Guidelines on payment commitments to Deposit guarantee schemes

Public hearing – 21 November 2014, London

New DGS Directive

- Published 12.06.2014.
- Transposition: 3.07.2015
  - Emergency payout: 31.05.2016
  - Risk based: can be postponed until 31.05.2016
  - Full phase-in of 7 working days repayment deadline: 31.12.2023
- EBA:
  - Financing:
    - Informed of level of ex ante financing
    - **GUIDELINES (GL) ON PAYMENT COMMITMENTS - 10(3) DGSD**
    - GL on risk based contributions - 13(3) DGSD. Review 2017.
      - Informed of DGS own risk based methods
      - Report on calculation models 2019,
  - Home host
    - Informed of inter-DGS borrowing 12(1)
    - Informed of and mediates on intra EU cooperation agreements
  - Other monitoring:
    - Collects information on cov. dep. from MS by 31 March each year
    - Peer reviews on stress tests every 5 years

Timeline for these Guidelines

CONSULT
.. 2/01/2015

ADOPT
May 2015

COMPLY or EXPLAIN
End 2015 (tbd)

REVIEW

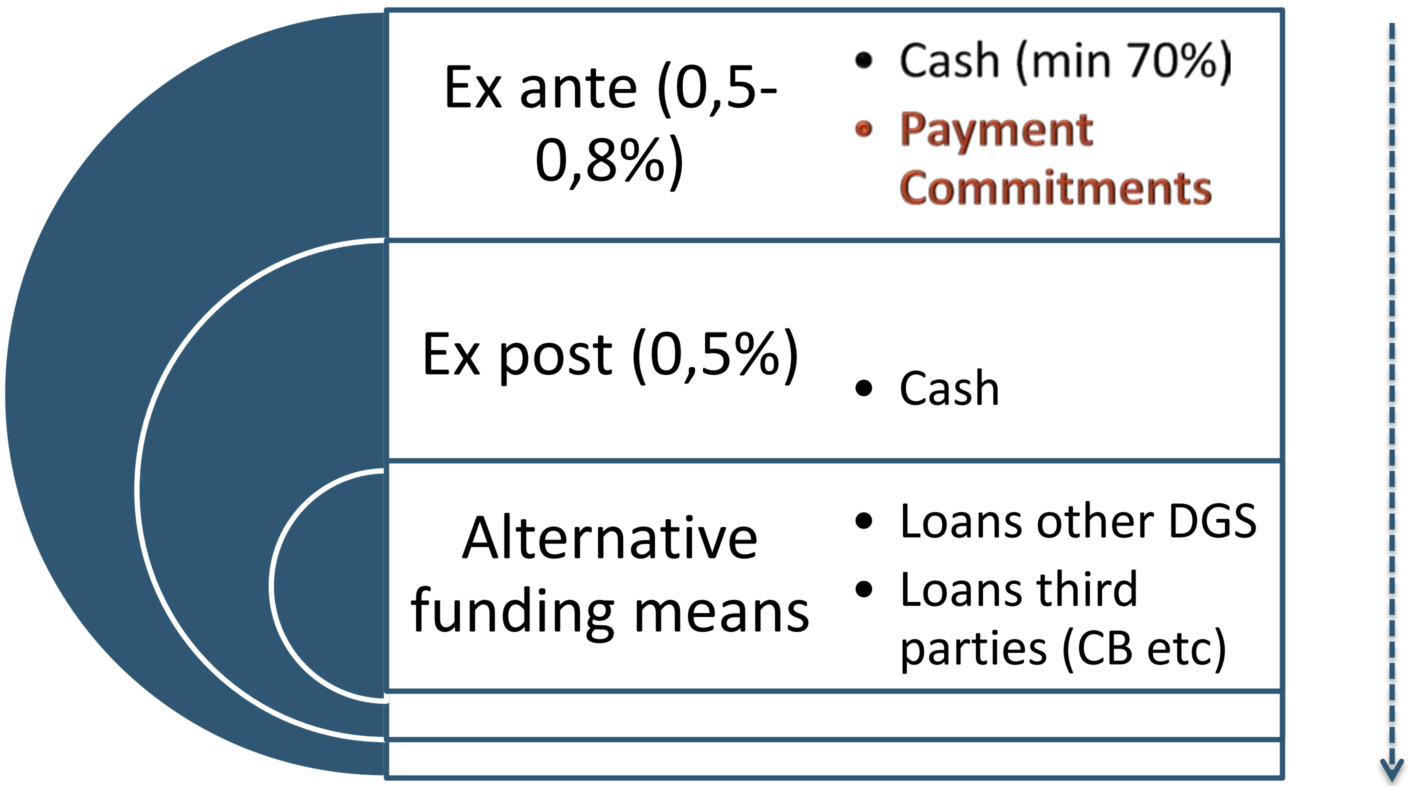
Addressees of Guidelines

Designated authorities (Public DGS / supervisor of private DGS)

