

EBA/CP/2022/10

29 July 2022

Consultation Paper

Draft Guidelines (revised)

on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2015/10

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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 31 October 2022. 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 (EU) 1725/2018 of the European Parliament and of the Council of 23 October 2018. Further information on data protection can be found under the Legal notice section of the EBA website.

2. Executive Summary

Directive 2014/49/EU mandates the EBA to develop Guidelines on methods for calculating the contributions to Deposit Guarantee Schemes (DGS) and to review them at least every 5 years.

As part of the latest review of the Guidelines in 2021-2022, the EBA analysed whether the approach of the original Guidelines to determine the riskiness of institutions is appropriate. In particular, the EBA analysed whether institutions that required DGS interventions were among the riskiest according to the Guidelines' methodology. The findings showed that institutions that became subject to a DGS intervention since 2015 were mostly categorized amongst the riskiest members of their DGS. Thus, the EBA concluded that, overall, the methodology remains appropriate.

Nonetheless, the EBA identified several elements of the calculation method that should be improved. The EBA, therefore, decided to revise the Guidelines and has put forward specific proposals in this Consultation Paper. The most substantial proposals are to:

- Set minimum thresholds for the majority of core risk indicators. This will avoid situations where a credit institution does not meet the prudential requirements linked to a core indicator but is nevertheless not classified as 'high-risk'. The proposed minima will eliminate such instances. It will also improve risk differentiation among credit institutions;
- Adjust the minimum weights of the core risk indicators based on empirical evidence, to better reflect the indicators' performance in measuring the risk to the DGSs;
- Replace the formula for determining the risk adjustment factor of each member institution to remedy an issue in the Guidelines where – in relative terms – the DGS contribution of a credit institution can decrease despite increasing its riskiness. The new exponential formula ensures a constant relationship between the riskiness of institutions and their DGS contributions;
- Specify how to account for deposits where the DGS coverage is subject to uncertainty, including in relation to client funds. This change aims at ensuring closer alignment between the amount of covered deposits and the contributions of the credit institution;
- Require DGSs to regularly review the calibration of the calculation method against prudential benchmarks, ensuring the method remains adequate and up to date; and
- Clarify the addressees of the Guidelines and their respective roles.

Next steps

The public consultation will be closed on 31 October 2022. The final Guidelines will be published after the consultation period.

3. Background and rationale

3.1 Background

1. Article 13(3) of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (DGSD) mandates the EBA to issue Guidelines pursuant to Article 16 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (EBA Regulation)¹ to specify methods for calculating the contributions to deposit guarantee schemes (DGSs) in accordance with Article 13(1) and (2) of the DGSD. To that end, the EBA issued Guidelines EBA/GL/2015/10 on methods for calculating contributions to deposit guarantee schemes on 22 September 2015, which had to be implemented by 31 May 2016.
2. Article 13(3) of the DGSD further requires the EBA to conduct a review of said Guidelines every five years with the first review to be conducted by 3 July 2017. The EBA published the EBA Report on the implementation of the EBA Guidelines on methods for calculating contributions to deposit guarantee schemes (“First review”)² on 17 January 2018. In that report, the EBA made specific recommendations for revising the current Guidelines. It however stated that the findings were preliminary, given the limited experience of operating the risk-based contribution systems among most DGSs, and data covering only 1 year of risk-based contributions and thus did not revise the Guidelines at the time.
3. Furthermore, following the first review, the EBA identified a number of issues, outlined in the following publications:
 - the EBA Opinion on the eligibility of deposits, coverage level and cooperation between deposit guarantee schemes (“Opinion on eligibility”)³, published on 8 August 2019,
 - the EBA Opinion on deposit guarantee scheme payouts (“Opinion on payouts”)⁴, published on 30 October 2019,

¹ <https://eur-lex.europa.eu/eli/reg/2010/1093/>

² <https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2087449/8ce11a43-d0ee-4550-900f-5e3608ba2682/Report%20on%20the%20implementation%20of%20the%20EBA%20Guidelines%20on%20methods%20for%20calculating%20contributions%20to%20DGS.pdf?retry=1>

³ <https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2622242/324e89ec-3523-4c5b-bd4f-e415367212bb/EBA%20Opinion%20on%20the%20eligibility%20of%20deposits%20coverage%20level%20and%20cooperation%20between%20DGSs.pdf?retry=1>

⁴ https://www.eba.europa.eu/sites/default/documents/files/document_library/EBA%20Opinion%20on%20DGS%20Payouts.pdf

- the EBA Opinion on deposit guarantee scheme funding and uses of deposit guarantee scheme funds⁵ (“Opinion on funding”), published on 23 January 2020, and
 - the EBA Opinion on the treatment of client funds under the DGSD (“Opinion on client funds”)⁶, published on 27 October 2021.
4. As a result, at the time of the second review carried out five years later (2021-2022), the EBA decided to revise the current Guidelines, based on the issues previously identified and on the additional analysis carried out in 2021-2022. In what follows below, the rationale section of this Consultation Paper presents the said issues and analysis performed and sets out the rationale for the changes proposed.

3.2 Rationale

5. In order to review the implementation of the Guidelines, and to identify any potential areas for improvement, the EBA conducted a survey amongst national competent authorities (including DGS designated authorities) and DGSs to gather all relevant information on the calculation methods used at national level. The survey covered, among others, all the elements to calculate the aggregate risk score (ARS) and aggregate risk weight (ARW), past DGS interventions to reimburse depositors or stabilize an institution, the risk that credit unions represent, the use of deposit brokerage platforms to attract deposits and its associated risk. 25 out of the 30 European Economic Area (EEA) Member States responded, for a total of 30 out of 36 DGSs (at the time of the survey). Furthermore, the EBA analyzed 39 cases of DGS interventions since 2015, where DGSs used their funds, for instance by reimbursing depositors or supporting the restructuring of an institution by issuing a guarantee. To note is that this figure is not to be confused with the number of failures of credit institutions, as not all institutions subject to a DGS intervention failed and not all institutions that failed were subject to a DGS intervention.

3.2.1 Overall assessment of the adequacy of the Guidelines

6. The EBA analyzed whether the approach of the current Guidelines to determine the riskiness of institutions is appropriate, by checking if institutions that required DGS interventions were among the riskiest according to the methodology set out in the Guidelines. The analysis showed that those institutions that became subject to a DGS intervention since 2015 were mostly categorized amongst those institutions with the highest risk among the members of their DGS. The EBA therefore concluded that the overall methodology remains appropriate.
7. Nonetheless, on the content, the EBA identified several elements of the calculation method that may be improved and the proposals for which are detailed below.

⁵https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2020/EBA%20Opinion%20on%20DGS%20funding%20and%20uses%20of%20DGS%20funds.pdf

⁶https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2021/1022906/EBA%20Opinion%20on%20the%20treatment%20of%20client%20funds%20under%20DGSD.pdf

8. Furthermore, the EBA concluded that the current Guidelines, which had been published in 2015, are no longer in line with the EBA-internal format and structure requirements for EBA Guidelines. Therefore, the EBA decided to make a number of editorial changes and to restructure the Guidelines, in addition to the proposed changes to the substance that is detailed below. More specifically, in the course of the redraft, the EBA:

- deleted instances where the Guidelines included repetition of text from the DGSD, as EBA Guidelines no longer repeat Level-1 text that is already published;
- clarified the roles of the DGS, designated authority and competent authority, to be in line with the provisions set out in the DGSD and the EBA Regulation;
- reorganised the structure of the Guidelines to be more concise;
- extracted text from the initial sections on “subject matter”, “scope and level of application”, “objectives” and “principles” that are, in fact, requirements and moved them into the body of the Guidelines, so as to unambiguously formulate them as requirements;
- updated some terms to their current use in EU regulation, e.g. the correct term for ‘risk-weighted assets’ is ‘total risk exposure amount’.

3.2.2 Adjustment of the addressees

9. The current Guidelines are addressed to competent and designated authorities as defined in the DGSD. However, the EBA is of the view that they should also be directly addressed to the DGSs, and the CP proposes adjusting the “addressees” section accordingly. The responsibilities assigned to DGSs, competent authorities and designated authorities depend on the national implementation of the DGSD and may also foresee a role for other authorities, such as for example the macroprudential authority in adjusting DGS contributions to the business cycle.

3.2.3 Definition of DGS intervention

10. Article 10(1) of the DGSD specifies that the available financial means of DGSs shall be proportionate to the DGS’s potential liabilities. With that in mind, the EBA observed that not all failures of a bank automatically lead to the use of DGS funds while other forms of DGS interventions using DGS funds might be necessary to stabilize an ailing or failing institution. As such, the EBA came to the conclusion that Guidelines should be more specific on the concrete risks for the DGS not stemming solely from failures, but from any kind of DGS intervention. Hence, the EBA proposes to define a “DGS intervention” as any action taken by the DGS that requires the use of DGS funds to fulfil its duties to protect covered deposits in accordance with Article 11 of the DGSD.

Question 1:

Do you have any comments on the proposed changes to the addressees or definitions in the Guidelines?

Question 2:

Do you have comments concerning the proposed allocation of responsibilities to the DGS, competent authority and designated authority in the Guidelines?

3.2.4 Changes to the elements of the calculation formula

11. The current Guidelines may give the impression that contributions are calculated annually although Article 10(1) second subparagraph of the DGSD states that “DGSs shall raise the available financial means by contributions to be made by their members at least annually.” Hence, the calculation formula should account for the possibility to calculate and raise contributions more frequently. Therefore, the EBA proposes not to refer to a ‘year’, ‘annual contributions’ or ‘annual target level’ but instead refer to the ‘periodic’ calculation of contributions. This proposed change does not prevent DGSs from calculating contributions annually but levy them in several instalments over the year.
12. Furthermore, the current Guidelines seem to be ambiguous on how to combine the minimum requirement for the periodic target level and the requirement to spread out contributions as evenly as possible across time. To that end, the EBA clarifies in section 4.2 how to calculate the minimum periodic target level and emphasises that DGSs may choose a higher periodic target level at their own discretion. Furthermore, the EBA proposes to clarify under which circumstances DGSs should set a higher periodic target level than the minimum. To that effect, the EBA proposes to include a requirement that where DGSs have outstanding loans, they should apply a forward-looking plan when raising contributions, i.e. that DGSs should not only raise sufficient contributions to meet the target level at the deadline required by the DGSD, but additionally, raise sufficient contributions so that qualified available financial means (QAFM) and other AFM are enough to service outstanding liabilities when these become due to avoid the risk of not being able to meet the deadline. Furthermore, the Guidelines provide that such forward-looking plans should ensure that after a DGS reaches the DGSD-mandated target level ahead of the deadline, on their own, the loan repayments do not reduce that DGS’s QAFM to less than two thirds of the target level. The objective of this rule is that loan repayments of DGSs could not be structured in such a way that a new period to meet the deadline could artificially restart when sizeable loan repayments are made. Thus, this safeguard protects from arbitrage the six-year deadline imposed by the DGSD. Finally, the forward-looking plans should ensure that in cases where a DGS still has a liability after the DGSD-mandated deadline to reach the target level, it raises enough contributions to be able to repay any further loan repayments without reducing the level of QAFM below the DGSD-mandated target level. The requirements stem from paragraph 21 of the EBA Guidelines on the delineation and reporting of available financial means (AFM) of Deposit Guarantee Schemes (DGS) (EBA/GL/2021/17) as they pertain to the calculation of contributions rather than the delineation of qualified available financial means. Provided that these requirements will become part of the Guidelines on DGS

contributions, the EBA will consider deleting these requirements from the Guidelines on AFM at their next review to avoid unnecessary duplication. Finally, the EBA proposes that DGS should take into account all the aforementioned elements and set the level of contributions as evenly as possible across time.

13. In the aforementioned Opinion on client funds held in beneficiary accounts, the EBA identified that the determination of covered deposits in beneficiary accounts is challenging for member institutions and hence DGSs may not receive the correct information on the amount of covered deposits. Consequently, the CP proposes how to account for covered deposits held in beneficiary accounts when a member institution cannot provide precise information on the amount. The CP proposes that, where a credit institution provides precise information that allows to distinguish between covered and not covered deposits in beneficiary accounts, the precise information should be used. Where a credit institution does not provide such precise information, it can either provide the maximum amount of deposits that may be covered in a particular beneficiary account, or the DGS assumes that all funds held in a beneficiary account constitute covered deposits for the purpose of calculating contributions.

14. The issue of a member institution not being able to establish whether a specific deposit is covered or not may also exist in other cases, e.g., when it comes to deposits subject to sanctions or where the identity or eligibility of the depositor is not established. Hence, the CP proposes to apply the above-mentioned approach not only to beneficiary accounts but also to other cases where there is uncertainty concerning the eligibility and coverage of the deposit.

Question 3:

Do you have any comments on changing the reference from the 'annual' calculation of contributions to the 'periodic' calculation of contributions and on the clarification to set the periodic target level in section 4.2 of the Guidelines?

Question 4:

Do you have comments on the proposed approach to account for covered deposits held in beneficiary accounts or other deposits where there is uncertainty to the coverage, as set out in section 4.3 of the Guidelines?

3.2.5 Changes to the core and additional risk indicators

15. Covered deposits of some credit institutions is zero and dividing a number by zero is not defined. Therefore, the CP proposes to invert the indicator 'unencumbered assets / covered deposits'.

16. In addition to the core indicators mentioned above, Part III element 3 of the current Guidelines states that DGS may also use additional, non-core indicators. Possible additional indicators are listed in Annex III of the current Guidelines. The EBA is of the view that there is no need to

maintain that list, as DGSs and competent authorities have the flexibility to develop their own indicators. Consequently, the CP proposes to delete Annex 3.

17. When the current Guidelines were published in 2015, many of the core indicators were not yet defined or harmonized at the EU level. As most of them are now defined in Regulation (EU) No 575/2013⁷ (Capital requirements regulation – CRR), the CP proposes to update Annex 2 of the current Guidelines to refer to the appropriate legal act when describing a core indicator.

