Technical Considerations for the Design of EDIS

Report by the European Forum of Deposit Insurers (EFDI)

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# TABLE OF CONTENTS

**EXECUTIVE SUMMARY** ................................................................. 4

**I. INTRODUCTION** ........................................................................ 7

**II. STRUCTURE OF THE REPORT** .................................................. 9

**III. GENERAL PROVISIONS AND ARRANGEMENTS** ..................... 11

   A. Scope of EDIS.............................................................................. 11
   B. Calculation of covered deposits and funding path ..................... 13
   C. Calculation and payment of contributions.................................. 15
   D. Administrative expenses............................................................. 18

**IV. DURING A CRISIS EVENT** ....................................................... 20

   E. SRB governance......................................................................... 20
   F. Financial resources available to DGSs ....................................... 21
   G. Conditionality of funding by EDIS.............................................. 23
   H. Conditionality of funding with respect to credit institutions ....... 25
   I. Implementation of decisions under EDIS..................................... 26
   J. Provision of funding.................................................................... 27

**V. AFTER A DGS EVENT** ............................................................... 29

   K. Insolvency procedure and cash flow after pay-out .................... 29

**VI. OTHER ISSUES** ....................................................................... 31

   L. EDIS and preventative measures.............................................. 31
   M. EDIS and alternative measures ................................................. 32
   N. Depositor Information............................................................... 32
   O. Miscellaneous observations...................................................... 33

**ANNEX I: AVAILABLE FUNDING UNDER DIFFERENT APPROACHES** .... 36
EXECUTIVE SUMMARY

The purpose of this technical report by the European Forum of Deposit Insurers (EFDI) is to provide a more in-depth discussion of elements of potential frameworks for a European Deposit Insurance Scheme (EDIS). The views in this report – which are neutral with respect to different approaches to EDIS – reflect the solid practical experiences from DGSs across the Banking Union. Notwithstanding their shared technical understanding, EFDI members have diverging views with regard to the necessity, overall design and the timing for establishing EDIS.

The report discusses technical issues related to EDIS on the basis of criteria that determine the effectiveness of the system: EDIS should (i) increase depositors’ confidence, (ii) ensure the capability to reimburse depositors within 7 working days, (iii) maintain or improve the availability of financial means for individual pay-outs, (iv) contain requirements that are relevant and feasible and not affect depositor confidence and (v) provide full alignment with the Deposit Guarantee Schemes Directive (DGSD).

Concerning general provisions and arrangements within the EDIS framework, EFDI recommends to:

A. Take into account the consequences – both pros and cons – of any potential exclusion from EDIS of credit institutions already covered by a participating DGS. When a pay-out event occurs, the design of EDIS should ensure that a participating DGS has access to sufficient funding for the estimated reimbursement of temporary high balances;

B. Avoid ambiguity about the appropriate way to determine the estimated level of covered deposits for the purpose of EDIS, common definitions to be used could be helpful;

C. Consider using an absolute base score approach to determine risk-based contributions on the level of the Banking Union (if applicable) and levy the contributions to EDIS from participating DGSs which should have the option to finance these contributions from their own fund or by levying its member institutions;

D. Allow a participating DGS to (automatically) receive (temporary) financial support for extraordinary administrative costs while arranging that administrative and legal costs involved in the pursuit of deposit claims and litigations should be borne by the administrative body responsible for EDIS (e.g., the SRB).

Concerning the interaction between DGSs and EDIS during a DGS event, EFDI recommends to:

E. Enrich the EDIS governance structure with a more robust mechanism that involves all DGSs that participate in EDIS and define more precise and limited notification requirements towards the administrative body – when a decision is necessary on the provision of funding – under all circumstances should decisions be made within 24 hours;
F. Introduce a “golden rule” that EDIS at no stage should lead to a decrease in (expected) available financial means to cover individual DGS events compared to the situation before EDIS. Furthermore, EDIS should remove the obligation for additional backstop funding arrangements in case DGSs receive full and unconditional access to EDIS. If the latter is not the case, DGSs need to maintain a cushion of financial reserves on top of the minimum funding path;

G. In principle, there can be no uncertainty on liquidity support in case a DGS is triggered and enforce conditionality related to ensuring compliance by a DGS only, if necessary, at an earlier stage or at a later stage of the DGS intervention, when the share of the losses that the DIF will bear needs to be determined. Specific extraordinary situations – i.e., deliberate and prolonged infringements of EDIS-related obligations by participating DGSs – could be laid down in the regulation for EDIS under which corrective measures and other enforcement measures (e.g. penalty interest rates) are attached to the provision of liquidity. EFDI recommends making a clear distinction within the EDIS framework between liquidity support and loss-sharing in terms of conditionality and decision-making process.

H. Following the principle of the DGSD, after a credit institution is excluded from a DGS (and/or EDIS), existing deposits should still be protected by EDIS;

I. Avoid as much as possible the use of a mechanism where the administrative body for EDIS would have the power to issue orders to DGSs and, if such powers are granted, specify what kind of orders may be given and how these can be challenged;

J. Support the EDIS framework with an operational requirement to introduce standing financial arrangements between DGSs and the administrative body responsible for EDIS. These financial arrangements should also be in scope of the DGSD stress-testing requirements.

Concerning the interaction between DGSs and EDIS after a DGS event, EFDI recommends to:

K. Specify in more detail the role of the SRB and the level of liability of participating DGSs in insolvency procedures while, in case participating DGSs do not have full and unrestricted access to the DIF, ensuring that the rights of the SRB should not restrict the ability of a DGS to have alternative financing arrangements in place.

Concerning other issues, EFDI recommends to:

L. Ensure in the design of EDIS that the principle of cost-neutrality should also be respected with regard to the use of preventative measures, for example as used by Institutional Protection Schemes (IPSs);

M. Ensure in the design of EDIS that the principle of cost-neutrality should also be respected with regard to the use of alternative measures;

N. Ensure that depositors would become aware of the existence of EDIS by including a statement on this in the standardised depositor information template that is prescribed by the DGSD or through an awareness campaign;
O. Not take into account extraordinary contributions in the computation of the liquidity shortfall faced by a participating DGS. Also, the reporting requirements during a pay-out should be more targeted and proportionate. The liquidity support extended by the DIF should bear an interest to cover opportunity costs and limitations to the amount of funding that can be received from EDIS should only be formulated in terms of a percentage of covered deposits of a participating DGS. The definition of “available financial means”, as used for the calculation of the liquidity shortfall, should exclude any borrowing received by participating DGSs.
I. INTRODUCTION

1. The European Forum of Deposit Insurers (EFDI) brings together DGSs from all EU Member States and beyond. The purpose of the association is to contribute to the stability of financial systems by strengthening the role of DGSs and promoting European cooperation in the field of deposit insurance. Addressing these objectives, among others, EFDI considers the application of EU legislation, standards and guidance and any proposed changes of those. As such, current discussions on a European Deposit Insurance Scheme (EDIS)¹ are of strong relevance to EFDI and its members.

