Association des Banques et Banquiers, Luxembourg
The Luxembourg Bankers' Association
Luxemburger Bankenvereinigung

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Comments to the EBA Consultation on Draft Guidelines on methods for calculating contributions to Deposit Guarantee Schemes – EBA/CP/2014/35

The Luxembourg Bankers' Association (ABBL) is the professional organisation representing the majority of banks and other financial intermediaries established in Luxembourg. Its purpose lies in defending and fostering the professional interests of its members. As such, it acts as the voice of the whole sector on various matters in both national and international organisations.

The ABBL counts amongst its members' universal banks, covered bonds issuing banks, public banks, other professionals of the financial sector (PSF), financial service providers and ancillary service providers to the financial industry.

General Remarks

The ABBL welcomes the EBA's consultation on the Draft Guidelines on method for calculating contributions to Deposit Guarantee Schemes.

In particular, the ABBL welcomes the general approach retained by EBA presenting a calculation method where the contribution rate is adjusted by the aggregate risk weigh of the institution, the latter being measured through core and additional indicators. The ABBL particularly values the flexibility given by the draft guidelines which allow the possibility to set additional risk indicators along with the core risk indicators.

Regarding the indicators, the ABBL welcomes the use of existing indicators. Having a set of indicators consistent with the existing legislations (e.g. CRR) allow an efficient consideration of risk elements, without imposing additional burden to banks.
In addition, the ABBL underlines the importance of having sufficient indicators able to be perceptive of the different level of risks without an excessive correlation between indicators. Indeed, having correlated indicators would undermine the sensibility of indicators to risks and would not be able to efficiently differentiate institutions.

Furthermore, the ABBL would like to stress its support to the principle number 5 guiding the calculation methods. This principle states that 'the rules for calculating contributions should be objective and transparent'. Such a principle would avoid the creation of a complicated administrative mechanics that would be potentially costly.

Questions related to the draft Guidelines

- **Question 1 – Do you have any general comments on the draft Guidelines on methods for calculating contributions to DGSs?**

The methods proposed for calculating contributions to DGSs seem appropriate. Importantly, it adequately takes into account the risks of an institution through the Aggregate Risk Weight and allow to adjustments via the adjustment coefficient μ. The ABBL is however of the view that the draft guidelines could benefit from more detailed explanation on the sliding-scale method and on the bucket method.

- **Question 2 – Do you consider the level of detail of these draft Guidelines to be appropriate?**

As stated previously, the level of detail of these draft Guidelines is in principle appropriate but could benefit from more details regarding the sliding scale and bucket method. In particular, regarding the sliding scale method, the calculation of the Individual Risk Score should be more explicit, notably in the case the risk indicator is not above or below the upper and lower boundaries α_j and b_j.
Otherwise, the ABBL is of the view that the proposed Guidelines are appropriately detailed, notably on the risk indicators proposed and the way to allocate risk weight among these.

- **Question 3 – Is the proposed formula for calculating contributions to DGS sufficiently clear and transparent?**

The proposed formula for calculating contributions to DGS is sufficiently clear and transparent.

- **Question 4 – Considering the need for sufficient risk differentiation and consistency across the EU, do you agree on the minimum risk interval (75%-150%) proposed in these Guidelines?**

The minimum risk interval proposed which ranges between 75% and 150% is appropriate.

- **Question 5 – Do you agree with the core risk indicators proposed in these Guidelines? If not, please specify your reasons and suggest alternative indicators that can be applied to institutions in all Member States. Do you foresee any unintended consequences that could stem from the suggested indicators?**

The ABBL agrees with the core risk indicators proposed in these Guidelines. In particular the ABBL welcomes the flexibility given to national supervisors by enabling them to set additional risk indicators. The set of risk indicators proposed are well-calibrated and of a sufficient number to correctly capture risk drivers.
Also, regarding the requirements for risk indicators, the ABBL is pleased to note that the case of waivers from meeting capital and/or liquidity requirements on a solo basis has been recognised. It is very important for such institutions to be able to use consolidated or semi-consolidated basis indicators as foreseen in the paragraph 52 of the draft Guidelines.

- **Question 6 – Do you agree with the option to use either capital coverage ratio or Common Equity Tier 1 ratio as a measure of capital? Would you favour one of these indicators rather than the other, and why?**

The ABBL appreciates the possibility to use either capital coverage ratio or Common Equity Tier 1 ratio as a measure capital. The CET 1 ratio is indeed of common acceptance to measure capital.

- **Question 7 – Are there any particular types of institutions for which the core risk indicators specified in these Guidelines are not available due to the legal characteristics or supervisory regime of these institutions? Please describe the reasons why these core indicators are not available**.

The ABBL does not identify particular types of institutions for which the core risk indicators specified in these Guidelines are not available.

- **Question 8 – Do you think that more guidance, or specific threshold, should be provided in these Guidelines with regard to calibration of buckets for risk indicators, or minimum and maximum values for a sliding scale approach?**

The draft Guidelines should not provide specific calibration of buckets for risk indicators. It should remain to the DGS to elaborate the buckets in order to take account of the national banking system. In the same vein, the calibration depends of the risk indicators used. These considerations also apply to the sliding-scale method.

Questions related to the Impact Assessment

- **Question 9 – Do you agree with our analysis of the impact of the proposals in this Consultation Paper? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?**

Overall the Impact Assessment delivered in the Draft Guidelines on methods for calculating contributions to Deposit Guarantee Schemes correctly informs the proposal. One might however regret the lack of concrete illustrative example that could be helpful to forecast a broad picture of the potential impact of the methods.