18. Furthermore, as the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are now applied throughout the EU, the CP proposes to delete the indicator “liquidity ratio” which was meant as a temporary indicator until LCR and NSFR are applied. Under the current Guidelines, few DGSs reported using the “liquidity ratio” indicator as a replacement for the NSFR, which had not been applied by all member institutions at the time of the second review, and so its deletion will have limited impact on DGSs.

Question 5:

Do you have comments on the proposed changes to the core indicators and additional indicators as set out in section 4.5(i)?

Question 6:

Do you have comments on the definition or calculation of the core indicators?

3.2.6 Changes to the weights of risk indicators and risk categories

19. The first review of the Guidelines in 2018 concluded that at the time of publication and in relation to the use of indicators, there did not seem to be much evidence or qualitative assessment from the authorities suggesting the need to remove any particular core indicator. However, the EBA stated in the first review that the analysis of this aspect needed to be revisited.

20. In the current review, the EBA has therefore analyzed the correlation between all core indicators except the NSFR, the performance of each core indicator except the NSFR in relation to real-life cases of DGS interventions, and the applied weights to all core indicators across DGSs. The analyses confirmed that, despite some correlation between core indicators (between the common equity tier 1 (CET1) ratio and the leverage ratio as well as between the leverage ratio and total risk exposure amount (in the current Guidelines referred to as ‘risk weighted assets’) over total assets ratio – TREA/TA), the correlation was not strong enough to justify the exclusion of these core indicators. The analysis of the performance of core indicators showed that especially the Return on Assets (RoA) and the non-performing loans ratio (NPL-ratio) provided good indications of a DGS intervention while the TREA/TA and the liquidity coverage ratio (LCR)

⁷ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No. 648/2012

provided little indication of a DGS intervention, even in cases where an institution failed due to insufficient liquidity.

21. Furthermore, the analysis of the applied weights of core indicators revealed that the weights of the RoA may be too low despite its good indicative property while the weights of the LCR and TREA/TA ratio may be too high. The non-performing loan (NPL) ratio was already assigned a high minimum weight, which seemed appropriate. The other core indicators also seemed to have an appropriate minimum weight with regards to their performance. With regards to the sum of the minimum weights of the core indicators, the EBA concluded that there is no basis to decrease it as it may jeopardize the harmonized application of the Guidelines. The CP therefore proposes to leave it at 75% with flexibility for the DGS to assign the remaining 25%.
22. In addition, the EBA acknowledges that the current Guidelines may provide a sense of false precision by using 0.5% steps to set the minimum weights for core indicators. Consequently, the EBA proposes to round the minimum weights in steps of 2.5%, in addition to readjusting the weights as outlined in the paragraphs above.
23. In aggregate, the CP therefore proposes to adjust the minimum weights of the core indicators in Table 2 of the Guidelines as follows:

Indicator	Current weight	Proposed new weight
Leverage ratio	9%	10%
CET1 ratio / Capital coverage ratio	9%	10%
LCR	9%	5%
NSFR	9%	10%
NPL ratio	13%	12.5%
TREA / Total assets	6.5%	5%
RoA	6.5%	10%
Covered deposits / Unencumbered assets	13%	12.5%
Sum	75%	75%

24. Furthermore, the EBA identified that the current provisions to distribute the remaining 25% of weights are creating unnecessary complexity. Most notably, if a DGS decides to apply only the core indicators, then it must distribute the remaining 25% of weights proportionally to the minimum weights. However, if it applies an additional indicator and weighted it with, for example, 5%, it could allocate the remaining 20% to any core indicator and thereby increase the weight of that indicator beyond 25%. Currently, there are two caps at 15% and 25% for additional indicators only, depending on their properties. Taking into account that DGSs will need to adequately calibrate their calculation methods, it appears sensible to leave the 25% flexibility also to DGSs which only apply core indicators and instead introduce a simple rule that applies to both the core and the additional indicators. In practice, no DGS that is compliant with the Guidelines sets a weight for any indicator in excess of 25%. Consequently, the EBA proposes to replace the current conditions to distribute the remaining 25% of weights with a simple rule, namely that the weight of any indicator should not exceed 25%.

Question 7:

Do you have comments on the proposed changes to the minimum weights of core indicators and the maximum weight of any indicator, as set out in section 4.5 (ii) of the Guidelines?

3.2.7 Adjusting the formula for calculating minimum contributions

25. The EBA identified that the current formula to calculate minimum contributions (MC) in paragraph 68b of the Guidelines may be flawed and overly complex. The current formula is

$$C_i = \text{Max} \{MC ; (CR \times ARW_i \times CD_i \times \mu)\},$$

Where:

C_i	=	Periodic contribution for a member institution 'i'
MC	=	Minimum contribution
CR	=	Contribution rate (applied for all member institutions in a given period)
ARW_i	=	Aggregate risk weight for a member institution 'i'
CD_i	=	Covered deposits for a member institution 'i'
μ	=	Adjustment coefficient (applied for all institutions in a given period).

26. As the adjustment coefficient is inside the brackets, it means that at first, DGSs need to compare for each institution whether the minimum contributions will be higher than the regular contributions. Then, the adjustment coefficient μ is determined and applied to the regular contributions only. Consequently, the DGS will have to compare again for each institution, whether the minimum contribution is higher than the adjusted regular contributions. If for one or more institutions the choices change, then the DGS needs to calculate the adjustment coefficient again and redo the whole comparison.

27. This means that the DGS will have to run numerous iterations of the calculation of contributions until it finally identifies a stable adjustment coefficient μ . To avoid this overly complex calculation, the CP proposes to adjust the formula to apply the adjustment coefficient μ to the result of the simple comparison between the MC and the regular contribution. This change would have, in view of the EBA, a very limited impact on the minimum contributions but would make calculations simpler. The corresponding, proposed formula is:

$$C_i = \text{Max} \{MC ; (CR \times ARW_i \times CD_i)\} \times \mu^{**}$$

Where:

$$\mu^{**} = \frac{\text{periodic target level}}{\sum_{i=1}^n (\text{Max} \{MC_i ; (CR * ARW_i * CD_i)\})}$$

Question 8:

Do you have comments on the proposed changes to the formula to calculate minimum contributions, as set out in section 4.6 (i) the Guidelines?

3.2.8 Clarify the reduced contributions for members of an institutional protection scheme (IPS) that is separate from the DGS

28. The current Guidelines state in paragraph 71 that “additional funding commitments callable upon request and backed by liquidity reserves held by IPS members *in IPS central institutions* may also be taken into account.” The EBA notes that the restriction to “in IPS central institutions” may lead to unintended consequences where liquidity reserves held at central banks may not be taken into account even though they can be seen as safer. Consequently, the EBA proposes to delete the reference to IPS central institutions.

3.2.9 Introduction of minimal thresholds for individual risk scores (IRS) associated to core indicators

29. In its first review of the Guidelines, the EBA had stated that some elements of the methodology and, in particular, the way the raw indicator data are translated into the IRS, may need to be revisited in the future. Furthermore, the EBA had observed that a significant proportion of DGSs (up to one quarter) appears to use only a small part of the IRS range.

30. In the course of this review, the EBA identified that for some indicators, nearly half of all DGS do not use the full range of the IRS while for other indicators all DGS use the entire range. One of the reasons is that the thresholds are set independently of the values of the indicators from institutions in the DGS. In consequence, the range may not be fully used. In most cases, the minimum value is well above the minimum regulatory requirements. However, the EBA also observed a case where an institution breaches the minimum regulatory requirements for an indicator but its IRS is still less than 100.

31. To avoid this situation, the CP proposes to introduce minimum thresholds corresponding to an IRS of 100 for some of the core indicators. Concretely, the CP proposes that the minimum regulatory requirements serve as a threshold for the leverage ratio, CET1 ratio, LCR and NSFR. Furthermore, the CP proposes a minimum threshold of 100% for the capital coverage ratio, the TREA/TA ratio and the covered deposits/ unencumbered assets ratio. The EBA emphasizes that DGSs can set stricter thresholds as a result of the calibration of the calculation method and that the proposed minimum thresholds serve as a backstop. The EBA does not propose any specific minimum threshold for the RoA and the NPL ratio as the banking markets are quite diverse and the situation may change considerably over time. For instance, in times of crises the NPL ratio

may increase across the banking sector and the RoA of the banking sector may degrade over an extended period of time. If a significant number of member institutions breached the minimum thresholds for these indicators, the IRS would be the same (i.e. the maximum) for many institutions. In consequence, the IRS would not be capable of discriminating appropriately between member institutions anymore. For instance, with regard to the NPL ratio, the EBA analysed setting the minimum threshold at 5%, which is the threshold above which credit institutions have to set up a strategy to reduce their non-performing exposures according to the Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06). However, some DGSs reported instances when many of their member institutions had NPL ratios in excess of 5%. Thus, the EBA concluded that setting minimum thresholds in the Guidelines for such indicators could render the indicators worthless at certain times, and thus it is more appropriate to allow flexibility for national authorities to decide how best to calibrate this indicator for their banking market.

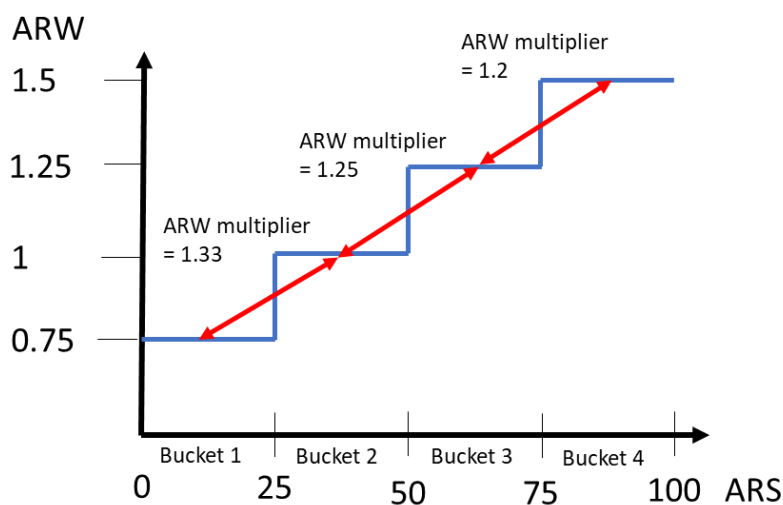
Question 9:

Do you have comments on the proposed minimum thresholds for the IRS of some core indicators, as set out in section 4.5 (iii) of the Guidelines?

3.2.10 Translation of the aggregate risk score (ARS) into the aggregate risk weight (ARW)

32. The EBA analyzed the translation of the ARS into ARW and identified that the impact on contributions is different in the following two cases: if a low-risk institution increases its risk by a certain amount (measured by the ARS), then the resulting percentage-increase in normalized contributions increases more than if a high-risk institution increases its risk by the same amount. This applies when a linear translation is applied, be it under the 'bucket' or 'sliding scale' method. Under the exponential function that features in the current version of the Guidelines for the 'sliding scale' method, a change of the ARS also yields non-proportional increases in the amount of normalized contributions.
33. The following example demonstrates the issue for the bucket method but it may be applied analogously to the sliding scale method. In the example, the range of the ARW is 0.75-1.5 and four buckets are formed for institutions with a similar risk level. These risk classes are transformed in a linear way to the ARW and the respective ARW values are 0.75, 1, 1.25 and 1.5. The 'ARW multiplier' represents the factor by which the ARW increases between risk classes. Note that the ultimate level of contributions will also depend on the correction coefficient μ . However, as μ depends on many influences and might increase as well as decrease when institutions change between buckets, its effect is excluded from the analysis.

Figure 1: Bucket method and ARW multiplier

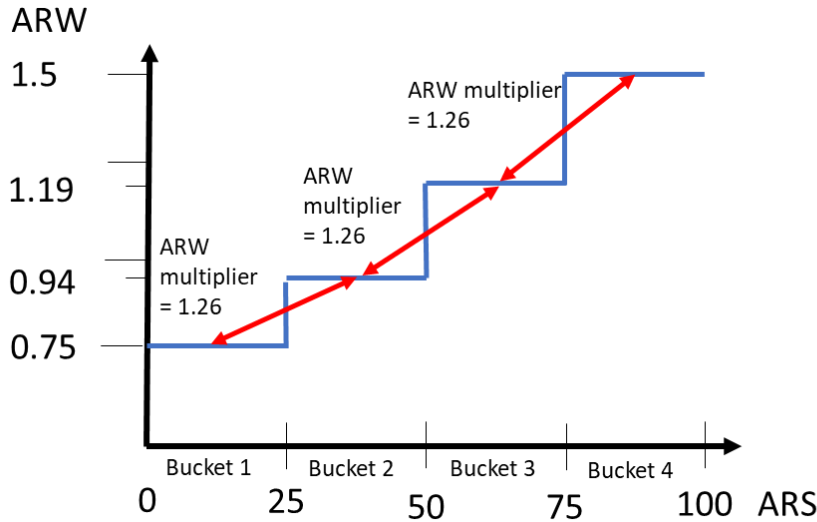


34. Figure 1 illustrates that – all other things being equal – a low-risk institution that is reclassified from the lowest bucket to the second lowest bucket will see its contributions increase by 33%, while a high-risk institution being reclassified from the second highest to the highest bucket would only see an increase in contributions of 20%.

35. Furthermore, the EBA identified that if within a certain banking sector, all institutions become less risky, or all become more risky, the contributions of institutions change although their relative riskiness does not change. For example, if in a banking system with two institutions, one with an ARS of 20 and one with an ARS of 50, both became more risky by an ARS of 10, then their contributions would change despite their relative riskiness staying the same. Hence, under the current method, both the absolute and relative positions of a member institution on the ARS scale influence its contributions. That means that the DGS needs to constantly review the calibration of the ARS to keep it centered in order to ensure consistency of contributions.

36. The EBA is of the view that this situation is not desirable and that the Guidelines need to ensure that high-risk institutions' contributions need to rise proportionally to their risk, just as low risk institutions' contributions do. Consequently, the ARW multiplier should remain constant. In the example, the ARW multiplier would be constant if the four buckets had buckets corresponding to an ARW of 0.75, 0.94, 1.19 and 1.5 respectively. Figure 2 below illustrates that the ARW would be constant across buckets. A constant ARW multiplier also means that the DGS does not need to be concerned about centering the calibration of the ARS as the absolute position of the member institutions on the ARS range does not determine the contributions anymore, instead only the relative position does. This would significantly facilitate the calibration of the calculation method for the DGS.