2. In May 2016, the EFDI published a position paper with preliminary views on the initial proposal as published by the European Commission (EC) in November 2015. The position paper touched upon issues such as (i) the importance of depositor confidence and the need to clarify how the financial and operational relationship between national DGSs and EDIS will be explained to depositors, (ii) the importance of ensuring rapid access to funding² to facilitate a pay-out in 7 working days, (iii) the importance of a governance structure that allows swift and efficient decision making, (iv) the diversity of the European DGS landscape and the interaction this has with the proposed governance structure for EDIS, (v) the need for a more uniform approach in respect of certain DGSD provisions, (vi) the desire to clarify the role of EDIS in conjunction with alternative measures and (vii) the impact that EDIS will have on the current funding structures.

3. This report is only to be understood as a technical analysis. The views in this report reflect solid practical experience from DGSs across the member states. It also offers a unique, practitioners’ view to enhance the current deliberations made public on EDIS. In this regard, the overall desire of EU DGSs is to ensure consistency between the different directives (e.g. DGS Directive 2014/49/EU), regulations (e.g. the EDIS proposal and the SRM regulation), guidelines and other legislative requirements (e.g. state aid requirements) that determine the framework within which DGSs operate. Only by achieving a consistent application of the regulatory framework within the EU, can a level-playing field be achieved and can DGSs optimize their contribution to the financial safety net by safeguarding depositor confidence and minimizing the risk of deposit outflow, when concerns arise about the health of specific banks. Given the design of the BRRD and the SRM – where the public interest test needs to be met before resolution tools can be applied – EDIS needs to be designed in a way that is compatible with a level playing field. This means that EDIS should contribute to an equal level of confidence in the safety of deposits, irrespective of the member state in which deposits are located and irrespective whether the bank at which a deposit is held is considered to be systemic or non-systemic.

¹ Where the term “EDIS” is used in this technical report, it should be read as “a potential design of EDIS”.

² Where the term “funding” is used, it refers to liquidity coverage and / or loss coverage depending on the design of any potential European scheme.
4. The technical report has an open-minded view towards different approaches to EDIS. This report provides a contribution to the debate, by identifying technical aspects for the proposed system. Any potential European scheme should take these aspects into account to achieve the overall aim of increasing depositor’s confidence in the resilience of the banking sector and the security of their deposits. Notwithstanding their shared technical understanding, EFDI members have diverging views with regard to the necessity, overall design and the timing for establishing EDIS. EFDI does not aim to participate in the on-going political discussions.
II. STRUCTURE OF THE REPORT

5. In order to group the discussion of technical topics, the report looks at different ways in the interaction between DGSSs and EDIS. Table 1 provides a stylistic overview of the outline of the report.

<table>
<thead>
<tr>
<th>TABLE 1 – STRUCTURE OF REPORT AND OVERVIEW OF TOPICS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SECTION III</strong></td>
</tr>
<tr>
<td>GENERAL PROVISIONS AND ARRANGEMENTS</td>
</tr>
<tr>
<td>A – Scope of EDIS</td>
</tr>
<tr>
<td>B – Calculation of covered deposits and funding path</td>
</tr>
<tr>
<td>C – Calculation and payment of contributions</td>
</tr>
<tr>
<td>D – Administrative expenses</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

6. The report will discuss technical issues related to the design of EDIS by focusing on five criteria that will determine the effectiveness of the system. Any system, nationally or European, should meet the following criteria:

- **Criterium 1** – Increase depositors' confidence. Depositors need to feel secure that their deposits are protected throughout the Banking Union.

- **Criterium 2** – The operational design of EDIS should ensure the capability to reimburse depositors within 7 working days in any member state.

- **Criterium 3** – All else being equal, the national available resources combined with the funds available for pay-out from the DIF should not be lower than in the absence of EDIS.

- **Criterium 4** – Requirements imposed on DGSSs and credit institutions as part of the EDIS-framework should be relevant and feasible in practice and not affect depositor confidence.

- **Criterium 5** – There should be full alignment between the regulation for EDIS (SRM Regulation) and the Deposit Guarantee Schemes Directive (DGSD).
7. While the report primarily refers to the proposal on EDIS published by the EC in late 2015, it also takes into account the subsequent evolution of the concept. This includes the (preliminary) views expressed within (i) the European Parliament, (ii) the reports from the European Council and (iii) additional communications by the EC.
III. GENERAL PROVISIONS AND ARRANGEMENTS

A. Scope of EDIS

8. EDIS should be designed in such a way to be consistently integrated with the Banking Union regulatory framework to ensure the smooth operation of the European banking system and contribute to level playing field both amongst banks and across the Euro area. Given that deposit guarantee is a mechanism ex-ante to maintain confidence and ex-post to mitigate the adverse effects of individual bank failures of not systemic nature, while systemic crisis are dealt with through other instruments within the BRRD and the SRM, the operation of such instruments should not give rise to an uneven playing field. EDIS should be designed and operate in conjunction with the SRM in such a way to avert any distortion in the level playing field emerged by the higher systemic relevance of larger banks. Last but not least, EDIS should be an effective instrument to promote a cross-border level playing field with respect to credibility of deposit guarantee schemes allowing deposits to inspire a high and equal degree of confidence irrespective of their location in the Banking Union.

9. All credit institutions and deposits already covered by national DGSs – should remain covered after the introduction of EDIS – either on the European or national level. Regarding credit institutions, the Commission proposal states that EDIS shall indeed apply to all credit institutions affiliated to participating DGSs (art. 2b). This includes entities that (i) fall outside the European prudential framework (e.g. credit unions) and (ii) third country branches established in the EU by credit institutions which have their head offices outside the EU. Discussions within the European Council have brought to surface that there are dissenting views on whether such entities should be included within the scope of EDIS, in particular because credit unions and third country branches do not fall within the (supervisory) scope of the Banking Union. Nevertheless, level playing field concerns should be taken into consideration.

10. Credit unions and third country branches are outside the scope of the Banking Union which, on the one hand, could support the view to exclude such institutions from EDIS but, on the other hand, would also force participating DGSs to create a (potentially unstable) separate funding arrangement within their organisation. Within many member states it could be questioned whether a separate funding structure for credit unions and/or third country branches would be viable. Historical examples show that deposit insurance systems limited to an extremely small number of institutions are not viable on a stand-alone basis. For example, in case a member state has just one third-country branch and no credit institutions that fall outside the European prudential framework, by definition it will be impossible to impose the costs of failure on remaining institutions (as there will be none). Subsequently, this also has the potential to hamper

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3 See Council of the European Union, EDIS Progress report (State of play), 24 November 2017, 14808/17
depositor confidence in the DGS which could then also have a negative effect on the trust in the financial safety net as a whole. This is in particular the case because currently DGSs provide equal protection to depositors, irrespective of the type of credit institutions where they deposit their money. Moreover, in order to comply with the DGSD, these separate funding arrangements would also need to be stress-tested and supported by alternative funding arrangements. Altogether, this would complicate the design of DGSs – with negative repercussions for EDIS credibility – and increase administrative costs.