Competent authorities (banking supervisor)

Resolution authorities

Payment commitments = ex ante funding



Objectives

Readily available funding

Avoid procyclicity

Level playing field

Content of the guidelines

1. Who implements the option
2. Components of Payment commitment arrangements
3. Financial collateral arrangements
4. Delivery of collateral

5-6. Eligibility of collateral

7. Valuation of collateral and haircut
8. Neutrality of prudential treatment

1. Who implements the option?

- Member State: transposes DGS power to accept PC
- DGS/DA implements option
  - No more than 30% of overall ex ante funding
  - No more than 30% per bank
  - Non discriminatory criteria
- Institutions opt in (or not)

Question 1

→Criteria for overall amount of PC accepted by DGS?

→Criteria to be applied to individual banks?

2. Components of Payment Co. Arrangements

- Separate regular contracts or governed by master agreement
- Payment Commitment Amount
- Irrevocable obligation upon simple and unconditional request
- Pay within 2 working days (1 if early intervention / crisis management)
- Communication of relevant events (e.g. insolvency, downgrade, deterioration in value…)
- Financial collateral arrangement

Questions 2 and 3

→Other components?

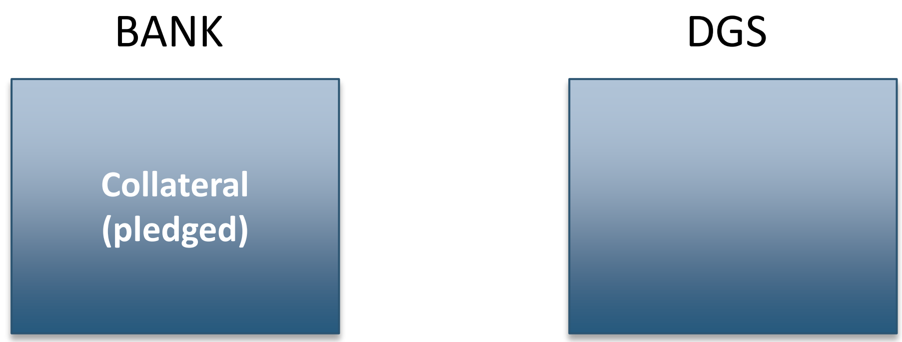
→Payment deadline?

3. Financial collateral arrangement - common

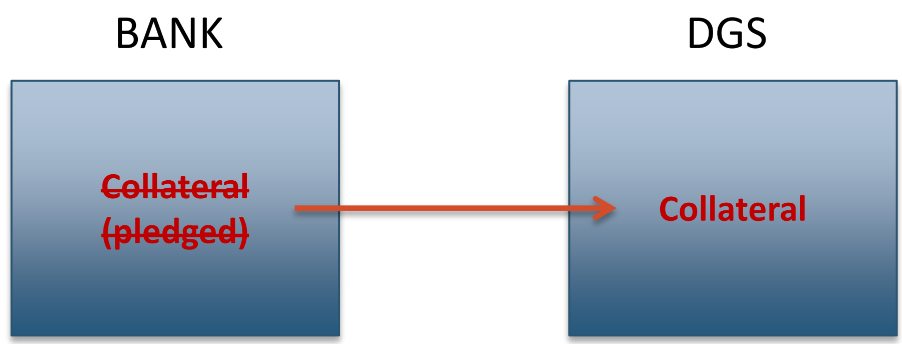
- Post collateral to secure payment commitment
- Replace if collateral falls due or is no longer eligible
- Top-up if collateral depreciates
- Enforcement events → acceleration of commitment / realisation or disposal
  - Fail to replace
  - Fail to top-up
  - Authorisation withdrawn
  - Bank no longer a member
  - Reorganisation or winding-up
- Return of collateral upon cash payment

3. Financial collateral arrangement – 2 options

- Option 1 - Security Financial Collateral Arrangement:



- Option 2 - Title Transfer Financial Collateral Arrangement:



Question 4

→Agree on option? Pros and cons?

4. Collateral Delivery

- Common features
  - Credited to ad hoc account held by DGS (for discussion)
  - Bank has no right to use or dispose
  - Custodian unable to dispose of the asset, no right of pledge or retention
- Specificities:
  - Securities Financial Collateral Arrangement (Option 1):
    - Bank has right to yields (if provided)
    - Enhanced custody requirements (identified by DA/DGS, fully segregates, and able to provide complete, accurate, up to date information)
  - Title transfer (Option 2):
    - DGS has right to use and dispose, and right to yield
    - Possibility of cash deposit with the DGS (if empowered)

Question 5

→ Industry view on custody? Other requirements?