Figure 2: Bucket method with constant ARW multiplier



37. The CP proposes in section 4.5 (v) of the Guidelines to apply the following formulas for translating the ARS into the ARW, both for the bucket and sliding scale method, and to replace the current formulas that feature under the sliding scale method.

38. For the bucket method, the corresponding formula should be:

$$ARW_i = \beta * \left(\frac{\alpha}{\beta}\right)^{\left(\frac{Bucket_p - 1}{P - 1}\right)}$$

Where:

P = the total number of buckets,

p = the number of the bucket, starting at 1 (the lowest possible risk bucket) and finishes at P (the highest possible risk bucket),

$\beta = ARW(1)$, i.e., the desired ARW value corresponding to bucket 1 (lower limit), and

$\alpha = ARW(N)$, i.e., the desired ARW value corresponding to bucket P (upper limit).

39. For the sliding scale method, the analogous formula should be:

$$ARW_i = \beta * \left(\frac{\alpha}{\beta}\right)^{\left(\frac{ARS_i}{100}\right)}$$

Where:

the ARS of an institution i can take any value between 0 and 100;

$\beta = ARW(0)$, i.e., the desired ARW value corresponding to an ARS value of 0 (lower limit); and

$\alpha = ARW(100)$, i.e., the desired ARW value corresponding to an ARS of 100 (upper limit).

40. For the sliding scale method, if the distribution of the ARS is such that no institution has an ARS close to 0 and/or 100 and hence a much smaller range of the ARS and consequently ARW would be used, DGSs may enhance the formula in the following way:

$$ARW_i = \beta * \left(\frac{\alpha}{\beta}\right)^{\left(\frac{ARS_i - \gamma}{\delta - \gamma}\right)}$$

Where:

$$0 > \gamma > \delta > 100;$$

γ is the lower threshold of the ARS translating to the lowest ARW β ; and

δ is the actual upper threshold of the ARS translating to the highest ARW α .

41. If a DGS decides to use the enhanced sliding scale formula, then it should choose the thresholds γ and δ so that no institution reaches them at the time of the calibration of the model.

Question 10:

Do you have comments on the proposed changes to the formula for translating the ARS into the ARW, as set out in section 4.5 (v) of the Guidelines?

3.2.11 Regular review and recalibration of the calculation method

42. The current Guidelines features a requirement for competent authorities to perform a one-off comparison of the results of the calculation method with SREP scores ahead of the first review of the Guidelines, which took place in 2017/2018. However, the EBA is of the view that the calculation method should be reviewed and recalibrated in regular intervals as, over time, its risk sensitivity may deteriorate. Consequently, the CP proposes to introduce a requirement for DGSs to regularly review and recalibrate their calculation methods with a view of the IRS range, the weighting of the indicators, the thresholds of the ARW and the translation of the ARS to the ARW, which is relevant when applying the bucket method or the enhanced sliding scale method. The review should use sensible benchmarks for comparison, for example SREP scores.

Question 11:

Do you have comments on the proposed regular review and recalibration, as set out in section 4.7 of the Guidelines?

3.2.12 Credit unions

43. In its Opinion on funding, the EBA observed that more than half of credit unions benefitted from reduced contributions under the risk-based contributions (RBC) approach and that on average the contributions were 28% lower than their non-RBC would have been. Yet, at the point of publication, credit unions made up about half of all the failures of credit institutions since introduction of the DGSD. The EBA therefore concluded in the Opinion that this issue should be further analyzed as and when the Guidelines would be reviewed.

44. In this review, the EBA has assessed credit unions that failed and became subject to a DGS intervention between 2015 and 2021. DGSs reported a total of 19 credit unions that failed during that period and became subject to a DGS intervention, which constitute half of all 39 DGS interventions that were reported to the EBA. However, the analysis showed that all these credit unions were amongst the top quartile in terms of ARW relative to all other credit institutions in their DGS and that 17 of 19 were even among the institutions with the 10% highest ARW in their DGS. During its review, the EBA has therefore arrived at the view that, while it may be accurate that most credit unions have a lower ARW than other credit institutions and hence pay lower contributions, the credit unions that failed were amongst those institutions with the highest ARW, represented the highest risk for the DGS and accordingly paid the highest normalized contributions. In the view of the EBA, this result validates the overall methodology set out in the Guidelines and suggests that no changes are necessary to take into account the business model of credit unions.

3.2.13 Deposit brokerage platforms

45. In recent years, the EBA observed some failures of banks that attracted large amounts of deposits via deposit brokerage platforms (DBPs). The EBA observed that such platforms help depositors to place deposits with credit institutions that provide above market average interest rates and that are sometimes located in other Member States. While they increase the choices for consumers and facilitate placing their money with the bank offering the best conditions, DBPs can also be seen as increasing moral hazard: Institutions in an unstable financial position may relatively easily attract covered deposits by offering above-market average interest rates. As depositors benefit from a 100 000 Euro (or equivalent) coverage, they may not worry about placing their money with these credit institutions via DBPs and hence may not monitor the viability of the institutions that offer such rates.

46. The EBA has therefore assessed if the growth of covered deposits of institutions combined with the institutions' use of DBPs to attract these deposits may be an indication of a risky business model of an institution, and whether it needs to be reflected in the contributions to the DGS. The EBA has found that those banks that became subject to a DGS intervention and that attracted deposits via DBPs exhibited an exponential level of growth of covered deposits before their failure – they multiplied their covered deposit base within a year, albeit from a low basis. However, the sample of the banks that failed is very small, also in comparison to the banks active on DBPs that did not fail. Furthermore, the reasons for the DGS interventions of these very few

institutions were quite diverse, covering not just cases of insolvency but also fraud. Consequently, the EBA is at this stage not in a position to conclude that the calculation method for raising DGS contributions should reflect when institutions attract deposits via DBPs.

47. However, in view of the EBA, competent authorities should pay attention to institutions offering high interest rates to attract a large amount of covered deposits, including by means of such platforms, as it seems to be a factor in increasing the likelihood of DGS interventions.

3.2.14 Further issues that the EBA has analyzed

48. In addition to the previous items, the EBA has analyzed several issues and has concluded that no further changes to the Guidelines are currently appropriate. This concerns third country branches, which the EBA found to be immaterial in impact, which is why a harmonization of their treatment is at this stage not deemed to be necessary. Nevertheless, as authorities need anyways to decide on a treatment for third country branches at the national level, they may choose to apply the Guidelines also to third country branches. The EBA also surveyed the volatility of contributions and concluded that it is not an issue at the EU level but, rather, that in the few cases where it was observed, it was subject to specific effects, such as the transfer of a big institution from one DGS to another or a very risk-sensitive calibration of the calculation method.

Question 12:

Do you have any further comments regarding the proposed revised Guidelines?

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.

EBA/GL-REC/20XX/XX

DD Month YYYY

Draft Guidelines (revised)

on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU, repealing and replacing Guidelines EBA/GL/2015/10

1. Compliance and reporting obligations

Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010⁸. 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]. 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 with the reference 'EBA/GL/202x/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).

⁸ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, (OJ L 331, 15.12.2010, p.12).

2. Subject matter, scope and definitions

Subject matter

5. These guidelines fulfil the mandate given to the EBA under Article 13(3) of Directive 2014/49/EU⁹ (DGSD), to issue guidelines to specify methods for calculating contributions to deposit guarantee schemes (DGS).

Scope of application

6. These guidelines apply in relation to the development of methods for calculating risk-based contributions of member institutions to a DGS.
7. Competent authorities in cooperation with designated authorities should ensure that these guidelines are applied by DGSs when developing methods for calculating risk-based contributions by their member institutions and apply them when approving these calculation methods in accordance with Article 13(2) of the DGSD.
8. Where the competent authorities in cooperation with the designated authorities are responsible for developing and/or applying the calculation method, they should apply the provisions of these guidelines.
9. These guidelines do not apply to the branches of third-country credit institutions. Nevertheless, competent authorities in cooperation with designated authorities may choose to apply these guidelines also to third-country branches.

Addressees

10. These guidelines are addressed to deposit guarantee schemes, competent authorities and designated authorities as defined in Article 2(1)(1), (17) and (18) of the DGSD (and as referred to in Article 4(2), point (i) and (iv) of Regulation (EU) 1093/2010) and in accordance with the national allocation of responsibilities.

Definitions

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

Calculation method	means the method for calculating contributions of member institutions to a DGS.
DGS intervention	means any action taken by the DGS that requires the use of DGS funds, to fulfil its duties to protect covered deposits in accordance with Article 11

⁹ Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (recast) (OJ L 173/149, 12.6.2014, p.149).

	of the DGSD. These include, but are not limited to, a reimbursement of depositors following the failure of a member institution, a DGS contribution to resolution financing, providing a capital injection, guarantee or taking over liabilities of an ailing or failing institution to prevent its failure or alternative measures to preserve the access of depositors to covered deposits.
Member institution	means a credit institution, as defined in point (1) of Article 4(1) of Regulation (EU) No 575/2013 ¹⁰ , affiliated to a particular DGS.
Other available financial means	as defined in the EBA Guidelines on the delineation and reporting of available financial means (AFM) of Deposit Guarantee Schemes (DGS) (EBA/GL/2021/17), published on 17 December 2021.
Qualified available financial means (QAFM)	as defined in the EBA Guidelines on the delineation and reporting of available financial means (AFM) of Deposit Guarantee Schemes (DGS) (EBA/GL/2021/17), published on 17 December 2021.
SREP	means the supervisory review and evaluation process as described in Article 97 of Directive 2013/36/EU ¹¹ and further specified in the EBA Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU.

3. Implementation

Date of application

12. These guidelines apply from **dd.mm.yyyy**. The addressees may apply these guidelines instead of EBA/GL/2015/10 already at an earlier date of their own choosing. *[X] months after the date of publication on the EBA's website of the guidelines in all EU official languages (date of issuance of the guidelines)"]*.

Repeal

13. The guidelines EBA/GL/2015/10 are repealed with effect from **dd.mm.yyyy**.

¹⁰ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012, OJ L 176, 27.06.2013, p. 1.

¹¹ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

4. Guidance on developing methods for calculating contributions to DGSs

4.1. Calculation formula

14. The DGS should set the periodic contributions of a member institution 'i' using the following formula.

$$C_i = CR * ARW_i * CD_i * \mu$$

Where:

C_i	=	Periodic contribution from member institution 'i'
CR	=	Contribution rate (identical for all member institutions in a given period)
ARW_i	=	Aggregate risk weight for member institution 'i'
CD_i	=	Covered deposits for member institution 'i'
μ	=	Adjustment coefficient (identical for all institutions in a given period)
i	=	member institution 'i', ranging from 1 to 'n'.

4.2. Contribution rate (CR)

15. The DGS should determine the CR at least annually. The CR for a given period should be:

$$CR = \frac{\text{periodic target level}}{\sum_{i=1}^n CD_i}$$

16. At the minimum, the DGS should set the periodic target level according to the result of the following formula where the denominator needs to be at least equal to 1:

(minimum) periodic target level =

$$\frac{\text{minimum target level} - \text{qualified available financial means (QAFM)}}{\text{number of periods until the minimum target level has to be reached in accordance with Article 10(2) of the DGSD}}$$

17. Where the DGS has an outstanding liability, it should set the periodic target level higher than the minimum required under paragraph 16 to raise enough contributions in a forward-looking manner so that:

- a. the resulting level of QAFM and other AFM is sufficient to service the outstanding liabilities as soon as these liabilities are due to meet the applicable deadline in Article 10(2) DGSD, and
 - b. after reaching the target level for the first time and following a DGS intervention, but ahead of the deadline to meet the target level again according to Article 10(2) DGSD, on its own the servicing of such liabilities does not lead to a fall of QAFM to less than two thirds of the target level, and
 - c. if a DGS has an outstanding liability after the deadline to reach the target level following an intervention, on its own the servicing of the liabilities does not reduce the DGSs QAFM below the target level.
18. The DGS, may set the periodic target level higher than the minimum required under paragraph 16, for example, to reflect the expected evolution of the aggregate covered deposits of the member institutions.
 19. Taking into account paragraphs 16, 17 and 18, the DGS should set the periodic target level to spread out periodic contributions as evenly as possible across time to meet the target level of the DGS.
 20. The competent authority in cooperation with the designated authority may allow the DGS to set a lower periodic target level than the minimum required under paragraph 16 where it concludes that levying a lower periodic target level meets the conditions set out in Article 10(2) subparagraph 4 of the DGSD, and does not lead the DGS to violate the requirement to meet the minimum target level at the deadline set out in Article 10(2) of the DGSD. When allowing the DGS to set a lower periodic target level, the competent authority in cooperation with the designated authority, may take into consideration the expected evolution of the aggregate covered deposits of the member institutions.
 21. The competent authority in cooperation with the designated authority may advise the DGS to set a higher periodic target level than the minimum required under paragraph 16 where it concludes that levying a higher periodic target level meets the conditions set out in Article 10(2) subparagraph 4 of the DGSD, and reflecting the expected evolution of the aggregate covered deposits of the member institutions when it sets a higher periodic target level.
 22. Where a DGS levies extraordinary ex post contributions according to Article 10(8) of the DGSD, the DGS should instead determine the CR according to the following formula:

$$CR = \frac{\text{required funding in accordance with Article 10(8) of the DGSD}}{\sum_{i=1}^n CD_i}$$

4.3. Covered deposits (CD)

23. In relation to Article 7(3) of the DGSD, if a member institution does not accurately determine the precise amount of covered deposits in beneficiary accounts or established maximum amount of covered deposits in such accounts, the DGS should assume all funds in the beneficiary accounts to be covered for the purpose of calculating contributions. Where a member institution reports the precise amount of covered deposits in such accounts, or an established maximum amount of covered deposits in beneficiary accounts, the DGS should take these figures into account when calculating the member institution's contributions. The competent authority in cooperation with the designated authority should determine which information is necessary to take into account the precise amount or the established maximum amount of covered deposits in a beneficiary account.
24. For the purpose of calculating the contributions to the DGS fund, in other cases where there is uncertainty regarding the eligibility and coverage of a particular deposit, the DGS should assume the deposits to be covered. The DGS may include temporary high balances for the purpose of calculating the contributions to the DGS fund.