11. A similar argument applies to the additional protection of deposits as a result of the application of (national) options and discretions within the DGSD, in particular temporary high balances (THBs). According to the Commission’s proposal, EDIS will cover the cost of pay-out for THBs (art. 41c(1)) after these pay-outs have been made. EDIS does not provide the cash that is actually needed by DGSs to fund the pay-out for THBs (both the calculation of the liquidity shortfall in art. 41b and the liquidity need in art. 41f, exclude the provision of cash that is needed to pay-out THBs). This is irrespective of the stage of EDIS in which it actually exists.

12. EDIS’ deficiency in financing THBs repayment is an issue, because it requires DGSs to set up or maintain additional funding arrangements. It is furthermore noted that, from a legal perspective and notwithstanding the fact that the repayment deadline of 7 working days does not apply to THBs, the need to reimburse THBs is of equal importance to the need to reimburse ordinary covered deposits. Furthermore, because a DGS is liable towards depositors once a pay-out event is triggered, no segregation is possible between the use of funds for the repayment to depositors of ordinary covered deposits or THBs. EDIS financing of national options and discretions can provide a potential incentive to raise the scope and level of coverage where possible. As a result, depending on the final design of EDIS, it is advised to, within the Banking Union, promote some harmonization of existing national options and discretions in the transposition of the DGSD.

RECOMMENDATION A - SCOPE OF EDIS

• EFDI advises that the consequences (both pros and cons) of any potential exclusion from EDIS of credit institutions already covered by a participating DGS should be taken into account in the final design of EDIS.

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4 Besides THBs, DGSD comprises non-harmonized options and discretions such as: deposits held by personal pension schemes and occupational pension schemes of small or medium-sized enterprises; deposits held by local authorities with an annual budget of up to EUR 500 000; deposits held by a business partnership, an association or a grouping of a similar nature; set-off of depositors’ liabilities.

5 For example, assume that on day 1 a bank fails that is covered by a DGS that is a member of EDIS. Within two days, the SRB decides on the amount to contribute to the pay-out based upon the estimated amount of regular covered deposits, excluding THBs. On day 4, the DGS receives a request for compensation of a THB. The DGS is quickly able to determine that the claim is valid and becomes obliged to pay-out this THB. Meanwhile and almost by definition, not all regular deposits will have already been paid out. As a result, it could be the case that EDIS funding received for the repayment of regular covered deposits is used for the repayment of THB’s.
• In a similar vein, EFDI advises that EDIS should immediately provide resources for all covered deposits, including THBs. Because the amount of THBs that is covered by a DGS can only be calculated ex post, the calculated amount of initial cash provided by EDIS could include an estimated amount of THBs with a mechanism to receive additional funding or return excess funding when applicable.

• EFDI advises that, depending on the design of EDIS, some options and discretions in the DGSD, including THB provisions, should be re-examined and harmonized within the Banking Union.

B. Calculation of covered deposits and funding path

13. The observed level of covered deposits is a decisive figure within EDIS. For example, the total amounts of covered deposits held by a credit institution shall determine the cash needed by a DGS from EDIS (art. 41f) and a participating DGS shall only be covered by EDIS, if its available financial means comply with a funding path that is based on a percentage of covered deposits (art. 41j). Obviously, ex-ante and ex-post contributions are also based on the amount of covered deposits (art. 74c and 74d).

14. It should, however be taken into account that, until a pay-out event is finalized, the amount of covered deposits – i.e. the funding requirement for pay-out – by definition will only be an estimated figure. Moreover, within the complexity of the DGS regulation, there is no standardized way for this estimation of the level of covered deposits. In particular, there is a direct link between the design of the single customer view (SCV) framework of a DGS – the set of rules and procedures that determine how a credit institution aggregates the single overview of all protected accounts of a depositor – and what and how SCV-records are taken into account in the calculation of the estimated level of covered deposits. This relates in particular to SCV-records (i) where the quality of the data is an issue and (ii) complex deposits such as beneficiary accounts, where the total coverage of the account could be unknown in advance (e.g. because the administration of the beneficiaries is outside of the scope of the credit institution and/or SCV-file). There are not necessarily right or wrong methods to estimate the level of covered deposits – different methods just have different meanings.\(^6\)

\(^6\) To clarify this point, let’s use the example of a credit institution with an SCV-file of a depositor, containing just two deposit records which also have been flagged because there is uncertainty about the data quality. Record 1 is a time deposit of 100.000 euro of Person A with name “Leonardo da Vinci” and national ID “378178393”, while record 2 is a time deposit of 100.000 euro of Person B with name “Leonardo da Vince” and national ID “378178399”. For the purpose of calculation of the estimated amount of covered deposits, in this example, a DGS could decide to:

• Not take into account both records – with the covered amount being zero – because there are issues with data quality and there is no absolute certainty about DGS coverage for these deposits;
15. Differences in methodologies used by DGSs to calculate the estimated level of covered deposits become an issue under EDIS. Given the nature of the requirements in the EDIS-framework that relate to covered deposits, DGSs could tend towards the most “optimistic” calculation (i.e. lower) of the estimated level of covered deposits for the purpose of determining the funding path and the base for ex-ante and ex-post contributions. On the contrary, in order to ensure that sufficient funding is received, the most “conservative” calculation (i.e. higher) would fit the purpose of calculating the required amount of funding needed.

16. Moreover, the compliance of a DGS with the funding path could also be impacted by external events and factors. There are many factors beyond control of a DGS that could either impact the amount of available financial means (e.g., the return on fund investments or transfer of contributions to other DGSs following mergers or conversions of branches into subsidiaries, etc.) or the level of covered deposits (e.g., growth rate of covered deposits, flow of deposits between member states, mergers or conversions of subsidiaries into branches, number and volume of pay-out cases, etc.).

**RECOMMENDATION B - CALCULATION OF COVERED DEPOSITS AND FUNDING PATH**

- EFDI considers that the estimated level of covered deposits and the funding path are key variables for the functioning of EDIS. Ambiguity about the appropriate way to determine the estimated level of covered deposits for the purpose of EDIS should therefore be reduced to a minimum.

- For the purpose of EDIS, EFDI suggests creating a common framework for the calculation process of covered deposits, taking into account the limitations of SCV rules and procedures. EFDI stands ready to assist with more technical advice, if required.

- EFDI recommends to explicitly take into account the possibility that deviations from the funding path are a result of external events and factors. DGSs, and depositors protected by a DGS, should not be punished for factors beyond the control of a DGS.

- Combine both deposit records to one SCV record of the likely depositor “Leonardo da Vinci” with a covered amount of 100,000 euro;

- Take into account both records, because the DGS wants to be prepared for the worst case which would happen, then the records would relate to two different depositors and the covered amount would be 200,000 euro.

