Comments

on the EBA consultation paper on Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49 (EBA/CP/2015/19)

Register of Interest Representatives
Identification number in the register: 52646912360-95

Contact:

Corinna Streiter

Advisor

Telephone: +49 30 1663- 2540

Fax: +49 30 1663- 2599

E-Mail: corinna.streiter@bdb.de

Berlin, 5 February 2016

Comments on **the EBA consultation paper on Guidelines on stress tests of deposit guarantee schemes**

On 6 November 2015, the European Banking Authority (EBA) published the Consultation Paper "Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU". The German Banking Industry Committee (*Die Deutsche Kreditwirtschaft* – "GBIC") hereby gladly takes the opportunity to express its opinion.

I.   General remarks

There is no need, in GBIC's view, for the EBA to issue guidelines on stress testing deposit guarantee schemes.

While the Deposit Guarantee Scheme Directive (DGSD) mandates the EBA to issue guidelines on payment commitments and on calculating risk-based contributions to deposit guarantee schemes (DGSs), for instance, it does not envisage guidelines on the design of stress tests. In the absence of a mandate in the DGSD, the EBA bases its authority for these guidelines on Article 16 of the EBA Regulation.[1] It is not clear, however, why the EBA should need to harmonise the running of stress tests. In consequence, we seriously question whether Article 16(1) of the EBA Regulation offers a sufficient basis for issuing guidelines. The EBA should adhere closely to the level 1 legislation – in this case the DGSD and the mandates it contains. We take the view that the EBA should respect the political decisions taken in the level 1 legislation. Nor do we see any practical need to harmonise stress tests with the help of guidelines, especially when the guidance is as general and self-evident as in this consultation paper.

Stress tests were also required under the old directive. So even before the DGSD was adopted, the ability of DGSs to function was tested and also demonstrated during real payout events, for example. The Compensation Scheme of the German Private Banks, for instance, has handled nine payout events since 1998 involving a total amount of around €675 million. These included cases with banks affiliated only to this statutory scheme as well as banks which were also members of the voluntary Deposit Protection Fund of the Association of German Banks. In addition, stress testing is already performed on the ability of all banks to make available the data needed to compensate depositors in compliance with statutory requirements.

Conducting payouts is the key task of DGSs. The orderly functioning of a payout is therefore in the absolute interests of every DGS and is already subject to stress testing by DGSs. Binding criteria for stress tests should always be set with the principle of proportionality and the feasibility of the test in mind. Furthermore, they should not impose additional obligations on DGSs which they may not be able to fulfil.

---

[1] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, (OJ L 331, 15.12.2010, p.12).

Comments on **the EBA consultation paper on Guidelines on stress tests of deposit guarantee schemes**

II.   Special Remarks

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?

- We consider it problematic to require the separation of the organising/observing team and the team conducting the test since not all DGSs have sufficient staff to ensure separation of this kind. With this in mind, requirements intended to ensure that stress tests are objective should be set on a reasonable scale, i.e. geared towards practicalities. For small DGSs in particular, the mandatory separation of organising and observing teams would run the risk of wasting the expertise of some staff since they would only be able to belong to one team or the other.

- The task of setting, organising and carrying out stress tests should be the sole responsibility of the DGSs. It should be made clear that this remains the case even if competent authorities are involved in some way. (In Germany, the Federal Financial Supervisory Authority BaFin sets the date for the start of the payout scenario and has to advise the responsible DGS of this date without delay.)

- We are strongly opposed to external audits. There is no need for them. Testing the ability to handle a payout event is a core task of DGSs. This, together with the task of compensating depositors, is their central responsibility. In consequence, only the DGSs themselves have the know-how necessary to plan and run stress tests. They alone can ensure that stress tests are carried out properly and with the necessary level of objectivity.

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?

- The reason for the reference to Article 10(6) of the DGSD is not clear to us in the context of section 6.2 of the guidelines and under the heading "Selection of credit institutions to be included in intervention scenarios." We would ask the EBA to clarify how the methodology set out in Article 10(6) of the DGSD is supposed to be used to identify banks for inclusion in intervention and resolution scenarios.

- We take the view that resolution scenarios need to be tested in addition to the functioning of the procedure for compensating depositors.

- DGSs are able to test functions within their sphere of responsibility (i.e. the compensation procedure or the availability of funds). It is nevertheless both sensible and useful to cooperate with the competent authorities when planning and conducting tests of resolution and intervention scenarios. For stress tests, which go beyond DGSs' primary sphere of responsibility, the involvement of competent authorities should be mandatory.

Comments on **the EBA consultation paper on Guidelines on stress tests of deposit guarantee schemes**

Question 3
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?

- We assume that it is appropriate to test all SCV files, and our systems are designed to do so. We can nevertheless imagine that it may also be possible to assess the quality of the SCV files on the basis of a sample. It is essential in such cases, however, that these samples are required to meet certain statistical prerequisites concerning the size of the SCV files and the simulated payout event.

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?

Our impression is that this question is based on an incorrect understanding of how compensation for THBs is handled.

- Depositors have to make a credible case in writing for classifying a deposit as a THB and have to furnish proof of the deposit's eligibility. The payment of a higher compensation amount therefore depends on the customer taking the initiative in submitting a claim. The DGS first has to analyse the documents submitted and assess the claim's eligibility before any payment can be made. This means the relevant data are not available to the bank. They are not related to an account and customer, but to movement on an account. They will not be captured by the SCV file.

- Depositors would therefore need to be involved in stress testing THBs. Quite apart from the work this would entail, it could generate considerable uncertainty among depositors.

- We are therefore opposed to the idea of including THBs in stress tests.

Question 5
Do you agree with the list of priorities above and the 2019 time horizon?

- No comments

Do you agree that as a matter of priority operational tests should focus on payout?

Comments on **the EBA consultation paper on Guidelines on stress tests of deposit guarantee schemes**

- We agree that stress tests to be conducted by 3 July 2019 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?

- It goes without saying that the DGS should set appropriate standards when defining the test. Binding minimum standards should be proportionate and take account of the associated additional burden imposed on DGSs.

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

- In principle, we agree with the idea of testing funding. The test should not be based on the target level of 0.8%, however, but on the funding available at the time of the test. It is not feasible to stress test ex-post contributions which might become necessary in a payout event.

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

- A limited cross-border stress test is sufficient in our view. However, it will only be possible to conduct cross-border tests once the cooperation agreements under Article 14 of the DGSD enter into force and technical systems have been established to transfer the relevant data.