4.4. Adjustment coefficient (μ)

25. The DGS should calculate the adjustment coefficient μ according to the following formula:

$$\mu = \frac{\text{periodic target level}}{\sum_{i=1}^n (CR \times ARW_i \times CD_i)}$$

4.5. Calculation of the aggregate risk weight (ARW)

26. The DGS should assign the aggregate risk weight for a member institution 'i' (ARW) on the basis of the aggregate risk score for that institution (ARS).
27. The DGS should calculate the ARS by summing up all individual indicators' risk scores (IRS) of that member institution, multiplied with appropriate indicator weights IW for each IRS.
28. The DGS should calculate the IRS based on appropriate risk indicators.

(i) Risk categories and risk indicators

Risk categories

29. The DGS should calculate the aggregate risk weight (ARW) for an individual member institution based on a set of risk indicators from each of the following five risk categories:

- a. Capital: indicators should reflect the level of loss absorbing capacity of the member institution,
- b. Liquidity and funding: indicators should measure the member institution's ability to meet its short- and long-term obligations as they come due without adversely affecting its financial condition,
- c. Asset quality: indicators should measure the extent to which the member institution is likely to experience credit losses,
- d. Business model and management: indicators should measure the risk stemming from the member institution's current business model and strategic plans, the quality of the member institution's internal governance and internal controls,
- e. Potential losses for the DGS: indicators should reflect the potential losses for the DGS stemming from a DGS intervention, which the DGS is unlikely to recover.

Core risk indicators

30. Within each risk category, the DGS should include the core risk indicators specified in Table 1 in the calculation method. As an exception, the competent authority in cooperation with the designated authority may exclude or allow the DGS to exclude, with regard to specific types of institutions, a core indicator upon justification that this indicator is unavailable because of the legal characteristics or supervisory regime of such institutions.
31. Where the competent authority in cooperation with the designated authority or the DGS remove a core risk indicator for a specific type of member institution, they should use the most appropriate proxy for the removed indicator. They should ensure that the risks posed by the institution to the DGS are reflected in other indicators used. They should also take into account the need for a level playing field with other member institutions for which the excluded indicator is available.
32. DGS should apply either of the Capital Coverage Ratio or the Common Equity Tier 1 ratio as a core indicator.

Table 1: Core risk indicators

Indicator name	Formula / Description	Sign
1. Capital		
1.1. Leverage Ratio	Leverage Ratio as stated in Article 429 of Regulation (EU) No 575/2013	(-) A higher value indicates lower risk
1.2.a Common Equity Tier 1 ratio (CET1 ratio)	CET1 ratio as stated in Article 92(2)(a) of Regulation (EU) No 575/2013.	(-) A higher value indicates lower risk

1.2.b Capital Coverage Ratio (CCR)	$\frac{\text{Actual CET1 ratio}}{\text{Required CET1 ratio}} \text{ or } \frac{\text{Actual own funds}}{\text{Required own funds}}$ <p>Where: 'own funds' as stated in Article 4(118) of Regulation (EU) No 575/2013. 'required CET1' and 'required own funds' refer the total CET1 and total own funds requirements of an institution according to Article 92 of Regulation (EU) No 575/2013, Article 104(1)(a) and Article 128 (6) of Directive 2013/36/EU.</p>	(-) A higher value indicates lower risk
2. Liquidity and funding		
2.1. Liquidity Coverage Ratio (LCR)	LCR as stated in Article 412 of Regulation (EU) No 575/2013	(-) A higher value indicates lower risk
2.2. Net Stable Funding Ratio (NSFR)	NSFR as defined in Article 428a-428az of Regulation (EU) No 575/2013	(-) A higher value indicates lower risk
3. Asset quality		
3.1 Non-performing loans ratio (NPL ratio)	NPL ratio as specified in Article 11(2) subparagraph (g) point (ii) of the Commission Implementing Regulation (EU) 2021/451 ¹²	(+) A higher value indicates higher risk
4. Business model and management		
4.1. Total risk exposure amount (TREA) / Total assets ratio	$\frac{\text{Total Risk Exposure Amount (TREA)}}{\text{Total Assets}}$ <p>Where: 'Total risk exposure amount' as stated in Article 92(3) of Regulation (EU) No 575/2013</p> <p>DGSs may use different calibrations for member institutions using the internal ratings-based approach or the standardised methods for calculating risk weighted exposures amounts.</p>	(+) A higher value indicates higher risk
4.2 Return on assets (RoA)	$\frac{\text{Net Income}}{\text{Total Assets}}$ <p>DGSs should calculate the RoA as an average over at least 2 years to avoid including one-off events and avoid pro-cyclicality in contributions.</p>	(-)/(+) Generally, a higher value indicates higher risk, but too high values can also indicate high risk
5. Potential losses for the DGS		

¹² Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014

5.1. Covered deposits / unencumbered assets	$\frac{\text{Covered Deposits}}{\text{Unencumbered Assets}}$ <p>Where: 'unencumbered assets' is defined in Article 411(5) of Regulation (EU) No 575/2013.</p>	(+) A higher value indicates higher risk
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Additional risk indicators

33. In addition to the core risk indicators, the DGS may define and include additional risk indicators that are relevant for determining the differences in risk profiles of its member institutions.
34. If a Member State has, through regulation, imposed restrictions on institutions within a certain subsector in a manner that substantially reduces the likelihood of a DGS intervention, the DGS may reduce contributions from member institutions belonging to the respective low-risk sector in accordance with Article 13(1) second subparagraph of the DGSD, by including an additional risk indicator, under the condition that the competent and designated authority have cooperatively, after consulting the DGS, allowed it, based on empirical evidence indicating that within these low-risk sectors the occurrence of DGS interventions has been consistently lower than in other sectors.
35. The DGS may reduce the contributions of a member institution that is part of an institutional protection scheme (IPS) according to Article 13(1) third subparagraph of the DGSD by including an additional risk indicator in the calculation method. The IPS membership indicator should reflect the additional solvency and liquidity protection provided by the IPS to the member institution. To that end, the additional risk indicator should measure the amount of the IPS ex-ante funds that are available without delay for both recapitalisation and liquidity funding purposes. This may also include additional funding commitments callable upon request and backed by liquidity reserves held by IPS members. To measure whether these ex-ante funds are sufficiently large to provide a credible and effective support for that member institution, the DGS should set them in relation to the size of the IPS member institution.

Requirements for risk indicators

36. The DGS should use risk indicators that capture a sufficiently wide spectrum of sources of risk in the calculation method. If and when a DGS chooses additional indicators, this may include, but is not limited to, risks stemming from money laundering, poor governance or poor quality of Single-Customer-View files.
37. The DGS should align the selection of the risk indicators with the best practices in risk management and with the existing prudential requirements.
38. The DGS should use the values of risk indicators for each member institution calculated on an individual basis.

39. However, the DGS should calculate the value of risk indicators at a consolidated level where the Member State exercises the option provided for in Article 13(1) of Directive 2014/49/EU to allow the central body and all credit institutions permanently affiliated to the central body, as referred to in Article 10(1) of Regulation (EU) 575/2013, to be subject as a whole to the risk weight determined for the central body and its affiliated institutions on a consolidated basis.
40. Where a member institution has received a waiver from meeting capital and/or liquidity requirements at the individual level pursuant to Articles 7, 8 or 21 of Regulation (EU) 575/2013, the DGS should calculate the corresponding capital/liquidity indicators at the consolidated or sub-consolidated level.
41. To calculate values of risk indicators for a given period the DGS should use:
- the value at the end of the reporting period for positions from the income statement;
 - the average between the value at the end of the reporting period and the value at the end of the previous reporting period for positions from the balance sheet;

(ii) Weights for risk indicators and categories

42. The DGS should assign weights to all risk indicators in the method for calculating contributions so that their sum equals 100%.
43. When assigning weights to particular risk indicators, the DGS should assign at least the minimum weights to the risk categories and core risk indicators, as specified in Table 2.

Table 2: Minimum weights for risk categories and core risk indicators

Risk categories and core risk indicators	Minimum weights
1. Capital	20%
1.1. Leverage ratio	10%
1.2. CET1 ratio or CCR	10%
2. Liquidity and funding	15%
2.1. LCR	5%
2.2. NSFR	10%
3. Asset quality	12.5%
3.1. NPL ratio	12.5%
4. Business model and management	15%
4.1. TREA / Total assets	5%
4.2. RoA	10%
5. Potential losses for the DGS	12.5%
5.1. Covered deposits / Unencumbered assets	12.5%
Sum	75%



44. The sum of the minimum weights specified in these guidelines for risk categories and core risk indicators amounts to 75% of total weights. The DGS should distribute the remaining 25% among the risk categories laid down in paragraph 29.
45. The DGS should allocate the flexible 25% of weights by distributing them among the additional risk indicators and/or by increasing the minimum weights of the core risk indicators. The weight of any indicator should not be higher than 25%.
46. Where a core indicator is not used, the DGS should assign the remaining core indicator from the same risk category the full minimum weight for this risk category.
47. Where there is only one core indicator in a category, and this core indicator is not used, the DGS should replace it by a proxy with the same minimum weight as the core indicator.
48. For any risk indicator, the DGS should assign it one weight and apply that same weight for all member institutions.

(iii) Individual risk indicators (IRS)

49. For each value of a risk indicator, the DGS should assign an individual risk score (IRS) ranging from 0 to 100, where 0 indicates the lowest risk and 100 the highest risk. For the calculation of each IRS, the DGS may either apply the 'bucket' or the 'sliding scale' method.
50. DGSs should apply expert judgement to calibrate the thresholds but should in any case respect the following minimum thresholds:
 - a. For the leverage ratio, core equity tier 1 ratio, liquidity coverage ratio and net stable funding ratio, if the value of the indicator of a member institution is lower than the applicable minimum regulatory requirement according to Article 92(1), 412 and 413 of Regulation (EU) No. 575/2013, then the corresponding IRS should be 100;
 - b. For the capital coverage ratio, if the value of the indicator of a member institution is lower than 100%, then the corresponding IRS should be 100.
 - c. For the total risk exposure amount/ total assets ratio and covered deposits/ unencumbered assets ratio, if the value of the indicator of a member institution is above 100%, then the corresponding IRS should be 100.

The 'bucket' method for the IRS

51. In the 'bucket' method, for a given risk indicator, the DGS defines a fixed number of risk classes (buckets), with the minimum being two buckets. The DGS should define the number of buckets to reflect different levels of risk posed by the member institutions (for example, high, medium, low risk) assessed on the basis of the respective risk indicator.

52. For each bucket of a risk indicator j , the DGS should determine an upper and lower boundary of the value A of the risk indicator in such a way that member institutions with a similar level of risk are grouped into the same bucket. The DGS should determine the buckets' boundaries either on a relative or an absolute basis, where:
- a. when using the relative basis, the DGS should distribute member institutions evenly between buckets. The DGS determines the boundaries of the buckets after determining the values A of the risk indicator of member institutions in the same bucket;
 - b. when using the absolute basis, the DGS should determine the boundaries of the buckets to reflect that all values A of the risk indicator within these boundaries represent a similar level of risk and that all member institutions with a similar level of risk end up in the same bucket.
53. The DGS should set the number and boundaries of the buckets to ensure there is sufficient and meaningful differentiation of member institutions. The DGS should avoid calibrating the number and boundaries in such a way that member institutions, despite representing significant differences in the risk levels measured by a particular risk indicator, would be classified into the same bucket.
54. The DGS should not set an upper boundary for the highest bucket and should not set a lower boundary for the lowest bucket.
55. For each bucket of a risk indicator, the DGS should assign a corresponding IRS. The DGS should assign an IRS of 100 to the riskiest bucket and an IRS of 0 to the least risky bucket. The DGS may deviate from this rule for risk indicators which can only have two possible values and where one of which represents an average risk level. If the DGS decides to make use of this possibility, then it should assign an IRS of 50 to the bucket representing the average risk level while the IRS assigned to the other bucket should be either 100 or 0.

The 'sliding scale' method for the IRS

56. In this method, for each institution i and for each risk indicator j , the DGS should calculate an IRS based on the value A of the risk indicator. The DGS should define an upper boundary a_j and a lower boundary b_j for each indicator. If the indicator's value is between the defined boundaries, the DGS should assign the value of the IRS between 0 and 100 according to the following two formulas:
- a. When a higher indicator value indicates a higher risk and the indicator is above the upper boundary a_j , the DGS should fix the value of the IRS at 100. Similarly, when the indicator's value is below the lower boundary b_j , the DGS should fix the value of the IRS at 0. The corresponding formula is:

$$IRS_{ij} = \begin{cases} 100 & \text{if } A_{ij} > a_j \\ 0 & \text{if } A_{ij} < b_j \\ \frac{A_{ij} - b_j}{a_j - b_j} \times 100, & \text{if } b_j \leq A_{ij} \leq a_j \end{cases}$$

, where j = indicator 'j', ranging from 1 to 'm'

- b. Analogously, if a lower indicator indicates a higher risk and the indicator is below the lower boundary b_j , the DGS should fix the value of the IRS at 100. Correspondingly, when the indicator value is above the upper boundary a_j , the DGS should fix the value of the IRS at 0. The corresponding formula is:

$$IRS_{ij} = \begin{cases} 0 & \text{if } A_{ij} > a_j \\ 100 & \text{if } A_{ij} < b_j \\ \frac{a_j - A_{ij}}{a_j - b_j} \times 100, & \text{if } b_j \leq A_{ij} \leq a_j \end{cases}$$

57. For each risk indicator the DGS should calibrate the upper boundary a_j and the lower boundary b_j to ensure there is sufficient and meaningful differentiation of member institutions. The DGS should avoid calibrating the upper and lower boundaries in such a way that all member institutions, despite significant differences in the area measured by a particular risk indicator, should persistently fall either below the lower or above the upper boundary.