A similar example could explain the case of beneficiary accounts. Assume of a beneficiary deposit of 1 million euro is included in the SCV-file. For the purpose of calculating the estimated amount of covered deposits, should the DGS stipulate to (i) Not take into account this deposit (because it is unknown who the depositors are and if they are eligible for the DGS), (ii) determine an expected amount of covered deposits based on any additional information (if available) or (iii) use a conservative approach, where it is assumed that the full amount of the deposit (i.e. 1 million euro) could be covered by the DGS?
C. Calculation and payment of contributions

17. The calculation of risk-based contributions for all banks – by a single entity – in the Banking Union has the potential to be very complex. There are more than 4,000 banks in the Banking Union. All of these banks would become part of EDIS and would have to pay risk-based contributions. This could potentially provide for a complicated calculation procedure also because, in contrast to the Single Resolution Fund (SRF), there is no scope to apply lump-sum contributions because the DGSD requires the mandatory use of risk weighted contributions for all members of DGS.

18. The accurate calculation of risk-based contributions depends on the quality and correctness of the data collected from all participating banks. Depending on the methodology used for the determination of individual contributions, the sheer number of banks involved implies that the simultaneous calculation of contribution for all banks by a single entity is prone to reporting errors by banks if calculations are determined on a relative basis. This has the potential to slow down the speed by which contributions can be raised. The result could be that contributions are lagging changes (i.e. growth) of covered deposits and the risks to the DGS are not sufficiently and timely priced.

19. To minimize the impact of reporting errors, EFDI suggests considering the use of methodologies where the risk score of a bank is determined on an absolute basis. In line with article 13(2) of the DGSD - EFDI considers that the authority responsible for the calculation of risk-based contribution within EDIS – e.g., the SRB and/or participating DGSs – should be able to use its own risk-based methods. Annex 1 of the EBA guidelines on methods for calculating contributions to DGS (EBA/GL/2015/10) discusses in paragraph 3 the differences between approaches where the classification of banks on individual indicators is determined on a relative or absolute basis. The advantage of a methodology where the risk classification of a bank is determined on an absolute basis is that the risk classification of an individual bank is not influenced by the risk classification of other banks. This way, a reporting error by an individual bank has no impact on the risk classification and contribution to be paid by all other banks.7 Given the large number of banks for which contributions have to be calculated, there are clear advantages to this approach as it reduces the complexity of the process thereby reducing the administrative burden and legal risks involved.

20. The EC proposes that levies for the build-up of the Deposit Insurance Fund (DIF) are raised from banks directly, not from the DGSs that are covered by the DIF. Ex-ante contributions are owed and paid by banks to the SRB and are calculated and invoiced by participating DGSs on behalf of the Board (Article 74a(1) of the EDIS proposal).

7 That being said, a very significant reporting error by an individual bank could affect in subsequent years the adjustment coefficient (μ) – as prescribed by the EBA guidelines – in order to correct for undershooting or overshooting of the funding path, there leading to higher or lower contributions for other banks.
21. There is an understanding that cost-neutrality for the banking sector is achieved through possible compensation at the level of the participating DGS. Article 74c(4) aims to facilitate this by allowing contributions to the DIF to count towards the target level, that each participating DGSs needs to reach and maintain under the DGSD. Subsequently, according to the EC, DGSs may compensate member banks, through paying back contributions already received from member banks.\(^8\)

22. There are numerous issues involved with paying back to banks the contributions paid to participating DGSs and the relevance of this issue increases, as the national DGSs continue to build up. First of all, it should be noted that the actual procedure to paying back contributions by participating DGSs is beyond the scope of the EDIS-proposal. For numerous DGSs this would first of all require legal or statutory changes, where such repayments are currently forbidden. More fundamental, there is no single preferred key to be used to determine the amount to be paid back to individual banks, each have their pros and cons. Some possible metrics to be used for determining the repayable amount include:

- **Historical contributions** – Problematic for this approach is that it can be complicated or impossible for a DGS to trace back all contributions made by banks to its fund over a long period of time. This is in particular an issue, when pay-outs have occurred, (cross-border) mergers have taken place and firms have entered and exited the sector. In case banks have left the DGSs at some point in time, it also means, that not all funds can be returned. Moreover, there is a fairness issue, if banks are reimbursed based on historical contributions, because this implies that high-risk banks – which paid a risk premium to the DGS before – get their risk premium back.

- **Current share in covered deposits** – While this approach allows easy calculation, there is some unfairness related to the fact, that it would benefit banks with a large and recent increase in covered deposits. Such banks had to pay little or no contribution to the DGS for this, but it does provide them with a larger claim on the funds to be paid back.

- **Contribution to be made to EDIS** – It could also be possible for a DGS to simply compensate banks with an amount, equal to the contribution they have to make to EDIS. A fundamental issue with this approach is, that it would annul the effect of risk-based contributions on the banks that are compensated in such a way.

- **Discretionary approach** – Use of a part of historical contributions could be left at the discretion of national DGSs (e.g. as a buffer/alternative funding means, coverage of administrative expenses) in case necessary.

\(^8\) A related design choice is whether risk-based contributions for individual are determined on national level or banking union level. Depending on the methodologies used to determine the risk classification between banks, this could lead to different outcomes. Given the political nature of this design choice, EFDI considers this issue beyond the scope of this report.
23. Similar issues emerge regarding the modalities for transfer of contributions in case of termination of participation in the Banking Union by a non-euro Member State. Article 4(3) of the original EDIS proposal by the EC suggests that the amount to be transferred in case of termination shall be based on the available financial means within the DIF, multiplied by the share of ex-ante contributions paid to the DIF by credit institutions from the particular DGS, capped at two-thirds of the target level of the DGSD. The issues discussed above regarding the historical-contributions-approach apply also to this mechanism for termination of participation.9

24. These issues become more important over time as DGSs are building up their funds as follows from the DGSD. By the end of 2019, DGSs will in general have built up 50 percent (i.e., 0.4 percent of covered deposits in most cases) of the minimum target fund level. This requires a different perspective on the funding path for the build-up of EDIS and increases the complexity involved with paying back the resources that have been built up within participating DGSs.

FIGURE 1 – THE FLEXIBLE APPROACH AS A MODEL FOR RAISING EDIS CONTRIBUTIONS

25. EFDI advocates the use of a flexible approach for DGSs. As shown in figure 1, the flexible approach is based upon the presumption that the authority responsible for EDIS (e.g., the SRB) invoices the DGS an amount equal to the sum of contributions determined for all banks covered

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9 An example can clarify this: assume the DIF – after several pay-outs is at 4 billion euro (0.1% of covered deposits). Banks affiliated to DGS A have historically paid in 4 billion euro in contributions, while banks from other DGS have paid in 28 billion euro (in total 32 billion euro, 0.8% of covered deposits). Over the years, the size of covered deposits in country A have reduced – for multiple reasons – from 500 billion euro to 250 billion euro. Upon the termination of participation, DGS A will receive from EDIS 4/28 * 4 billion euro which equals 570 million euro. The transfer would equal 0.23% of covered deposits, which might be difficult to explain, given the current size of the DIF.
by that DGS. Subsequently, the DGS is provided with flexibility in determining how to finance the invoice to be paid. It could use (part of) its existing DGS resources, or levy contributions from its member banks.

