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Consultation on methods to calculating contributions to DGS

Dear Ladies and Gentlemen,

ESA thanks for the opportunity to participate in the consultation on the revised guidelines.

Of the 12 consultation questions posed in item 5.2, we answer questions 1 - 11 with "No".

After detailed discussion with our member institutes, we comment on question 12 as follows and would like to highlight a not insignificant aspect of the calculation of contributions and to show an alternative to the current mode.

Specifically, this concerns the calculation formula defined in point 4.1 and the calculation of the contribution rate explained in more detail in point 4.2.

The current calculation formula results in a "flow-based" system of contribution calculation, which in our case shows disadvantages among our members. According to our experience, the "flow-based" system ultimately leads in the calculation to the fact that recital 36 of the DGSD is not sufficiently considered.

The recital states, among other things: *"Contributions to DGSs should be based on the amount of covered deposits and the degree of risk incurred by the respective member. This would allow the risk profiles of individual credit institutions to be reflected, including their different business models. It should also lead to a fair calculation of contributions and provide incentives to operate under a less risky business model."*.

In the "flow-based" system, the risk associated with a growth of deposits is not allocated to the respective credit institution, but rather distributed among all member institutions of the DGS. This can lead to a situation in which credit institutions with unchanged or even declining deposits nevertheless must pay higher contributions because they have to co-finance the higher target level of the DGS-Fund caused by the growth in deposits at another credit institution on a pro rata basis through their contributions.

Due to this calculation logic, the „flow-based” method could lead to member banks with a lower risk and with little or no growth in covered deposits reaching a target level of more than 0.8% of covered deposits and, on the other hand, member banks with strong growth of covered deposits and increased risk contributing less than the target level of 0.8%.

This method of calculation therefore clearly indicates disadvantages for some banks. As already mentioned, this does not correspond to the considerations in Recital 36 of the DGSD as it neither fair nor provides incentives to operate under a less risky business model and should in our opinion be replaced by a "stock-based" system. This system is described in detail in the EFDI research paper "Transfer of Contributions in case of a Change of DGS Affiliation in the EEA" in Annex G, of which EBA is aware. For the sake of completeness, we have attached the Annex to our comments.

For easier understanding, we have also included an example in which we contrast the "flow-based" calculation with the "stock-based" calculation. As can be easily seen, the contributions are quite different: in the "flow-based" approach, member bank 3, although it has the lowest risk and a decrease in covered deposits, makes contributions that exceed the target level of 0.8%. The other two member banks, on the other hand, benefit from this "cross-subsidization". The "stock-based" approach avoids this unequal financial burden on member bank 3.

We therefore suggest that the “stock-based” approach should be included in the EBA-Guidelines as an additional option to the “flow-based” approach and as an equivalent, alternative method. This method would better reflect individual changes of covered deposits at the level of each credit institutions and avoid a subsidization by other members.

This means that Chapter 4.1 and 4.2 would have to be amended for the “stock based” approach, and the formula for this approach should be:

$$Ci = \text{Difference } Cdi \text{ (Year } 20x1 - \text{Year } 20x0) \times \text{Annual target level} \times ARW \times \mu$$

Where:

C_i	=	Annual contribution from member institution i
C_{di}	=	Difference C_{Di} : CD_{Yearx1} minus CD_{Yearx0}
Annual target level	=	individual target level member institution
ARW	=	Aggregated Risk Weight of member institution
μ	=	Adjustment coefficient (identical for all institutions in a given year)

We are of the opinion that this additional calculation method is also valid under the current DGSD, thus the Guidelines should not be limited to the “flow-based” method.

The “stock-based” approach has advantages in particular in case of members with fast growing deposits, as this occurs in some cases due to certain deposit brokerage platforms such as Check24 or Raisin, and as mentioned in Rc 46 of the Background and Rationale („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”), as we do have such experience with payout cases (AAB Bank and Sberbank Europe as our most recent cases, where this exactly happened).

The use of the "stock-based" approach would also largely eliminate the problem regarding the "Transfer of Contributions" (ToC) issue, since in the event of a change of DGS, there would be an institution-related allocation of the QAFMs or the proportionate equity of the DGS fund.

If you have any questions or would like to discuss the stock-based approach in more detail, please do not hesitate to contact us.

With kind regards

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