5-6. Collateral Eligibility

- Low risk assets unencumbered by any third-party rights
  - Art, 336 CRR or “similarly safe and liquid” (0-20-50%)
- Implementation by DGS / DAs
  - Limit credit, market, liquidity risk
  - Diversification
    - Bank’s collateral: issuer, maturity, etc.
    - Proportionate approach for small banks if overall diversification
  - Limit highly correlated debt
    - E.g.: banks’ own debt
    - Currency risk discarded for that purpose

Questions 6, 7, 8, 9:

→Suggestions on requirements

→Role of currency in correlation analysis

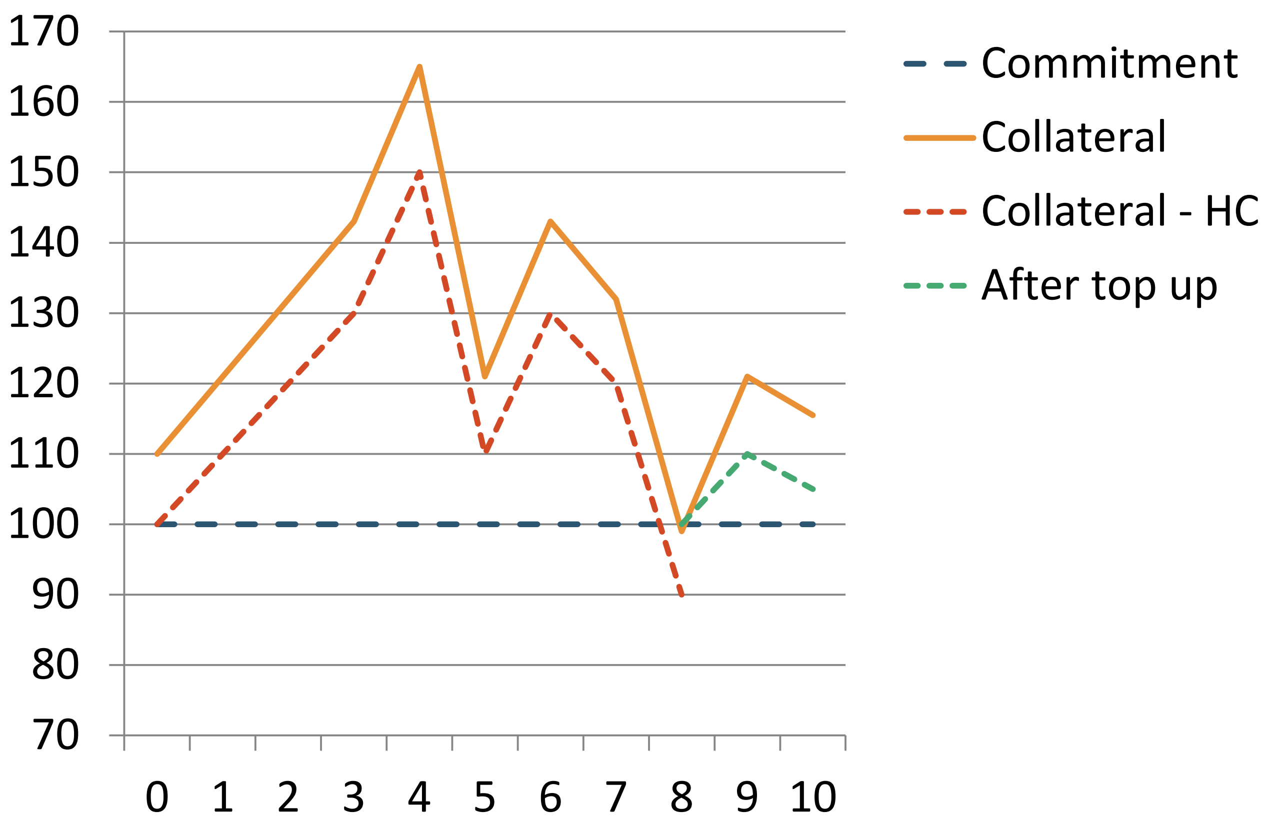
→Application of the proportionality principle

7. Collateral valuation and haircut

- Marked to market: currently observed change in value
- Haircut: caters for risk of change in value
    - Credit, market, liquidity risk
    - Issuer, maturity, currency
- Top-up if necessary
- Indicative: use ECB / NCB schedules and methodologies

Question 10
→ ECB / central bank methodologies?

7. Collateral valuation and haircut (2)



8. Ensuring prudential neutrality

	Accounting treatment		Prudential treatment
	P&L	BS or off-BS	
Cash contribution	Expense	A: ↓cash E: ↓ret. earnings	↓CET1/RWA. No particular treatment needed.
Payment commitment	1. Expense recognised	L: ↑provision E: ↓ret. earnings	↓CET1/RWA. SREP (liquidity)?
		A: ↓fin. instrmts E: ↓ret. earnings	
	2. No expense recognised	off BS (contingent liability)	No change in CET/RWA. SREP (capital/liquidity risk) Pillar II requirement (capital add-on)

Question 11: →Agree on objective? Analysis?
→Further prescriptions?

Questions

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