(iv) Aggregating the IRS into the aggregate risk score (ARS)

58. Each IRS of the risk indicator j for an institution 'i' should be multiplied by the risk indicator weight (IW) assigned to a specific risk indicator j. The weighted IRS should then be summed up to an aggregate risk score (ARS) according to the following formula:

$$ARS_i = \sum_{j=1}^m IW_j * IRS_{ij}$$

Where:

$$\sum_{j=1}^m IW_j = 100\%$$

(v) Calculating the aggregate risk weight (ARW) based on the ARS

59. For every ARS, the DGS should assign a corresponding aggregate risk weight (ARW) by setting the thresholds for the ARW and by applying either the 'bucket' or 'sliding scale' method, irrespective of the method used to determine the various IRSs of the risk indicators.
60. The DGS should assign the ARW to the ARS in such a way that it is possible for member institutions to be assigned to the lowest and highest ARW, and for the various risk classes to be

populated. In particular, the DGS should avoid calibrating the model in such a way that almost all member institutions, despite having significantly different risk profiles, would be assigned to only one risk class (for example, the risk class for institutions with an average risk profile) and hence assign them the same ARW. However, this does not imply that in each period the DGS should necessarily use the full interval and assign member institutions to the ARW corresponding to the lowest and the highest thresholds of the ARW.

Thresholds for aggregate risk weights (ARW)

61. The DGS should set the upper threshold α and lower threshold β of the ARW to reflect the differences in risk incurred by different member institutions.
62. The DGS should set the upper threshold α of the ARW between 150% and 200%.
63. The DGS should set the lower threshold β of the ARW between 50% and 75%.
64. The DGS may set a wider interval upon justification that the interval limited to 50%-200% does not sufficiently reflect the differences in business models and risk profiles of member institutions and that it would create moral hazard by artificially grouping together member institutions with very different risk profiles.

The 'bucket' method for the ARW

65. If the DGS applies the bucket method, it should define ranges for the ARS in such a way that they correspond to a particular risk class (bucket) and assign an ARW to each bucket according to the following formula:

$$ARW_i = \beta * \left(\frac{\alpha}{\beta}\right)^{\left(\frac{Bucket_p - 1}{P - 1}\right)}$$

Where:

P = the total number of buckets for the ARW,

p = the number of the bucket, starting at 1 (the lowest possible risk bucket) and ending at P (the highest possible risk bucket),

$\beta = ARW(1)$, i.e., the desired ARW value corresponding to bucket 1 (lower limit), and

$\alpha = ARW(N)$, i.e., the desired ARW value corresponding to bucket P (upper limit).

66. The DGS should set the number of buckets P in proportion to the number and variety of member institutions. However, the DGS should set at least four buckets P. The DGS should set at least one bucket for member institutions with an average risk, at least one bucket for low-risk members, and at least two buckets for high-risk institutions.

The 'sliding scale' method for the ARW

67. If the DGS applies the sliding scale method, it should assign each ARS a corresponding ARW according to the following formula:

$$ARW_i = \beta * \left(\frac{\alpha}{\beta}\right)^{\left(\frac{ARS_i}{100}\right)}$$

Where:

the ARS of an institution i can take any value between 0 and 100;

$\beta = ARW(0)$, i.e., the desired ARW value corresponding to an ARS value of 0 (lower limit);
and

$\alpha = ARW(100)$, i.e., the desired ARW value corresponding to an ARS of 100 (upper limit).

68. In this method, the ARW associated to the ARS is growing exponentially, with an upper boundary α and a lower boundary β . For a given institution where the ARS is 100 (the riskiest score), the corresponding risk weight will be α , which is the highest risk weight. Similarly, if the ARS is 0, the corresponding risk weight will be β , which is the lowest risk weight.
69. Where the distribution of the ARS of member institutions of a DGS covers only a partial range of the possible ARS, instead of the full range from 0 to 100, the DGS may reflect that situation by deciding to apply a threshold γ of the ARS higher than 0 and a threshold δ lower than 100. In this case, an ARS smaller or equal to γ should be assigned an ARW of β and an ARS higher or equal to δ should be assigned an ARW of α . The corresponding enhanced formula is:

$$ARW_i = \beta * \left(\frac{\alpha}{\beta}\right)^{\left(\frac{ARS_i - \gamma}{\delta - \gamma}\right)}$$

Where:

$0 > \gamma > \delta > 100$;

γ is the lower threshold of the ARS translating to the lowest ARW β ; and

δ is the actual upper threshold of the ARS translating to the highest ARW α .

70. The DGS should set the thresholds γ and δ so that no member institution's ARS exceeds δ or falls below γ at the time of the calibration.

4.6. Optional modifications to the calculation formula

71. The DGS may modify the calculation formula in section 4.1 of these guidelines as described below.

(i) Minimum contribution

72. The DGS may require member institutions to pay a minimum contribution (MC) irrespective of the amount of their covered deposits by applying either of the following modified calculation formulas to calculate the individual contributions:

- a. In cases where the DGS requires member institutions to pay a part of their total periodic contributions in form of a minimum contribution in addition to a risk-based contribution:

$$C_i = MC_i + (CR * ARW_i * CD_i * \mu^*)$$

Where:

MC_i = Minimum contribution of member institution i, which is identical for all member institutions; and

$$\mu^* = \frac{\text{periodic target level} - \sum_{i=1}^n MC_i}{\sum_{i=1}^n (CR * ARW_i * CD_i)}$$

- b. In cases where the DGS requires member institutions to pay either a regular contribution or a minimum contribution, whichever is higher:

$$C_i = \text{Max} \{MC_i ; (CR * ARW_i * CD_i)\} * \mu^{**}$$

Where:

MC_i = Minimum contribution of member institution i, which is identical for all member institutions; and

$$\mu^{**} = \frac{\text{periodic target level}}{\sum_{i=1}^n (\text{Max} \{MC_i ; (CR * ARW_i * CD_i)\})}$$

73. When setting a minimum contribution, the DGS should take due care of the risk of moral hazard inherent in setting fixed contributions and the risk of creating barriers for entering the market of banking services.

(ii) Use of DGS funds for failure prevention

74. Where a Member State allows a DGS, including an IPS officially recognised as a DGS, to use the available financial means for alternative measures in order to prevent the failure of a credit institution, this DGS may include an additional factor in its own risk-based calculation based on the total risk exposure amount of the institution. In this case, The DGS should apply the following modified calculation formula:

$$C_i = CR * ARW_i * (CD_i + TREA_i) * \mu^{***}$$

Where:

$TREA_i$ = amount of total risk exposure amount of institution 'i'; and

$$\mu^{***} = \frac{\text{periodic target level}}{\sum_{i=1}^n (CR * ARW_i * (CD_i + TREA_i))}$$

75. Before the DGS may implement the additional factor, the competent authority in cooperation with the designated authority should assess, as part of the approval of the calculation method, whether its introduction is commensurate with the risk of having to intervene in order to prevent the failure of institutions beyond the protection of covered deposits.

4.7. Calibration of the calculation method and its regular review

76. The DGS should calibrate the calculation method based on expert judgement, taking into consideration the characteristics of the national banking sector, and the degree of heterogeneity among member institutions. The calibration of the calculation method includes:

- a. The selection of risk indicators,
- b. The weighting of the risk indicators,
- c. The upper and lower boundaries of the IRS,
- d. The method for calculating the IRS,
- e. The thresholds of the ARW,
- f. The method for calculating the ARW,
- g. The application of optional modifications to the calculation formula.

77. The DGS should reflect in the contribution of each member institution, and hence in the calibration of the calculation method, an increased liability incurred by a DGS as a result of a member's participation related to:

- a. the likelihood of a DGS intervention;
- b. the potential losses for the DGS stemming from a DGS intervention, on a net basis after potential recoveries from the bankruptcy estate of the failed institution.

78. The DGS should align the incentives provided by the calculation method with prudential requirements.

79. The DGS should take into account national accounting and reporting practices.

80. The DGS should calibrate all elements of the calculation method to be consistent with relevant historical data. For this purpose, historical data should include: (i) data about institutions'



failures, DGS interventions, resolution action or measures by other public authorities to prevent the failure; and (ii) data about net losses or recovery rates of the DGS from such events.

81. The competent authority in cooperation with designated authority should regularly – at least every five years and before the regular five-year review of these guidelines – compare the results obtained in applying the calculation method with an appropriate benchmark for their risk assessment, for example with the risk assessment performed under the SREP. This comparison should be made in a holistic manner. The competent authority in cooperation with the designated authority should inform the EBA of the holistic outcome of this comparison and the discrepancies observed.
82. The DGS should review and, where necessary, recalibrate all the elements of the calculation method – at least every five years and following the regular five-year review of these guidelines – to ensure that the performance of the calculation method is sufficiently risk sensitive and that it provides for a sufficient risk discrimination of its member institutions. Changes in data reporting, regulatory or institutional changes should also trigger checking and verifying the performance of the model.

4.8. Update or correction of contributions

83. Where the DGS needs to adjust already paid periodic contributions of member institutions, for instance because of updates of indicators of some member institutions to correct accounting errors, the DGS should be able to offset the adjustment with the next due periodic contribution instead of having to reimburse and raise again past contributions.

4.9. Data collection

84. The DGS should have in place adequate systems to collect all the necessary information to calculate the contributions of each member institution. In cases where the DGS does not gather information directly from member institutions but relies on the information provided by the competent or designated authorities, either statutory provisions or formal arrangements should be in place so that the information required by the DGS for administering the contributions is collected and transmitted on a timely basis.
85. For the purpose of calculating contributions, the DGS should make use of information already available to it or requested from member institutions by competent authorities as part of their reporting obligations. The DGS should strike a balance between requiring information necessary for the calculation of contributions and avoiding making unduly burdensome requests for information from the member institutions.
86. The DGS should only require data that is not already reported on a regular basis if such data is needed for determining the risk that member institutions pose to the DGS.

4.10. Transparency and data confidentiality

87. The DGS should disclose to the public at least the description of the calculation method and the parameters of the calculation formula, including risk indicators but not necessarily their respective weights.
88. In contrast, the DGS should disclose the results of the risk classification and its components for a particular member institution only to that member institution and not to the public.
89. The DGS should keep confidential the information used for calculating contributions which is not otherwise publicly disclosed.

4.11. Approval of calculation method

90. The DGS should seek approval from the competent authority in cooperation with the designated authority before the initial implementation of the calculation method. The DGS should obtain renewal of approval of the competent authority in cooperation with the designated authority at a frequency which the competent authority in cooperation with the designated authority deems appropriate and, in any event, before introducing any material changes to an already approved calculation method. The DGS should notify the competent authority and designated authority of non-material changes to the calculation method on a yearly basis.

5. Accompanying documents

5.1 Draft cost-benefit analysis / impact assessment

1. As per Article 16(2) of Regulation (EU) No 1093/2010 (EBA Regulation), any Guidelines and recommendations developed by the EBA shall be accompanied by an Impact Assessment (IA), which analyses ‘the potential related costs and benefits’.
2. This analysis presents the IA of the main policy options included in this Consultation Paper on the draft Guidelines on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU (revised) (“DGSD”) repealing and replacing Guidelines EBA/GL/2015/10.
3. Since the EBA has already issued Guidelines on the methods for calculating contributions and conducted an impact assessment at the time, consequently, in this impact assessment the EBA analyses the impact of the changes that the proposed policy options would have compared to keeping the current Guidelines unchanged. Given the nature of the object of study, the EBA conducted a qualitative and theoretical IA.

A. Problem identification and background

4. Article 10(1) of the DGSD introduced the requirement for DGSs to collect contributions to raise available financial means (“AFM”) and Article 10(2) of the DGSD set the target level for these AFM. Article 13(1) of the DGSD requires the contributions to be based on the amount of covered deposits and the degree of risk incurred by the respective member. Article 13(2) of the DGSD states that DGS may use their own risk-based methods for determining and calculating the risk-based contributions by their members. Article 13(3) mandates the EBA to issue Guidelines to specify methods for calculating the contributions to DGSs in accordance with paragraphs 1 and 2 of Article 13 of the DGSD. Furthermore, Article 13(3) 3rd subparagraph of the DGSD requires the EBA to review these Guidelines at least every five years.
5. Against this background, the EBA issued on 22 September 2015 Guidelines on methods for calculating contributions to deposit guarantee schemes. The EBA reviewed these Guidelines for the first time in the EBA Report on the implementation of the EBA Guidelines on methods for calculating contributions to DGS (“first review”), published on 17 January 2018.

B. Policy objectives

6. In 2022 the EBA reviews these Guidelines for the second time. As the EBA conducted the first review only one year after entry into force of the Guidelines, the EBA was of the view that the findings on possible shortcomings had to be confirmed before introducing changes to the



Guidelines, which it now intends to introduce by presenting the Consultation Paper on the draft Guidelines on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU (revised) repealing and replacing Guidelines EBA/GL/2015/10.

7. The policy objective for the review of these Guidelines is to improve the calculation method to ensure more risk-appropriate contributions by member institutions to the DGS.