26. There are multiple benefits to such an approach. First, the methodology better aligns with the structure of EDIS, which covers DGSs (and by doing this, indirectly covers banks – that are a member of a participating DGS – and their depositors). Second, the methodology is easier to execute for the EDIS authority, because it only has to invoice DGSs. Third, it solves the issues involved with paying back contributions to banks that are a member of a DGS, because the existing resources within a DGS can be directly used towards EDIS.

RECOMMENDATION C – CALCULATION AND PAYMENT OF CONTRIBUTIONS

• In case risk-based contributions are determined on Banking Union level, EFDI suggests considering the use of an absolute base-score approach in order to minimize complexity.

• EFDI recommends that risk-based contributions to EDIS should be raised on an aggregate level from each participating DGS. A DGS should subsequently be able to finance the contributions to EDIS from its own fund or by levying its member institutions.

D. Administrative expenses

27. Administrative expenses by DGSs are not covered by EDIS. According to article 59 of the EDIS proposal, it remains the task of participating DGSs to levy fees in respect of the administrative expenditures related to the performance of DGS-tasks. Meanwhile, the administrative expenses of the SRB to fulfil any potential EDIS-related tasks, are covered by the administrative contributions that it can raise for the purpose of “Part I” of the SRB’s budget (art. 65 of the EDIS proposal). In this regard, it should be noted that the administrative expenses of DGSs can be quite significant, in particular when it comes to investments that are necessary to develop and maintain IT-systems to support the requirement to reimburse depositors within seven working days. Strong and credible pay-out mechanisms require strong investments.

28. Depending on its funding structure, this causes an issue when a DGS is confronted with extraordinary administrative costs, such as when a pay-out occurs\(^\text{10}\). In the current landscape,

\(^{10}\) Depending on the size of the payout, the instruments used and the way the DGS is structured, a payout can generate, in addition to internal costs (salaries, usual operating expenses etc.) more than significant external costs for the DGSs in relation with: temporary hiring, call-center operations, editing, IT operations, communication expenses, fees of the agent bank, claims handling, legal expenses, possible litigation against the management of the default bank etc.
different approaches can be observed regarding how the administrative costs of DGSs are funded. Some DGSs have in place a separate levy for this, while other DGSs distract administrative expenses from the available fund resources – the net effect being the same. Under a full-fledged EDIS with all the resources being pooled on the European level, the latter approach becomes dysfunctional. This causes an issue when administrative expenses are higher than budgeted ex ante, and there are no funds readily available within the organization to finance administrative expenses. In order to avoid a recourse to a costly credit line – which then needs to be arranged in advance and henceforth would require commitment fees – it should therefore be considered to at least allow EDIS-resources to be made available for the funding of operating expenses (on the basis of a loan).

29. **A conflict arises in the pursuit of deposit claims in the insolvency procedure.** According to article 41q of the EDIS proposal, the participating DGS shall maximise its proceedings from the insolvency estate for the sole benefit of the DIF and shall be liable towards the Single Resolution Board for any amounts not recovered due to a lack of diligence. However, the costs made by the participating DGSs to maximise the proceedings are potentially huge, while being considered administrative expenses by the DGS and will therefore be borne by the member institutions of the participating DGS. This leads to a conflict of interest that will capture the DGS. Moreover, such an approach would crush the cost-benefit-analysis that should be at the centre of any (strategic) decisions during the insolvency procedure. For example, if 1,000 euro of legal costs would need to be made to increase proceeds from the insolvency estate by 500 euro, article 41q of the EDIS proposal would force the DGS to make these costs (and would give the SRB an opportunity to demand such action) even though this would not be the most cost-efficient choice. See also paragraph 53.

**RECOMMENDATION D – ADMINISTRATIVE EXPENSES**

- For the extraordinary administrative costs involved with a DGS event, a DGS should be able to (automatically) receive (temporary) financial support for the repayment of depositors – from EDIS if requested. This allows a DGS in such a critical phase to fully focus on the repayment process (or other measure) following from the event.

- All administrative costs involved in the pursuit of deposit claims should be borne by the administrative body responsible for EDIS, i.e. the SRB. It should be up to this administrative body to determine the trade-off between the recovery costs and the expected return.
IV. DURING A CRISIS EVENT

E. SRB governance

30. A strong and direct relationship is necessary between DGSs and the administrative body (i.e., the SRB) responsible for EDIS. EFDI emphasises that EDIS – as proposed by the EC – is technically not a DGS as defined by the DGSD. The system as a whole – being national DGSs and the administrative body responsible for EDIS, e.g. the SRB – has the joint purpose of fulfilling the protection of depositors according to the stipulations of the DGSD. In this regard, EFDI observes, that the cooperation structure between DGSs and EDIS is challenging. On the one hand, participating DGSs interact with the SRB, regarding pay-outs and contributions. On the other hand, DGS designated authorities (which can be, but in many cases are not the same authority, as the DGS itself) are involved in the SRB decision making on EDIS related matters.

31. More precision is needed, regarding the information requirements, if any, necessary for the SRB to decide on the provision of funding. If a DGS is aware of a likely event, it shall inform the SRB without delay, if it intends to request coverage (art. 41k of the EDIS proposal). There is a duty to immediately notify the SRB and submit “all necessary information” in order to allow the SRB to assess “whether the conditions for the provision of funding and loss cover are met” (art. 41l). However, article 41l(2) only provides a list of four points that the DGS should “in particular” inform the Board about. In order to ensure, that the decisions on provision of funding, or loss cover can be made as rapid and efficiently as possible, EFDI advises to provide DGSs with full clarity on the information that needs to be provided by DGSs for a quick decision making.

32. When a DGS is triggered, the decision-making process should be rapid under all circumstances. According to article 41m(1), after receiving a notification, the SRB shall decide within 24 hours that the conditions have been met and determine the amount of funding to be provided. EFDI considers this to be a maximum time limit for SRB decisions. Delays in decision making are incompatible with the (future) legal requirement to reimburse depositors within seven working days. After a decision to provide funding has been made, there is a tight schedule for DGSs to execute subsequent steps necessary to perform the pay-out (or support the resolution or alternative measure) in time.

33. According to article 41m(2), the SRB can extend the abovementioned timeline of 24 hours to 7 days, in case there are multiple notifications about one or more other likely events. In such a case, EFDI considers the potential length of the decision-making process undesirable. Not only this, almost by definition, might jeopardize the possibility to perform pay-outs within maximum

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31 See section G below.
timeframe available, it could also negatively impact the depositors’ confidence, due to the prolonged provision of funding for pay-out by EDIS.

RECOMMENDATION E - GOVERNANCE

- Irrespective of their legal status (public or private), DGS organizations are the practitioners that deal with pay-out events in practice and which are the most visible towards depositors when it comes to a DGS pay-out event. EFDI therefore recommends to enrich the governance structure with a more robust mechanism that involves all DGSs that participate in EDIS. The function of this platform would be to coordinate operational, technical and administrative procedures and standards.

