulatory tool. It is expected that the build-up of DGS testing capacities and the level of sophistication of such tests will increase gradually.

At this stage, where the DGSD has recently been implemented in most Member States with a target level of ex-ante funding of 0.8% of covered deposits to be gradually achieved by 2024, the results of back tests done by DGS should be cautiously assessed in the years prior to 2024. During this transitional period potential gaps in funding should be assessed in light of the phase-in considered by each DGS and not give rise to an automatic increase in banks' contributions, because such funding gaps can be temporary.

It is important to take into account the new framework for resolution when running historical stress-testing exercises to assess the capacity of DGS to deal with intervention cases of a type and intensity experienced during the 2008-2012 period. The impact of future crises on DGSs is expected to be much smaller, given the new rules for the private absorption of losses (bail-in) and the role of resolution funds, to which banks contribute and that are designed to absorb losses much earlier than DGSs. For all these reasons, the DGSs are much more protected in the new resolution framework than they were before, and this should be acknowledged in the stress tests.

Specific comments

On page 15, paragraph 34 the guidelines indicate that DGSs should report the stress test results to the designated authorities at least annually. This appears to go further than the DGSD's mandate to perform stress tests of their systems at least every three years, and it is perhaps too demanding.

Response to EBA questions

Q1: 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?

We agree that it is important to ensure objectivity in order to prevent reaching biased conclusions. The participation of external observers in the process could always help, but the trade-off between costs and benefits should be taken into account. In the case of DGSs administered by private entities the designated authorities can play the role of disinterested observers, since they are not themselves administering the schemes.

Q2: 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?

The approach proposed in these guidelines, for the selection of credit institutions to be included only in resolution scenarios, is to consult the resolution authority in order to identify credit institutions which, given their size, would be subject to resolution proceedings, based on the following criteria: i) credit institutions established in Member States participating in the SSM, and ii) credit institutions in Member States which do not participate in the SSM but meet the "significance" criteria set out in Article 6(4) of Regulation 1024/2013 (size, significance of cross-border activities and importance for the economy of the EU or any Member State). We entirely agree with the proposal to consult the resolution authority, given its knowledge of which entities could most probably be subject to resolution proceedings.

Q3: 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?

We consider that it could be sufficient to test an institution's Single Customer View file on the basis of a randomly-selected sample, following the usual statistical techniques to ensure the representativeness of that sample.

Q4: 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?

Yes, we agree.

Q5: 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?

Yes, we agree with the list of priority tests proposed and the report to EBA using the template in Annex 1 by 3 July 2019, to enable EBA to proceed with the first peer review by July 2020.

Payout to depositors is the core role of DGSs, and consequently we agree that as a matter of priority operational tests should focus on payout.

The proposed calibration of the funding priority test assumes a DGS intervention of a level at least equal to the target level set under national law in application of the DGSD: this is to be the case, in either a payout or a resolution scenario and involving a single or multiple failures. We consider that this approach may lack comparability across DGSs.

We consider that the operational cross-border cooperation test proposed, that assesses whether the home DGS is able to transmit to a host DGS a payment instruction file regarding depositors at a foreign branch, with confirmation from the host DGS that the file contains all the information necessary to effect the payment, could be sufficientSubmitted on behalf of the Banking Stakeholder Group:*David T Llewellyn*

Chair Person