C. Options considered, assessment of the options and preferred options

Entire change of the method

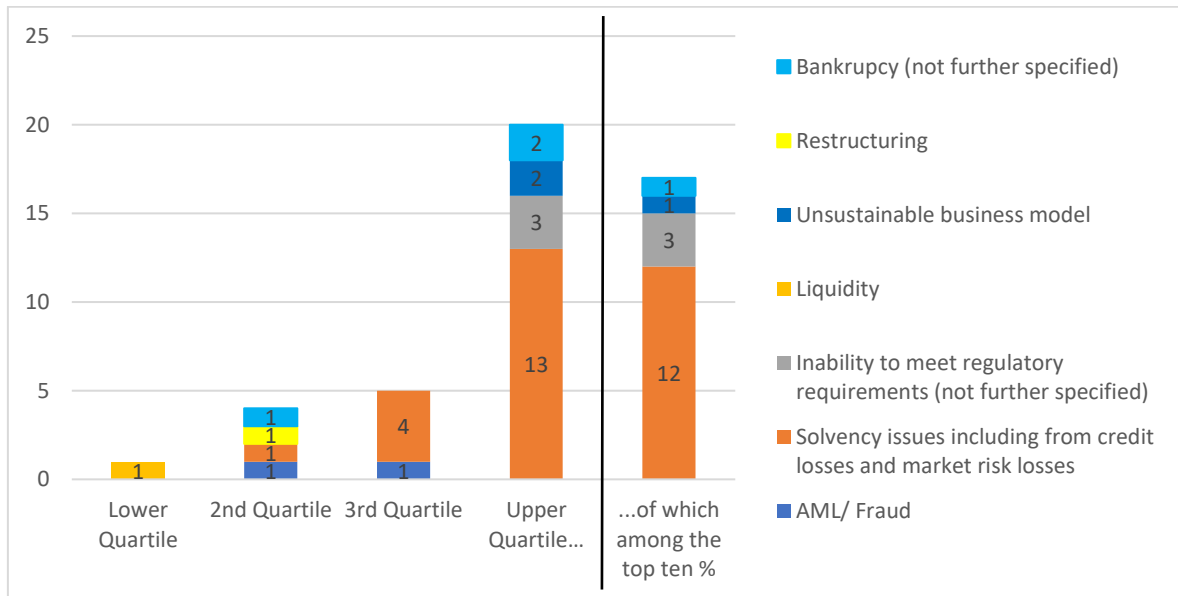
8. The general aim of the method is to determine institutions' contributions to deposit guarantee schemes in line with these institutions' risk of DGS intervention. Under the current method, DGSs calculate for each member institution individual risk scores (IRS) based on various risk indicators. These IRSs are then weighted and aggregated to an aggregate risk score (ARS). The ARS is then translated into an aggregate risk weight (ARW), which represents the risk factor that determines the level of contributions of a member institution and the higher the ARW is, the higher the contributions will be.
9. Having said that, the general relevance of the method could be evaluated by looking at the links between the ARS-ARW levels and the interventions of DGSs with regard to ailing or failing institutions. The EBA assessed whether the ARS and ARW levels were linked with the DGS interventions and the following options have been considered:

Option 1a: Complete change of the method in case that there are no links between ARS-ARW and DGS interventions

Option 1b: Not changing the whole method in case of the ARS-ARW demonstrate a good indication of DGS interventions

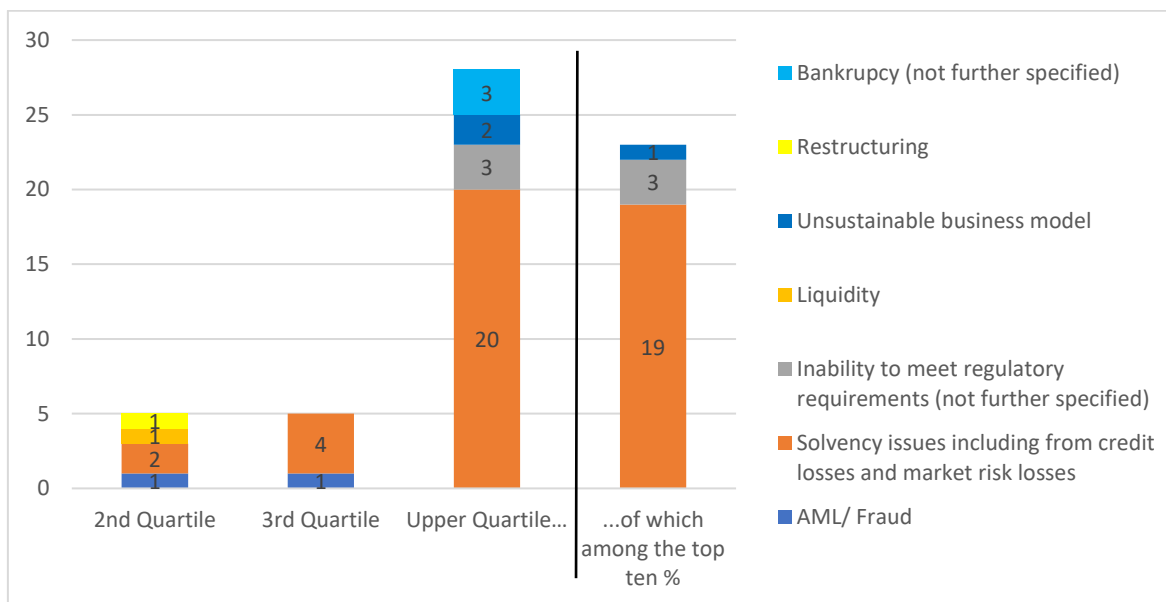
10. The EBA based its analysis on the data provided by the DGSs on their interventions in the years 2015-2021. The EBA analysed the ARS of institutions subject to a DGS intervention relative to all institutions in their respective DGS. All DGSs together reported 39 interventions but reported ARS only for 30 of them. The data provided for these institutions is end-of-year data. The last available data for each institution before the intervention date show that 25 out of 30 institutions had an ARS above the Median ARS of institutions in their DGS. 20 out of 30 had an ARS in the upper quartile, of which 17 were amongst the top 10% of institutions with the highest ARS in their DGS. The positioning is relative to all other institutions in the same DGS at year-end before the date of intervention. Figure 3 illustrates the position of the ARS of institutions subject to a DGS intervention within their DGS. It illustrates that more than half of all DGS interventions occurred in the context of institutions that were classified amongst the riskiest 10% regarding the ARS of their DGS.

Figure 3. Position of ARS of institutions subject to a DGS intervention relative to their DGS, by reason for intervention. Data as of year-end before the date of intervention.



11. In the same fashion, the EBA also analysed the ARW of institutions subject to a DGS intervention relative to all institutions in their respective DGS for which there are 8 more data points than for the ARS. The last available data for each institution before the intervention date show that 33 out of 38 institutions had an ARW above the Median ARW of institutions in their DGS. 28 out of 38 had an ARW in the upper quartile, of which 23 were amongst the top 10% of institutions with the highest ARW in their DGS. The positioning is relative to all other institutions in the same DGS at year-end before the date of intervention. Figure 4 illustrates the position of the ARW of institutions subject to a DGS intervention within their DGS. It illustrates that more than 60% of all DGS interventions occurred in the context of institutions that were classified amongst the riskiest 10% regarding the ARW of their DGS.

Figure 4: Position of ARW of institutions subject to a DGS intervention relative to their DGS. Data as of year-end before the date of intervention.



12. The ARS and ARW seem to accurately reflect increased riskiness of an institution with regards to DGS interventions due to issues with solvency, unsustainable business models and inability to meet regulatory requirements. In contrast, the ARS and ARW do not seem to accurately reflect money-laundering/fraud-related issues, restructuring issues and liquidity issues. DGS interventions for those reasons feature among those institutions below the median ARS and ARW. Only one institution that had solvency issues had an ARS and 2 institutions an ARW below the median. Concerning the ARS for institutions subject to “bankruptcy”, some institutions are in the upper quartile and one institution in the second quartile while for the same institutions, their ARW is always in the upper quartile.

13. Figure 5 and Figure 6 below illustrate the trend of the ARS and ARW level for the 3 years preceding the DGS intervention, sorted by reasons for DGS intervention. N-1 represents the end of year data before the DGS intervention. Only 12 institutions subject to an intervention reported the ARS and ARW for those 3 years. Judging from the levels of the ARS and ARW, no trend can be identified, pointing neither to increasing nor decreasing risk of a DGS intervention. Also, when looking at the reasons for intervention, there is no clear trend. Furthermore, the EBA deems the sample too small and the results too weak to draw conclusions for the trends on the basis of this specific analysis.

Figure 5: ARS last 3 years before DGS intervention (colored by reason for intervention)

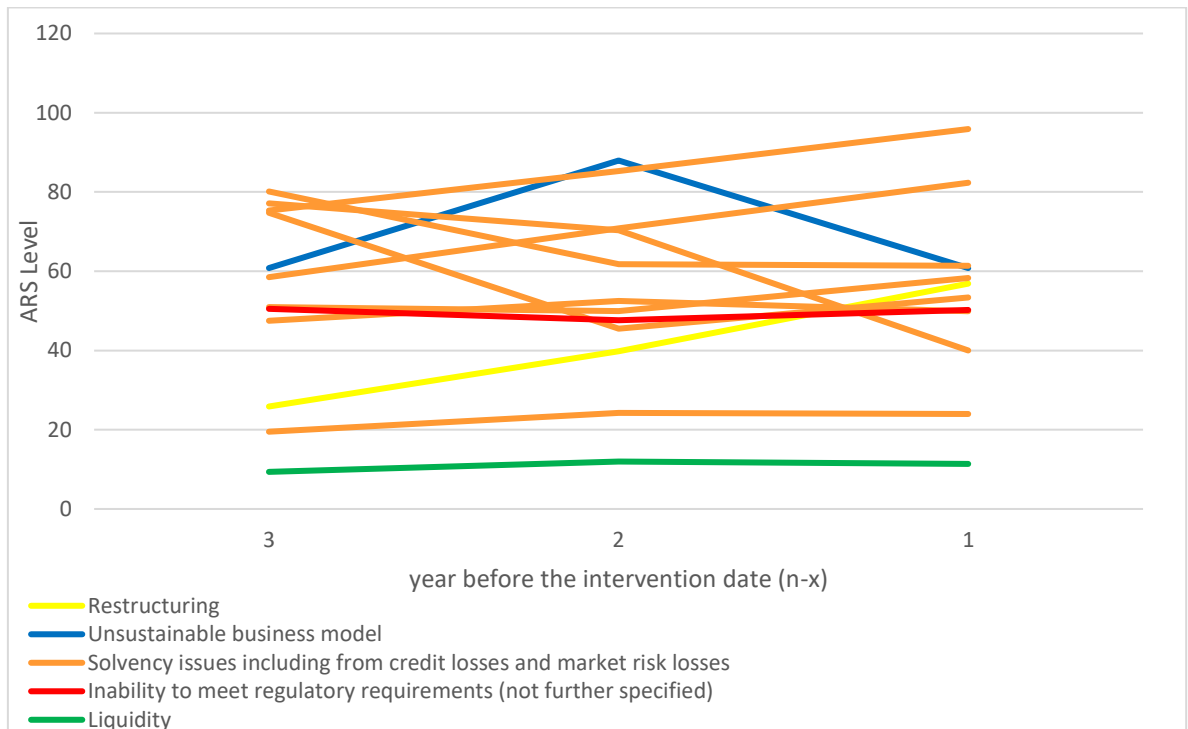
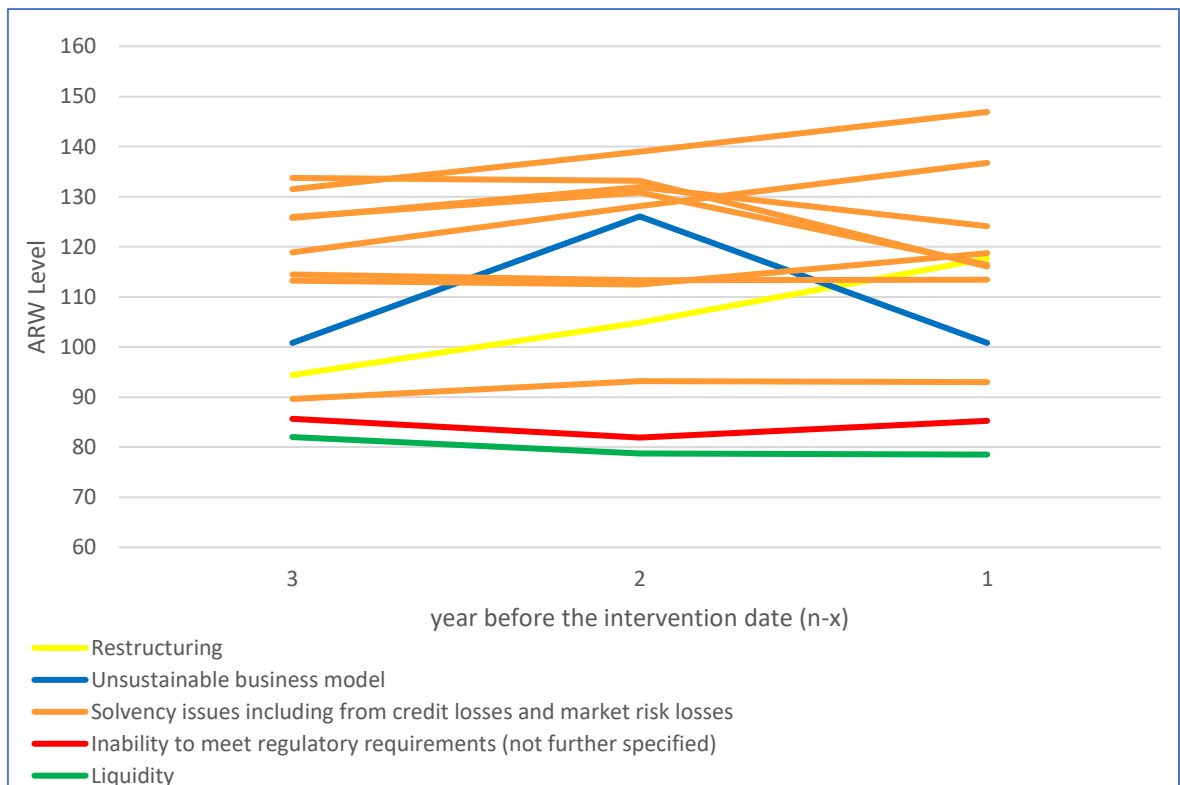


Figure 6: ARW last 3 years before DGS intervention (colored by reason for intervention)





