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SNDO reference number 2016/112

European Banking Authority

## Consultation response - Draft guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU

The Swedish National Debt Office (hereinafter SNDO) is the authority administering the Swedish Deposit Guarantee Scheme.

### Questions for consultation

**Q1. What is the best way to ensure the objectivity of the stress tests assumptions and process? Do you support systematically requiring separation between the steering staff and stress test participants? If not, do you support concrete alternatives, for example external audit? What additional details could be laid down with regard to external intervention?**

When it comes to setting up the organization for the stress tests the guidelines must allow for a great deal of flexibility and primarily focus on the functions to be tested and the results of the tests rather than detailed harmonization of the format. DGSs are set up in many different ways among the member states. It is therefore important that the details of the arrangements are left to each member to adapt according to prevailing circumstances.

For the SNDO the Risk unit is responsible for independent and overall monitoring of the authority and its activities. The unit is also responsible for overall reporting to the management team and board. Therefore the desired set up for the SNDO would be that the Risk unit acts as steering staff and plans, assesses and reports the stress tests in accordance with their current mandate and the future EBA guidelines. The department responsible for the DGS would consequently be performing the tests (test participants). The tests are ensured objectivity via staff separation within the SNDO. Another possible option is that the Risk unit could act as independent observers of the tests the department responsible for the DGS has planned and performed. The choice should be left to the SNDO.

Mandatory use of an external auditor is not a preferred option as it would increase costs for the DGSs. It should therefore be left to the DGSs to decide this.

**Q2. Do you agree with the approach proposed, which draws on the methodology developed by the Commission for assessing Member State requests under Article 10(6) of the DGSD?**

The SNDO agrees with the functions to be tested as outlined in subsection 6.1 (43), when part of the DGSs' mandate. The SNDO supports that institutes subject to resolution proceedings will be tested as such and not as a payout case.

**Q3. Is it sufficient to test an institution's SCV files on the basis of a sample, or should all SCV files be 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?**

It should be left to the DGS to decide if it is sufficient to test SCV files on the basis of samples or if all SCV files should be tested. It should be allowed to test samples of the SCV files, especially regarding the institutes that are subject to resolution proceedings and therefore will not cause a payout scenario. Another example is if several institutes are using the same contractor for producing the files.

**Q4. It is difficult to forecast the financial impact of covering temporary high balances protected under Article 6(2) of the DGSD, or beneficiary accounts (protected under Article 7(3) of the DGSD. The ability to perform such assessment depends on the circumstances for example the existence of certain kind of deposits which can be earmarked. Nevertheless do you agree on the need to undertake, at least at a very general level and in a qualitative way, an assessment of the arrangements in place in order to identify THBs and deposits on beneficiary accounts upon failure?**

We do not agree that this should be a mandatory part of the stress test. It is neither possible nor required for the institutes to earmark transactions deriving from THBs. Furthermore there is no requirement for the institutes to have knowledge of whether an account is used as a beneficiary account. In an actual pay out case the account holder must show documents of evidence for the THB transaction. Also for a beneficiary account's underlying clients, evidence must be provided as a basis for the decision. This cannot be requested for as part of a stress test.

**Q5. Do you agree with the list of priorities above and the 2019 time horizon? Do you agree that as a matter of priority operational tests should focus on payout? Do you believe minimum size criteria should be set in this regard, and which absolute or relative thresholds would you suggest? Do you agree with the calibration of the funding test, and if not what concrete suggestion would you make? Is the limited cross border test sufficient, or should the requirement be strengthened and prescribe, for example fully-fledged cross-border simulation, in light of the Guidelines on Cooperation Agreements currently under development?**

We agree with the 2019 time horizon and that priority operation tests should focus on payout. It should be sufficient to test the operational capacity to handle institutes who are not subject to resolution proceedings.

When it comes to funding it will almost certainly not be possible to collect ex post fees within the payout period if the ex-ante fund is not sufficient. The stress tests should emphasize the alternative funding arrangements for such occasion.

The limited cross border test is sufficient. The DGSs should decide if there is a need for a fully-fledged simulation at some point.

Under Section 7.1, subsection 6) Home-host cooperation, number 84 it is stated that “DGSs for which no affiliated credit institution has any branch in another Member State may abstain from applying the prescriptions for this subsection 6)”. The SNDO suggests that the text should also clarify that there are no test requirement if there are no other branches between two member states other than those that are subject to resolution proceedings. Those branches should not be tested as a payout case between home and host since a failure will not result in an actual reimbursement of depositors.

## **Other remarks**

### **Intervention scenarios**

Section 6 contains requirements about scenarios that should be tested. For all DGSs the ability to repay depositors shall be tested and, if applicable, contribution to resolution. For the DGSs with broader mandate failure prevention should be tested.


Furthermore, in subsection 5.1(15), it is stated that DGSs should define intervention scenarios and test areas described in these guidelines. In 5.1 (17), it is also stated that types of intervention scenarios should be defined. Subsection 5.3 (40) says that the competent and resolution authorities should cooperate in defining and running tests.

The mandate for the Swedish Deposit Guarantee is a payout box, which means that the mandate includes administering a payout if the deposit guarantee is triggered either by a bankruptcy decision or a decision by the Financial Supervisory Authority. For the mandate as a payout box the SNDO cannot see any real purpose for testing all the different scenarios that would be applicable for a DGS with a broader mandate. What matters for a payout box is that it is possible, from the day the decision has been made, for the institute to send the SCV files to the SNDO within the time limit given in national regulations. For a payout box there is therefore no real purpose for the test to include the reason the decisions have been made as the files cannot be asked for in beforehand in either case.

The SNDO suggests that for DGSs with a mandate as a payout box the tests should start with the assumption that one of the given decisions have been made. This applies also for testing any contributing to resolution. From the time the information has been given, the period of time for providing the necessary funds should be tested.

### Clarification of definitions under Section 2

In Section 2 (9) competent authorities is defined as in Article 4(2) (iii) Regulation (EU)1093/2010. Then in Section 2 (11) it is stated that unless otherwise specified, terms used and defined in Directive 2014/49/EU have the same meaning in the guidelines. The SNDO interprets the definition of competent authorities through the *whole* guidelines to be as defined in Article 4(2) (iii) of Regulation (EU) 1093/2010 and would like this to be confirmed.



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