- EFDI recommends defining precise and limited notification requirements regarding the information necessary for the SRB to decide on the provision of funding.

- EFDI considers that the possibility to extend the decision-making process by 7 days, puts at risk the timely reimbursement of depositors. In order to safeguard depositor confidence, the SRB should under all circumstances reach a decision within 24 hours on the provision of funding, no exemptions being in place.

F. Financial resources available to DGSs

34. In order to strengthen depositor confidence, EDIS should increase the readily available financial resources for DGSs to finance pay-outs and other measures, if needed. While this principle would be satisfied by the full insurance approach as proposed by the EC, EFDI is concerned with the introductory paths that are included in almost all proposals that have been made public and discussed during the last three years. 12 The problem is that currently such transitional approaches in practice may lead to a decrease in the readily available resources to DGSs until a stage is reached where EDIS covers 100% of the funding shortfall of a participating DGS. The issue is becoming more of a concern, as time elapsed since EDIS has been proposed, and DGSs have continued to build up their financial resources in line with the funding requirement of DGSD.

35. The possible decrease in readily available financial resources during the transitional phase is related to the use of a partial coverage of the funding shortfall by EDIS in comparison to what would be available according to the funding path in the DGSD. As mentioned in paragraph 24, during 2019-20 many DGSs will reach 50% of their target level (i.e., 0.4% of covered deposits). Simultaneously, both the original EDIS proposal and recent communications on EDIS include phases during which there is only partial coverage of the liquidity shortfall experienced by a DGS.

12 For example, in the original Commission proposal the maximum liquidity provision during the co-insurance period increases from 20% to 40%, 60% and 80% in the first four years.
After the start of this re-insurance phase, the extent to which EDIS covers a liquidity shortfall by a DGS is increased over the years. Depending on the specific design of the re-insurance framework, there could be a risk that the contribution to the DIF by a DGS (or its banks) is larger than the amount of EDIS funding it can receive when a liquidity shortfall is experienced. This implies a decrease in readily available financial resources. It would be at odds with the criteria set out in this report that all else being equal, the national available resources combined with the funds available from the DIF should not be lower than in the absence of EDIS (criterion 3). Annex I provides examples to further clarify this issue, based on pay-outs of 0.4% and 0.8% of covered deposits respectively.

36. In the circumstances where EDIS only provides partial coverage of liquidity shortfalls, DGSs need to make recourse to ex-post contributions and maintain alternative funding arrangements. Because it takes time to levy ex-post contributions, this mechanism is not sufficient to address the immediate need for cash in case a DGS is triggered. In circumstances, where the available financial means are insufficient, DGSs need to recourse to alternative (emergency) funding, generally provided by banks in the form of credit lines or the sovereign. In case of the former, the (increased) need for such credit lines can result in a cost increase, for example in the form of commitment fees that need to be paid each year for the availability of the commercial liquidity arrangement. In case of the latter, the bank-sovereign link is maintained or even increased, which contradicts the purpose of the Banking Union.

37. In this regard, EFDI also points to the DGSD-requirement that DGSs must have in place adequate backstop funding arrangements. Even when EDIS would fully cover any liquidity shortfall, the requirement in article 10(9) of the DGSD remains in force. EFDI considers it important that alignment is achieved between the EDIS proposal and DGSD requirements so that unnecessary overlaps are avoided. Furthermore, national DGSs reimburse deposits not only by using own funds, but also by accessing alternative funding methods. To safeguard all Banking Union depositors in an equal manner, also the EDIS framework needs to have sufficient access to credible and pre-established alternative funding arrangements to a level that is in line with the level of all backstop funding arrangements of participating DGSs combined.

38. In case DGSs are faced with the risk of needing to cover possible shortfalls in the financing by EDIS, all participating DGSs technically need a cushion of resources on top of the minimum funding path upon which access to the DIF is conditional. The need to maintain a financial cushion is necessary in case the EDIS-framework leaves participating DGSs with (tail) risks that costs – for pay-out or operational expenses (see section D) – are not fully covered. Whether they have secured backstop funding arrangements or not, participating DGSs will need to rely on minimal ex ante funding resources to cover these risks.13 Leaving DGSs without any financial reserves is only possible in case of full and unconditional financing by EDIS. The size of this cushion of financial resources would need to be further assessed.

13 It is doubtful that alternative funding providers, if an alternative funding is set, could easily accept to be called in the first place.
**RECOMMENDATION F – FINANCIAL RESOURCES AVAILABLE TO DGSs**

- EFDI considers that there should be a “golden rule” stating that at no stage should EDIS lead to a decrease in (expected) available financial means to cover DGS individual events compared to what would have been the situation in absence of EDIS.

- In case DGSs receive full and unconditional access to EDIS, EFDI recommends that for the purpose of article 10(9) of the DGSD, EDIS removes the obligation for participating DGSs to also have in place alternative funding arrangements on top of EDIS. If not achieved, participating DGSs need to maintain a cushion of financial reserves on top of the minimum funding path that provides access to EDIS.

- EFDI considers that EDIS should have in place adequate backstop funding arrangements to ensure timely payout under all circumstances. Such backstop funding arrangements should provide a level of strength at least equivalent to the combined funding arrangements of all individual national DGSs.

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**G. Conditionality of funding by EDIS**

39. **According to article 41i of the proposal, the funding by EDIS in each phase is conditional upon compliance with certain requirements.** A DGS shall not be covered by EDIS, if the Commission, acting on its own initiative or upon a request of the Board or a participating Member State, decides and informs the SRB accordingly, that at least one of two disqualifying conditions is met. Funding will not be provided if (a) the participating DGS has failed to comply with the obligations under the EDIS Regulation or Articles 4, 6, 7 or 10 of the DGSD; or (b) the participating DGS, the relevant administrative authority within the meaning of Article 3 of Directive 2014/49/EU, or any other relevant authority of the respective Member State have, in relation to a particular request for coverage by EDIS, acted in a way that runs counter to the principle of sincere cooperation as laid down in Article 4(3) of the Treaty on European Union.

40. **EFDI emphasizes the need for an unambiguous provision of (at least liquidity support) in case a DGS is triggered by a competent authority.** In particular, the disqualification in Article 41i b) of the EDIS proposal means that a DGS could be disqualified from coverage by EDIS – and therefore may not be able to reimburse depositors – if any "relevant authority acted in a way that runs counter to the principle of sincere cooperation". This means, that a DGS will not be able to assess on its own, whether it will receive funding by the DIF. The provision does not specify, which authority will be regarded as "relevant". Further, the principle of sincere cooperation can be interpreted very broadly. If, for instance, a DGS (or any other relevant authority) would not comply with an information request based on this principle, a national DGS could be excluded from funding. Ultimately, it will be depositors and depositor confidence which suffer the burden from such ambiguity.
41. EFDI recommends to clearly differentiate in the EDIS decision-making process between the two aspects of funding by the DIF: liquidity support, when the deposit insurer is triggered; and loss-sharing later in the process. EFDI strongly underlines that in principal there can be no uncertainty on liquidity support for DGSs when facing the failure of the bank, first because it would be a setback compared to the current situation where DGSs have free access to their resources, second and more importantly because uncertainty would deeply undermine depositor confidence in the system. Not only is it not possible to explain depositors that they should trust a protection system where the access to the needed resources is not warranted. Furthermore, in case the SRB decides for specific reasons to provide the liquidity support required by a specific failure in a given jurisdiction and leave the concerned DGS with no solution, such a decision would jeopardise depositor’s confidence and the credibility of the financial safety net across the euro area as a whole. Contradicting the objectives of EDIS, such uncertainty on the liquidity support would undermine the situation for EU DGSs that participate in EDIS in comparison with non-Banking Union EU DGSs. That being said, specific extraordinary situations – i.e., deliberate and prolonged infringements of EDIS-related obligations by participating DGSs – could be laid down in the regulation for EDIS under which additional corrective measures and other enforcement measures (e.g. penalty interest rates) are attached as conditionality to the provision of liquidity. These measures should be targeted towards the participating DGS while simultaneously safeguarding the principle the depositors should be covered under all circumstances.