14. The purpose of the methodology is to ensure that riskier institutions pay higher contributions than less risky institutions with the same amount of covered deposits. The methodology seems to be working especially well with regards to solvency and profitability issues, which are at the core of most DGS interventions. The results are less convincing for AML/ fraud cases and liquidity issues, which, however, represent only a minor share of DGS interventions.
15. Although the relative ARS and relative ARW of institutions subject to a DGS interventions are elevated in the majority of cases, there are still several institutions that were not within the top quartile nor above the median of the ARS and ARW. Furthermore, the trend of the absolute ARS and absolute ARW does not seem to clearly indicate that an institution's circumstances are deteriorating. This can however be related to several factors:
- Firstly, the sample of institutions subject to a DGS intervention remains small and it is not possible to make very robust conclusions on its basis, while trends would become clearer if the sample was larger,
 - Secondly, it might be the case that the situation of institutions subject to DGS interventions has been stable – albeit bad – for a few years, and hence the levels of ARS and ARW were elevated, but no upwards trend was discernible,
 - Thirdly, it might be the case that the DGS interventions were triggered due to sudden events or shocks, rather than slowly building up, and hence they would become clear only shortly before the failure. That is particularly the case in DGS interventions related to ML/TF and/or fraud,
 - Fourthly, it might be the case that the deterioration in one important aspect drags the credit institution down, while other indicators remain fairly stable and thus the overall score does not deteriorate much.
16. The analysis above confirms that the ARS and ARW were elevated for institutions subject to a DGS intervention. In more than 2/3 of the cases, institutions subject to a DGS intervention were among those institutions in the top quartile of the ARS and ARW among the population of members of their DGS, and in most cases even in the top 10%. Also, the ARS and ARW point in the same direction in nearly all cases.
17. Based on these considerations, the EBA is of the view that overall the methodology seems to achieve its goal in that riskier institutions pay higher normalized contributions. With regards to specific risks, such as those emanating from ML/TF, fraud or poor governance, DGSs are already flexible in tailoring the methodology to their banking sectors by including appropriate additional indicators that capture such risk. The benefits of changing the methodology are not obvious while the change in the overall methodology may be related with some implementation costs for the DGSs. Depending on the features of the alternative model, it may also lead to additional costs for credit institutions.
18. Consequently, the EBA views **option 1b as the preferred option.**
-

The translation of the raw indicators into the IRS and the range of the IRS used

19. In the First Report on the review of the GL on RBC, the EBA identified that up to one quarter of DGSs seem to use only a small part of the IRS range, raising concerns about consistency across DGSs. The analysis performed for the purpose of this review reinforces previous findings. Table 3 shows that there are few indicators where nearly all DGSs use the full range of IRS (from 0 to 100), and some where about half of DGSs use the full range. Furthermore, for indicators such as ‘Leverage ratio’, ‘LCR’, ‘NSFR’, the media range used is 66, and the minimum is as low as 33.

Table 3: Use of full or partial IRS range

Using:	Total # DGS	Full range	Partial range	of those using partial range		
		#DGS	# DGS	Minimum range	Median range	Maximum range
Leverage ratio	27	20	7	33	66	99
CET1 ratio	23	13	10	50	80	97
Capital coverage ratio	3	3	0			
LCR	26	15	11	33	66	91
NSFR	5	4	1		66	
NPL ratio	28	26	2	75	81	86
RWA / Total assets	28	23	5	66	83	95
RoA	27	21	6	50	87	98
Unencumbered assets / Covered deposits	26	16	10	44	79	97

20. Under the current Guideline, there are no thresholds applicable for the IRS. Thus, the EBA considered the following options:

Option 2a: Keep the current provisions of the Guidelines

Option 2b: Set minimum thresholds to ensure that indicator values breaching certain values are assigned an IRS of 100

21. The reasons for the DGS not using the full range of the IRS can be manifold, but the EBA identified that the main reason is that the thresholds are set independently of the actual values of the indicators from institutions that are members of a given DGS. Furthermore, as shown in Table 4, the EBA identified that for two indicators, some DGSs set thresholds for an IRS=0 that are breaching the minimum regulatory requirements. Most notably, the thresholds for the LCR and NSFR can be as low as 40% each yet still correspond to an IRS of 0, despite being well below the minimum regulatory requirement of 100% each (once fully applicable). In other cases, there seems to be a buffer between the minimum regulatory requirement and a value corresponding to an IRS of 0, such as for the leverage ratio (4% vs 3%) and CET1 ratio (7% vs 4.5%).

Table 4: Minimum and maximum thresholds for the core indicators across DGS

	Total # DGS	Range of threshold for IRS=0			Range of threshold for IRS=100			Delta of the thresholds (max-min)		
		Minimum	Median	Maximum	Minimum	Median	Maximum	Minimum	Median	Maximum
Leverage ratio	26	4%	10%	18%	1%	4%	7%	1%	5%	15%
CET1 ratio	22	7%	20%	33%	5%	10%	15%	2%	9%	29%
Capital coverage ratio	3	200%	200%	4283%	100%	100%	205%	100%	100%	4078%
LCR	27	40%	197%	1372%	30%	100%	206%	5%	60%	1166%
NSFR	11	40%	120%	160%	3%	90%	100%	20%	30%	60%
NPL ratio	26	0%	2%	8%	2%	9%	25%	1%	6%	20%
RWA / Total assets	26	0%	35%	70%	40%	70%	101%	10%	34%	100%
RoA	28	0%	1%	15%	-18%	0%	0%	0%	1%	20%
Unencumbered assets / Covered deposits	25	100%	230%	1969%	0%	119%	194%	7%	100%	1969%

22. The objective of setting appropriate thresholds for the translation of minimum and maximum indicator values into the IRS and using as full of a range of the IRS as possible, is to ensure adequate differentiation between institutions exhibiting different indicator values. That ensures that more risky institutions contribute more to the DGS fund, while the less risky ones contribute less, *ceteris paribus*.
23. The EBA concluded that there can be good reasons why the range of the IRS is not fully used, especially when the raw indicators of institutions do not exhibit pronounced divergence in risk profiles and that the absolute values of the indicators point to low levels of risk. Nevertheless, the EBA also concluded that in some cases it does not seem evident why some DGSs do not make full use of the IRS range, especially when the thresholds for allocating an IRS=0 is below minimum regulatory requirements. In view of the EBA, introducing minimum thresholds for the IRS when an IRS =100 seems justified, with the flexibility to apply stricter thresholds.
24. In view of the EBA, Option 2b sets appropriate thresholds to ensure a more harmonised approach, and avoid instances where, for example, and institution that breaches minimum regulatory requirements is not assigned the maximum IRS of 100. Under this option, the proposed minimum thresholds are based on:
- the minimum regulatory requirements (for the leverage ratio, CET1 ratio, LCR and NSFR), or
 - expert judgement (for the capital coverage ratio, UA/CD ratio, RWA/total assets ratio).



25. The EBA assessed that there is no need to set specific minimum threshold for the RoA and the NPL ratio as the banking markets are quite diverse and the situation may change considerably over time.
26. Under this option, DGSs can set stricter thresholds as a result of the calibration of the calculation method and that the proposed minimum thresholds serve as a backstop. DGSs could also choose to apply stricter thresholds corresponding to an IRS=100, or to apply additional thresholds as is the case for the RoA.
27. This option in itself would not generate any additional costs for the industry, as it does not relate to how much funds it needs to contribute to the DGS, but rather how the contributions are divided among the institutions. For instance, where member institutions currently breach regulatory minima and are not assigned the maximum IRS, the change of the Guidelines is likely to lead to higher contributions for these institutions, and in consequence for lower contributions for the institutions that do meet such regulatory minima. Such an impact is welcome as it contributes to the aim of ensuring adequate differentiation between institutions. This option would generate minimal costs for the authorities and/or DGSs responsible for calculating the contributions, as it would require a mere change of thresholds in their models.
28. On these grounds, **option 2b has been chosen as the preferred option.**

Minimum weight of core indicators

29. Under the current Guidelines, each core indicator, and its corresponding IRS, has a minimum weight in the calculation of the ARS. The EBA reviewed the appropriateness of those minimum weights in the light of the survey answers and the performance of the core indicators to indicate a DGS intervention. The following options were considered:

Option 3a: Keep the existing minimum weights of core indicators

Option 3b: Change some of the minimum weights of core indicators

30. Of the 39 institutions subject to a DGS intervention, DGSs provided the ARS, ARW and core indicators for 30 of them. For these institutions, the EBA analysed the levels and the trends of the core indicators at the year-end before the DGS intervention. Table 5 summarizes the results of the analysis by listing for each core indicator the number of institutions subject to a DGS intervention for which a certain level was breached and the reason for intervention of those institutions. It also identifies the number of institutions for which the trend of that core indicator was deteriorating, again with the associated reason for intervention. The institutions observed under "level" and "trend" can be the same, but this is not necessarily the case. For each institution, multiple observations are possible. There were not enough observations for the capital coverage ratio to be considered for this analysis. Also, the core indicator unencumbered assets/ covered deposits was not included in the table as it is not meant to provide an indication for the likelihood of a DGS intervention but rather for the losses for the DGS in case of a DGS intervention.

Table 5. Level and trend of core indicators for institutions subject to a DGS intervention

Core indicator	Level		Deteriorating trend**	
	Observations	Reason of the intervention – number of institutions	Observations**	Reason of the intervention – number of institutions
Leverage ratio	12 institutions had a leverage ratio < 3% or even < 0% (7 institutions) before the DGS intervention	<i>Solvency issues: 11</i> <i>Restructuring: 1</i>	13 institutions (decreasing trend)	<i>Solvency issues: 9</i> <i>Liquidity: 1 institution</i> <i>Unsustainable business model: 1</i> <i>Restructuring: 1</i> <i>Bankruptcy: 1</i>
CET1 ratio	17 institutions had a CET1 ratio < 10.6%* or even < 0% (8 institutions) before the DGS intervention	<i>Solvency issues: 15</i> <i>Unsustainable business model: 1</i> <i>Restructuring: 1</i>	12 institutions (decreasing trend)	<i>Solvency issues: 9 institutions</i> <i>Liquidity issues: 1</i> <i>Unsustainable business model: 1</i> <i>Restructuring: 1</i>
NPL ratio	23 institutions had an NPL ratio higher than 5% before the DGS intervention (of which 17 above 15%)	<i>AML/ Fraud: 2</i> <i>Solvency issues: 16</i> <i>Inability to meet regulatory requirements: 3</i> <i>Unsustainable business model: 1</i> <i>Restructuring: 1</i>	10 institutions (increasing trend)	<i>Solvency issues: 7</i> <i>Inability to meet regulatory requirements: 1</i> <i>Unsustainable business model: 1</i> <i>Restructuring: 1</i>
RoA ratio	-23 institutions had a negative RoA before the DGS intervention - 1 institution had an RoA very close to 0 + - 2 institutions had negative RoAs 2 years before DGS intervention but slightly positive (0.2% and 0.4%) the year just before the DGS intervention	<i>AML/ Fraud: 1</i> <i>Solvency issues: 17 institutions</i> <i>Inability to meet regulatory requirements: 3</i> <i>Liquidity: 1</i> <i>Unsustainable business model: 1</i> <i>Restructuring: 1</i> <i>Bankruptcy: 2</i>	13 institutions (decreasing trend)	<i>Solvency issues: 10 institutions</i> <i>Inability to meet regulatory requirements: 1</i> <i>Unsustainable business model: 1</i> <i>Bankruptcy: 2</i>
RWA/ Assets ratio	NA***	NA***	6 institutions (increasing trend)	<i>Solvency issues: 6</i>
LCR/ NSFR	For the only bank subject to an intervention due to liquidity, we have during the 3 years reported levels of LCR above 150% and no clear trend. No NSFR reported for this institution.			
*ECB Overall SREP requirements and guidance for CET1 capital in 2019 (unchanged from 2018) at 10.6%				
**Only possible for institutions with more than 1 year of data - to be noticed that out of the 30 institutions treated in this table, 8 had data for just one year				
***No universal thresholds to be compared with				

31. Table 6 provides an overview of how many out of the 30 DGSs reported applying the various core risk indicators. Note that 1 DGS has 2 sub-funds with differing RBC methodologies, bringing the total number of DGS in the analysis to 31. The table shows the minimum, medium and maximum weights of the core indicators applied by the DGSs that reported the applied weights. One reporting DGS does not apply the leverage ratio, 1 DGS applies neither CET1 nor capital coverage ratio, 1 DGS does not apply the LCR, 19 did not use the NSFR at the end of 2020, 1 DGS does not apply the NPL ratio, 1 DGS does not apply the RWA / Total assets ratio, all DGS use the RoA and 2 DGS do not use the unencumbered assets/ covered deposits ratio. Amongst those DGS not applying one or more core indicators, the reasons were that either the data was not available, such as the NSFR or the leverage ratio for non CRR-institutions, or that another measurement had been chosen. For instance, one DGS replaced the LCR and NSFR with the two indicators “liquidity buffer over total assets” and “liquidity buffer over covered deposits”. The table furthermore provides the minimum, median and maximum weight of the core indicator in the ARS reported by DGS. Regarding the RWA/ total assets ratio, one DGS represents an outlier by assigning a weight of 50%. Taking into account the analysis on the performance of the core indicators in indicating an increased likelihood of a DGS intervention, the EBA highlighted in red the weights of indicators that seem overemphasized (LCR) or not sufficiently emphasized (RoA) in relation to their performance.

