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Your ref., Your message of Our ref., person in charge Extension Date

115 Kern 3132 February 3rd, 2016

**EBA – Consultation on Guidelines on stress tests for deposit guarantee schemes**

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representation of the entire Austrian banking industry, appreciates the possibility to comment on the above cited consultation paper and would like to submit the following position:

 **General comments**

1. Proportionate approach

As a whole and as EBA does in those draft guidelines, we strongly advocate for a proportionate approach. This should of course be the case for all guidelines and regulation projects.

While the testing of DGSs’ processes and capacities is crucial in DGSs’ activities, as well as for ensuring depositors’ confidence, those tests and, even more, controls on those tests, should remain in our view proportionate to their object, and therefore should also be adapted to local specificities as far as needed.

Testing is at the core of DGSs’ responsibilities and one of their main concerns. DGSs know they have to execute those exercises with as much rationality and discipline as possible. By nature, they know the risks of forbearance and self-forbearance.

However, when designing tests and controls on those tests, consideration should be given to the extra burden put on DGSs in terms of financial and non-financial resources, so that ‘light’, simple and cheap solutions may be given a priority, all things being equal.

Those considerations should also apply to affiliated banks, so that the burden on them stays proportionate to the objective. They should also be invited to participate to the elaboration of globally efficient solutions, all things being equal again.

One of the consequences of the proportionate approach is that guidelines should refrain from over prescriptive provisions that build further and further on existing directives and regulations or indistinct financial stability objectives.

Another and quite direct implication here, for the present guidelines, is that the funding capacity of DGSs should not be tested over their (national) target level.

1. Balance between publicly run and privately run DGSs

The present guidelines seem to give some ground to a relative unbalance between DGSs administered by a designated authority, on one hand, and DGSs which are privately run and supervised by a designated authority, on the other hand.

When directly administered by designated authorities, the guidelines do not ask DGSs to seek for the consultation or approval of another authority for the planning, design, running and reporting of the tests.

This leads to infer that those DGSs, compared to privately run DGSs, would have *per se* better incentives or, for instance, less budgetary constraints for correctly processing their systems and tests.

This unbalance should be remedied.

1. Conflicts of interest

The guidelines try to propose appropriate remedies to ensure the objectivity of the stress test process, or, in other words, to mitigate the risk of self-forbearance by DGSs and possible conflicts of interest.

However, those risks and issues also exist for other entities which are parties to the DGS stress testing process. It looks important that the objectivity requirement is duly taken into account for all parties and also pointed out in the guidelines.

1. Role of DGSs

While we believe that DGSs play an important role in the financial safety net, they cannot be generally considered as being at the heart of resolution decisions and processes.

Therefore the guidelines should not use DGSs as the appropriate channel for the testing of resolution measures, except for their funding capacities. Resolution testing should have its own ground and logic and should be directed to the relevant authorities. Doing otherwise would put DGSs in awkward or inappropriate situations vis-à-vis other authorities, including, as it may happen, their own designated authorities, also raising the kind of conflict of interest issues referred to above.

Likewise, DGSs should not be requested to make any assessment of the financial situations of their affiliated members if they are not themselves a supervisory authority, a resolution authority or an IPS (see for instance paragraphs 52 and 87 of the guidelines).

 **Details**

Question 1

What is the best way to ensure the objectivity of the stress tests assumptions and process? Do you support systematically requiring separation between the steering staff and stress test participants? If not, do you support concrete alternatives, for example external audit? What additional details could be laid down with regard to external intervention?

*Comments*

The objectivity of the stress test assumptions and process cannot be ensured by separation: The objectivity has to be ensured in the planning phase by the DGS-Board, who is responsible for all matters of the tests as well as for all other matters regarding the DGS. How the test participants are controlled and supervised and how the results are evaluated are genuine tasks of the DGS Board, who is responsible for the implementing of changes within the DGS as a result of the tests, either.

The organisation of tests regarding personnel is depending on the size of the DGS as well as on other specific issues, thus only the goals and a certain time-frame should be dealt with by the EBA guidelines: The rest should to be evaluated and cleared by every DGS with its respective local authority. Depending on the results of the first tests the local authority may instruct external audits of (individual or all) further tests.

Question 2

Do you agree with the approach proposed, which draws on the methodology developed by the Commission for assessing Member State requests under Article 10(6) of the DGSD?

*Comments*

In general we agree. Nevertheless, we see a need to make the rules not too formal as to enable the flexibility and proportionality needed to react to local needs and (future) developments.

Question 3

Is it sufficient to test an institution’s SCV files on the basis of a sample, or should all SCV files tested?

Which process should a DGS follow in order to define a sample of the SCV file to be tested, and to consider that the sample tested is sufficiently representative of the institution’s full SCV file?

*Comments*

The test of a sample should be sufficient. The definition of a sample should follow the same rules as the definition of a sample done by an auditor.

Question 4

It is difficult to forecast the financial impact of covering THBs protected under Article 6(2) of the DGSD, or beneficiary accounts (protected under Article 7(3) of the DGSD. The ability to perform stress tests in relation to THBs and beneficiary accounts depends on national arrangements, for example the existence of particular kinds of deposits where temporary high balances are earmarked ex-ante. Nevertheless, do you agree on the need to undertake, at least at a very general level and in a qualitative way, an assessment of the arrangements in place in order to identify THBs and deposits on beneficiary accounts upon failure?

*Comments*

As THBs depend on individual singular circumstances unknown to banks, and on customer request, the actual possible impact of THB can’t be predicted at all. Thus we do not see any possible way to undertake any test in this area.

Question 5

Do you agree with the list of priorities above and the 2019 time horizon?

Do you agree that as a matter of priority operational tests should focus on payout? Do you believe minimum size criteria should be set in this regard, and if so, which absolute or relative thresholds would you suggest?

Do you agree with the calibration of the funding test, and if not what concrete suggestion would you make?

Is the limited cross border test sufficient, or should the requirement be strengthened and prescribe, for example fully-fledged cross-border simulation, in light of the Guidelines on Cooperation Agreements currently under development?

*Comments*

Whereas the list of priorities seems to be ambitious but contains relevant tasks, the 2019 time frame is too short: Not having international rules for some questions (e.g. cross-border framework) in place yet, it does not seem possible to make all the testing efforts in a qualitative manner in time (that means, including re-testing, if some tasks have not been solved in the first test). Whereas the focus on payout scenario seems to be fine, the tests on resolution tasks do not seem possible: The resolution authority has to be in the driving seat. How should DGSs plan/make a test?

The funding tests don’t seem to be appropriate yet: As far as alternative funding methods are not set legally we see no additional value to make arrangements for a hypothetical payout case. An unsecured facility granted to a DGS is highly unrealistic, given the increasingly complex regulatory framework. The limited cross border test seems to be fine.

 **Template (included in the enclosed excel document)**

Question 6 for public consultation

Do you agree with the template? Suggest amendments or complements.

*Comments*

See our answers to previous questions above, which have to be taken into account when reading the template.

We ask you to give our remarks due consideration.

Yours sincerely,

Dr. Franz Rudorfer

Managing Director

Division Bank and Insurance