42. Only after a liquidity support has been provided and in the event some disqualifying conditions are met, should the SRB be authorised to order full or partial repayment of the funding to the DIF in relation with the loss-sharing it finally accepts. Even in such a case, the disqualifying conditions should be as objective as possible and specifically related to the payout (e.g. compensations made beyond DGSD requirements or misstatements), not to general conditions. The conditions should be clear, precise, predictable and enforceable and should not cause doubt with regard to the eligibility for coverage.

**RECOMMENDATION G – CONDITIONALITY OF FUNDING BY EDIS**

- While EFDI supports the principle that a DGS needs to cooperate with EDIS as best as possible, any doubt about the provision of liquidity support by EDIS will undermine depositors’ confidence in the system as such. Liquidity support by EDIS should not be uncertain in case a DGS is triggered so that there is absolute certainty that depositors are protected and their legal claim under all circumstances is honoured within 7 working days. Specific extraordinary situations could be laid down in the regulation for EDIS under which corrective measures and other enforcement measures are attached as conditionality to the provision of liquidity. Following a liquidity support, the requirement imposed on a national DGS to repay the funds should be feasible and take into consideration financial stability issues.

- At the same time, issues related to “moral hazard” must be addressed clearly and therefore, conditionality related to ensuring compliance to the DGSD by a DGS may only be enforced at earlier or later stages, for example when determining the share of the losses that the DIF will bear. EFDI recommends making a clear distinction with
EDIS framework between liquidity support and loss-sharing in terms of conditionality and decision-making process.

- EFDI furthermore emphasises that – in contrast to the original EC proposal – any conditionality whatsoever on the determination of loss sharing should be related to the execution of the pay-out itself, clear, precise, predictable and enforceable.

H. Conditionality of funding with respect to credit institutions

43. EFDI observes that, in the EC proposal, the access to the DIF may not always be possible in case of a failure of a specific credit institution. Article 77a stipulates that the use of the DIF with respect to a credit institution affiliated to a participating DGS shall be contingent upon compliance by this credit institution with the obligations incumbent on it as a member of the participating DGS set out in this Regulation and in the DGSD.

44. While it is reasonable that credit institutions need to comply with their obligations, the provision proposed by the EC derogates from the principle made by the DGS directive of an unconditional guarantee towards depositors. This provision creates an asymmetrical situation where EDIS can refuse to finance a payout, whereas the national DGS remains fully liable vis-à-vis the depositors, whatever the behaviour of the bank has been and even though the DGS cannot be held responsible for the situation. Furthermore, the way the provision is phrased, any non-compliance of a credit institution with any provision of the EDIS Regulation or the DGSD would bear the risk that no funding would be provided to the DGS with respect to a failure of that credit institution and should lead to informing all concerned depositors with a quite detrimental effect for the stability of the institution. In general, credit institutions that are likely to fail may show a higher probability of non-compliance with certain obligations. Meaning that the effect of this conditionality could be detrimental in terms of depositors’ access to their indemnity payment. Irrespective of whether the DGS is responsible or not, depositors must remain protected.

45. As is the case with Article 41i of the EDIS proposal, this conditionality puts a DGS in the impossible situation where it cannot be entirely certain if funding for a pay-out will be available. Public knowledge of this caveat would likely decrease depositors’ confidence in both the DGS and EDIS. As a result, if funding for a credit institution failure is not provided by EDIS, such exclusion would affect all DGSs.
RECOMMENDATION H – CONDITIONALITY OF FUNDING WITH RESPECT TO CREDIT INSTITUTIONS

- EFDI recommends that EDIS follows the principle of article 4(5) of the DGSD that, after a credit institution is excluded from a DGS and/or EDIS, existing deposits shall still be protected by EDIS.

- In general, EFDI stresses that sanctions for non-compliance with certain provisions should not deteriorate the level of protection provided to depositors by EDIS in comparison with the protection provided by the DGS Directive. In all cases, the disqualification of a credit institution or a DGS from EDIS protection in the first place, if any, needs to be assessed diligently.

I. Implementation of decisions under EDIS

46. Closely linked to the relationship between EDIS and national DGSs, and in particular the conditional financing of the national DGS by EDIS, is the obligation of DGSs to implement decisions by the SRB. Article 74e of the EDIS proposal states that participating DGS shall take the necessary action to implement decisions referred to in the EDIS Regulation. Where a participating DGS has not applied or has not complied with a decision by the Board or has applied it in a way which poses a threat to the efficient implementation of EDIS and to the objectives of the Regulation, the Board may "order" the participating DGS to adopt any necessary action to comply with the decision in question. This is a very extensive power, which the SRB does not have (directly) towards national resolution authorities (NRAs). In fact, the only right to order that the SRB currently has, is towards institutions under resolution (article 29 of the current SRM Regulation) and, in short, can be used by the SRB when the NRA has not applied or has not complied with a decision by the SRB.

47. This competence of the SRB to issue orders directly to the DGS, raises concerns. By granting such competence to the SRB, EDIS may take over the complete function of a DGS. It remains unclear to what extent EDIS may instruct a DGS to take action and what the consequences of non-compliance would be. Furthermore, this leaves the question open to determine whether and how SRB would release DGS of any undesirable outcome of its own instructions or actions. Furthermore, it jeopardizes the governance framework for DGSs. In the case where the designated authority is the DGS (and possibly also the NRA), the SRB would have the power to give order to a member of its (joint) plenary session of the SRB. In the case where the designated authority is not the DGS, the SRB would have the power to directly give order to DGSs thereby circumventing the DGS designated authority.

48. In light of the severe consequences, the question arises how a national DGS could challenge a decision taken by the SRB. The Regulation remains silent in this respect. In case of a pay-out scenario, time for challenging a decision taken by the SRB will be extremely limited. As a consequence, the SRB has two options in case of non-compliance by a DGS: EDIS can decide that
funding will not be available for such DGS or give direct orders to the DGS – with an open question about who will then be considered as legally liable. In total, the powers of the SRB are very extensive, could significantly interfere with the DGS’s overall responsibilities and entail legal risks of litigation.