Table 6: range of indicator weights across DGS

	Total # DGS	Actual indicator weight			Requirement from GL
		Minimum	Median	Maximum	Minimum weight
Leverage ratio	30	9%	10%	15%	9%
CET1 ratio	26	9%	11%	24%	9%
LCR	30	9%	17%	25%	9%
NSFR	12	9%	10%	15%	9%
NPL ratio	30	11%	15%	20%	13%
RWA / Total assets	30	7%	8%	50%	6.5%
RoA	31	7%	8%	17%	6.5%
Unencumbered assets / Covered deposits	29	13%	15%	23%	13%

32. The EBA drew the following conclusions:

- a) The **RoA** and **NPL ratio** both seem to provide a **very good indication** of an increased likelihood of a DGS intervention, irrespective of the reason for the DGS intervention. However, while the **NPL ratio** has a fairly strong minimum weight (13%) that **should not be modified**, the RoA has a very low minimum weight (6.5%). In practice, DGSs do not assign the **RoA** a heavy weight (8% in median), thereby possibly not sufficiently emphasizing this useful indicator. **Thus, this weight should be increased.**



- b) The **CET1 ratio** and to a lesser degree the **leverage ratio** provide a **good indication** of an increased likelihood of a DGS intervention, especially for issues associated to solvency and profitability. **Thus, their weights should be increased.**
- c) The trend of the **RWA/ Assets ratio** provide **some indication** of an increased likelihood of a DGS intervention with regards to solvency issues but we can globally notice that its performance was mediocre at indicating a DGS intervention and that it is difficult to interpret, meaning it is unclear at which level an institution can be considered to be risky. Its weight is rather low (8% in median), except for 1 DGS that assigns it a weight of 50%. Given also that four out of eight core risk indicators offer a better indication of an increased likelihood of a DGS intervention, **the minimum weight assigned to the RWA/ Assets ratio should be decreased.**
- d) While the NSFR could not be assessed on its performance as it was not yet fully implemented in 2020, the **LCR** provides **no indication** of an increased likelihood of a DGS intervention, not even with regards to DGS interventions because of liquidity issues. Consequently, the weight of the LCR seems overemphasized (17% in median). This is possibly a result from the high minimum weight (9%) that it is assigned in the Guidelines and that DGSs that for data reasons could not yet apply the NSFR reassigned the weight of the NSFR to the LCR instead. Concerning the LCR, it is possible that the time span between the date of reporting and the date of intervention may be long, allowing for a significant deterioration between both dates. Thus, even if the LCR were a good measurement to indicate an increased likelihood of a DGS intervention, the DGS may not receive in a timely manner that indication and could hence not reflect it in the calculation for contributions. **Thus, the minimum weight for the LCR is too high and should be decreased.** In contrast to the LCR, the NSFR should reflect a longer-term perspective and may better suit the calculation method for DGS contributions. To be noticed here that, given the high level of liquidity in the market associated with the accommodative monetary policy in the review period (2015- end 2021), it is likely that the LCR and NSFR were elevated for most institutions. With a reversal of the monetary policy expected in the coming years, the liquidity indicators may again gain more indicative power. Therefore, it seems appropriate to retain liquidity indicators as core indicators in the calculation methodology, albeit with reduced minimum weights.
- e) The **unencumbered assets/ covered deposits ratio** provides no indication either and has a heavy weight (15% in median). With regards to the unencumbered assets/ covered deposits (UA/CD) ratio, the purpose of this indicator is not so much to provide an indication of an increased likelihood of a DGS intervention rather than to provide some measurement of the potential loss given default for the DGS in case of a DGS intervention. With that view, the EBA opines that there is currently no reason to change this indicator's minimum weight.



33. The EBA identified that the benefits of changing the minimum weights are to increase the risk-sensitivity of the calculation method. The cost to the DGS should be negligible as it would take only a short time to implement. The cost for the banking industry in aggregate would be zero as the aggregate contributions would not change. However, the adjustment of the minimum weights may lead to higher contributions for some institutions while it would decrease the contributions for other institutions.
34. Given all the above, **option 3b has been chosen as the preferred option.**

Changing the formula for translating the ARS into the ARW

35. With regards to the formulas for translating the ARS into the ARW, the current Guidelines feature a linear and an exponential formula for the sliding scale method and no formula for the bucket method. The policy objective is to ensure that the relationship between the contributions of a credit institution relative to other credit institutions remains constant to the difference in riskiness between institutions, irrespective of the position of the banking sample on the ARS range. This means that when an institution's riskiness increases by a certain amount, its contributions should also increase proportionally. Thus, the EBA assessed whether those formulas or the absence of formulas for translating the ARS into the ARW achieve this objective or whether an alternative exponential formula is more appropriate. The following options have been considered:

Option 4a: Keep the current formulas for the sliding scale method and no guidance for the bucket method

Option 4b: Change the formula to a new type of exponential formula for both the sliding scale and the bucket method

36. Regarding the sliding scale method the EBA identified that the calibration of the ARS has an impact on institutions' contributions per covered deposits (normalized contributions). This means that when an institution's riskiness increases by a certain amount, the increase in contributions is not always the same and instead depends on the position of the institution on the ARS range. This applies also in most cases to the bucket method as there is no uniform translation of the ARS to the ARW.
37. The examples in Table 7 below for the current linear and the exponential formula illustrates that for two sets of institutions, one high risk and one low risk, the relative contributions change despite the institutions having the same distance in riskiness.



Table 7: Examples of contributions under current linear and exponential formula in dependency of the position on the ARS scale

Current linear formula												sum Ci	μ
ARS	0	10	20	30	40	50	60	70	80	90	100		
ARW	0.75	0.825	0.9	0.975	1.05	1.125	1.2	1.275	1.35	1.425	1.5		
Cov. Dep.						20	50			30			
Ci unadjusted						22.5	60			42.75		125.25	0.80
Ci adjusted						17.96	47.90			34.13		100	
Cov. Dep.		20	50			30							
Ci unadjusted		16.5	45			33.75						95.25	1.05
Ci adjusted		17.32	47.24			35.43						100	

Current exponential formula												sum Ci	μ
ARS	0	10	20	30	40	50	60	70	80	90	100		
ARW	0.75	0.78	0.81	0.85	0.90	0.94	1.00	1.07	1.16	1.29	1.50		
Cov. Dep.						20	50			30			
Ci unadjusted						18.89	50.15			38.73		107.77	0.93
Ci adjusted						17.53	46.53			35.94		100	
Cov. Dep.		20	50			30							
Ci unadjusted		15.61	40.73			28.34						84.69	1.18
Ci adjusted		18.44	48.10			33.47						100	

38. Ideally, the institutions highlighted in the same colours should have the same contributions. However, the adjusted contributions deviate in dependency where the banking sample is located on the ARS range. This applies also to the bucket method, as there is currently no precise guidance how to translate the ARS into the ARW.

39. In comparison to that, the proposed exponential formula (option 4b), which applies to the sliding scale and the bucket method would yield the following results as shown in Table 8 below.

Table 8: example of new formula

Proposed exponential formula												sum Ci	μ
ARS	0	10	20	30	40	50	60	70	80	90	100		
ARW	0.75	0.80	0.86	0.92	0.99	1.06	1.14	1.22	1.31	1.40	1.50		
Cov. Dep.						20	50			30			
Ci unadjusted						21.21	56.84			41.99		120.04	0.83
Ci adjusted						17.67	47.35			34.98		100	
Cov. Dep.		20	50			30							
Ci unadjusted		16.08	43.08			31.82						90.97	1.10
Ci adjusted		17.67	47.35			34.98						100	



40. As the example demonstrates, the institutions highlighted in the same colours pay the same contributions, irrespective where the banking sample is located on the ARS range. This makes the translation of the ARS into the ARW less dependent on the calibration of the ARS. It also means that irrespective of the ARS, a given increase in riskiness of an institution will always translate to the same proportional increase in contributions.
41. With regards to the cost of changing from one formula to another, the EBA notes that the banking sector is already paying contributions and the change in formula will not change the overall amount of contributions that the banking sector is paying. Consequently, on an aggregate level, there is no cost to the banking sector. However, the distribution of contributions may change, with some institutions having to pay more while other institutions will have to pay less.
42. As it should take very little time to substitute the formulas in the calculation method, the EBA estimates the cost for the DGS to be close to zero and not significant compared to the benefits of increasing the consistency of the level of contributions across institutions.
43. To this end, **Option 4b has been chosen as preferred option.**

Regular recalibration of the method to calculate the ARW

44. The following options were considered:

Option 5a: Not including, in the revised Guidelines, a regular recalibration of the method to calculate the ARW

Option 5b: Including, in the revised Guidelines, a regular recalibration of the method to calculate the ARW

45. The EBA is of the view that market conditions may change constantly. For instance, with regards to the poor performance of the liquidity indicators for the indication of DGS interventions, it may be due to the past and current very high level of liquidity in the financial system. In a world with lower excess liquidity the indicator may become more relevant. Therefore, it is necessary that DGSs adapt the methodology to capture risks appropriately, for instance by setting the right weights above the minimum weights. Further on the example of the indicator weights, while the minimum weights set the framework for a harmonized calculation of DGS contributions, it is nevertheless important that DGSs monitor the market conditions and set the indicator weights accordingly, e.g. by setting higher weights for liquidity indicators in the future.
46. The benefit of requiring DGSs to regularly review the calibration of the calculation method is to ensure the risk-sensitivity of the calculation method. The cost for the DGS and for credit institutions should however be limited.
47. Consequently, **option 5b has been chosen as the preferred option.**

Taking into account deposits in beneficiary accounts for the purpose of calculating contributions to DGSs

48. In the EBA Opinion on the treatment of client funds under DGSD the EBA recommended that it should be ensured “that client funds are taken into account when calculating contributions to DGS funds, with details to be set out in a revision of the EBA Guidelines on methods for calculating contributions to DGSs.”
49. The said Opinion included an assessment of the materiality of some of the amounts of deposits in beneficiary accounts placed with credit institutions by other credit institutions, payments institutions, e-money institutions and investment firms. The Opinion concluded that “the limited data that is available, allowed the EBA to arrive at the view that the inclusion of client funds in the coverage of DGSs would probably have a small impact on the overall amount of covered deposits in nearly all MSs, either because the amounts of client funds relative to covered deposits appear to be small, or because they are already covered, or both.”
50. The assessment outlined in the Opinion also showed that currently, across the Member States, there are different ways to consider deposits in beneficiary accounts for the purpose of calculating contributions to DGS funds. Thus, leveraging on the current approaches, for the purpose of these Guidelines, the EBA considered how to calculate contributions based on deposits in beneficiary accounts, as opposed to whether it should be done. The four options considered were as follows:

Option 6a. Require deposits in beneficiary accounts to be taken into account when calculating contributions, without providing a methodology to do so.

Option 6b. Require all account holders to provide detailed information about their clients who are ultimate beneficiary owners of deposits in the beneficiary accounts.

Option 6c. Require that all deposits in beneficiary accounts are necessarily used for the purpose of calculating contributions.

Option 6d. Require that DGS have in place adequate systems to receive the precise information on covered deposits in beneficiary accounts, without prescribing one method of achieving that aim.

51. The EBA assessed and discarded option 6a as it would lead to the need for each DGSDA/DGS to develop their own methodology and would lead to a divergence of approaches. The EBA also assessed and discarded imposing one single way to reflect deposits in beneficiary accounts in the contributions. Among the possible ways to do it, the EBA assessed that to require all account holders to provide detailed information about their clients who are ultimate beneficiaries (Option 6b), would generate significant burden for many account holders – from financial institutions such as credit institutions, investment firms etc., to solicitors, real estate agents, and others, who would be asked by the credit institutions for this information.



Furthermore, in some instances it would not lead to significant differences in contributions than taking into account the whole deposits because the vast majority of ultimate beneficiaries would have less than 100.000 Euros of deposits in such accounts. The EBA also assessed that, on the other hand, to require that in all instances, all deposits in the beneficiary accounts are taken into account (Option 6c) could in some other instances significantly overestimate the amount that is in fact covered – particularly for the types of account holders who generally hold high amounts of client funds – such as for example certain investment firms specializing in high net worth individuals.

52. The EBA then assessed the requirement for the DGS to have in place adequate systems to receive the precise information on covered deposits in beneficiary accounts, without prescribing one method of doing so. In that approach, by default, all the deposits in the beneficiary accounts should be taken into account when calculating contributions to the DGSs. However, it should be allowed for a credit institution to provide the DGSDA/DGS with the precise information which can outline what proportion of client funds are covered, or an estimate of the maximum amount which might be covered, and for the DGSDA/DGS to use that more precise figure to calculate the contributions from that credit institution. To allow for that to happen, the DGSDA/DGS must have in place adequate systems to receive such information. That approach combines simplicity with flexibility to allow credit institutions to provide more precise information where they wish to do so, to potentially lower the amount of contributions to be paid.
53. For the above-outlined reasons, the EBA chose **option 6d as the preferred option.**

D. Conclusion

54. The proposed revision of the Guidelines EBA/GL/2015/10 should achieve the goal of enhancing the relationship between the risks of the member institutions for the DGS and their contributions to the DGS.
55. The proposed revisions should be feasible with as little extra effort and burden for DGSs and their member institutions as well as for competent and designated authorities. These revisions could modify the contributions by banks to better fit with the corresponding risks but will not increase the total amount of all institutions' contributions.
- 56. As such, the benefits of these revised Guidelines would overcome their costs.**

5.2 Overview of questions for consultation

Question 1: Do you have any comments on the proposed changes to the addressees or definitions in the Guidelines?

Question 2: Do you have comments concerning the proposed allocation of responsibilities to the DGS, competent authority and designated authority in the Guidelines?

Question 3: Do you have any comments on changing the reference from the 'annual' calculation of contributions to the 'periodic' calculation of contributions and on the clarification to set the periodic target level in section 4.2 of the Guidelines?

Question 4: Do you have comments on the proposed approach to account for covered deposits held in beneficiary accounts or other deposits where there is uncertainty to the coverage, as set out in section 4.3 of the Guidelines?

Question 5: Do you have comments on the proposed changes to the core indicators and additional indicators as set out in section 4.5 (i)?

Question 6: Do you have comments on the definition or calculation of the core indicators?

Question 7: Do you have comments on the proposed changes to the minimum weights of core indicators and the maximum weight of any indicator, as set out in section 4.5 (ii) of the Guidelines?

Question 8: Do you have comments on the proposed changes to the formula to calculate minimum contributions, as set out in section 4.6 (i) the Guidelines?

Question 9: Do you have comments on the proposed minimum thresholds for the IRS of some core indicators, as set out in section 4.5 (iii) of the Guidelines?

Question 10: Do you have comments on the proposed changes to the formula for translating the ARS into the ARW, as set out in section 4.5 (v) of the Guidelines?

Question 11: Do you have comments on the proposed regular review and recalibration, as set out in section 4.7 of the Guidelines?

Question 12: Do you have any further comments regarding the proposed revised Guidelines?