**RECOMMENDATION I – IMPLEMENTATION OF DECISIONS UNDER EDIS**

- EFDI considers that the “right to order” by the SRB is not the appropriate tool to achieve the cooperation needed between the EDIS authority and participating DGSs. It may lead to conflicts with the overall responsibilities of participating DGSs.
- If such power should be granted to the SRB, this should be restricted to a very limited set of areas where orders may be given by the SRB. Furthermore, it should be specified how these orders can be challenged by a DGS.

**J. Provision of funding**

49. **EFDI supports a mechanism where there is a swift provision of funding to a participating DGS, if needed.** According to article 41n of the EDIS proposal, the funding shall be provided in the form of a cash contribution (i.e., electronic transfer) to the participating DGS, with the funds due immediately after the SRB determines to provide funding. EFDI considers this to be the necessary and right approach in order to comply with the future maximum repayment period of 7 working days.

50. **It is important that standing legal and operational arrangements are introduced in order to enable the immediate provision of money in a secure way.** The required amount of resources for a pay-out can potentially be very large (billions of euros). To operationalize the cash flows between the DIF (SRB) and DGSs within any proposed EDIS mechanism, standing legal and operational arrangements should be agreed upon and implemented in advance. This would help to identify whether tailor-made (i.e., country-specific) solutions are needed, considering also the differences in organizational and legal structures of DGSs across member states. The mechanism also needs to take into account the operational procedures for home-host-cooperation for the pay-out of branches within the European Economic Area, as required by article 14 of the DGSD. In practice, home-host-cooperation will imply, that after a participating DGS within the Banking Union received funding from EDIS, it should immediately pass through part of this funding to a host-DGS in order to finance the pay-out by those of depositors at a cross-border branch. The operational procedures for the provision of funding by EDIS should therefore align with the home-host-requirements laid down in the respective EBA guidelines and the EFDI multilateral agreement on home-host-cooperation.
51. DGSs should be in a position to stress-test the operational arrangement for transfer of funding by EDIS. According to EFDI, the requirement to periodically stress-test the capabilities of a DGS, is one of the key enhancements provided by the DGSD. By stress-testing the system, DGSs can determine their capability of handling crisis events which will contribute to the resilience of the safety net and can thereby increase depositor confidence. Moreover, the harmonization of the stress testing framework provided by the EBA guidelines allows comparability of the operational and financial capacity of DGSs. In this regard, it is of critical importance that the transfer of funding by EDIS will be within the scope of the stress-testing framework.

RECOMMENDATION J – PROVISION OF FUNDING

- EFDI recommends that the EDIS framework would contain an operational requirement to introduce standing financial arrangements between DGSs and the administrative body responsible for EDIS in order to enable the immediate provision of money in a secure way within 24 hours.
- EFDI recommends including in the EDIS framework an explicit reference regarding the application of stress-testing requirements to EDIS.
V. AFTER A DGS EVENT

K. Insolvency procedure and cash flow after pay-out

52. Article 41q of the EDIS proposal grants extensive rights to the SRB with respect to insolvency proceedings following a pay-out. The SRB shall monitor the insolvency procedure of the credit institution concerned and in particular the participating DGS’s efforts to collect on the deposit claims it subrogated as a result of reimbursement payments to depositors. Further, according to the proposal, the participating DGS shall maximise its proceeds from the insolvency estate and shall be liable towards the SRB for any amounts not recovered due to a lack of diligence. The Board may decide, after hearing the participating DGS, to exercise itself all rights arising under the deposit claims subrogated by the DGS.

53. EFDI believes that this provision imposes significant and unjustified burdens on the DGS. The DGS is required to maximise its proceeds in the insolvency proceeding, with the SRB closely supervising the DGS’s conduct in such proceedings. It should be noted here that the provision is formulated in an absolute way and also that it does not take into account the liquidator’s course of action, on which, depending on the national legal framework, the DGS has often little impact. This means that, according to the EC proposal, the DGS is not just required to endeavour or use best efforts to maximise its proceeds. If the SRB comes to the conclusion that the DGS has failed to maximise its proceeds due to a lack of diligence, the DGS will be held liable for any amount not recovered.

54. Further, the way the provision is phrased, still leaves unclear how the SRB would actually exercise itself all rights arising under the deposit claims subrogated by the DGS. On one hand, this reads as if the SRB could assign all depositor claims to itself. From a legal point of view, this would be quite difficult and depend on the governing law of the depositor claims. On the other hand, the provision could be understood, as if the claims remained with the DGS but the SRB could just exercise these rights, as if it were the holder of rights. How this would work, remains unclear.

55. It also needs to be taken into account, that DGSs are obliged under the DGSD to have arrangements in place for backstop financing. This can not change as long as DGSs still need to fill the gap in the reinsurance and the co-insurance stage because the DIF would not cover 100 % of the liquidity need or the losses. This, however, means that the DGS may have to provide collateral to credit institutions by way of a security assignment of the depositors’ claims subrogated to in a pay-out scenario. However, if there is a risk that the SRB would exercise those rights or that these are being assigned to the SRB, such risk would have a significant detrimental effect on the value of that collateral; ultimately making it more difficult – or even impossible - for a DGS to ensure its access to backstop financing.
RECOMMENDATION K – INSOLVENCY PROCEDURE AND CASH-FLOW AFTER PAY-OUT

• EFDI suggests that the role of the SRB in insolvency proceedings should be specified in more detail.
• The rights of the SRB should not pose a threat to the ability of a DGS to have backstop financing agreements in place as long as participating DGSs do not have full and unconditional access to the DIF.
VI. OTHER ISSUES

L. EDIS and preventative measures

56. Preventative measures can be crucial for the functioning of particular systems, such as institutional protection schemes (IPSS) and DGSs with an extended mandate. Both for these DGSs and IPSSs (which can officially be recognized as DGSs) and for their member institutions, it is important that there is a (financial) ability to enact preventative measures (art. 11(3) of the DGSD) as the nature of these systems is to prevent banks from insolvency. However, preventative measures are not covered by the initial EDIS proposal, published in late 2015.

57. Under the EDIS proposal, (members of) DGSs would contribute to the DIF, but would not be able to access these resources for the preventative measures which can form an integral part of their system. In order the possibility of preventive measures, member banks would need to set up an additional self-administered fund for preventative measures on top of EDIS. EFDI considers that this conflicts with criterium 3 (“all else being equal, the national available resources combined with the funds available for pay-out from the DIF should not be lower than in the absence of EDIS”) and criterium 5 (“there should be full alignment between the regulation for EDIS (SRM Regulation) and the Deposit Guarantee Schemes Directive (DGSD)”).

58. Different solutions could be considered as long as they would satisfy the criterium of cost-neutrality and the need for full alignment between EDIS and the DGSD. There should be reciprocity within the system. DGSs (and its member banks) can only reasonably be expected to contribute to EDIS if the participating DGS has the opportunity to access these resources for powers that are available under the DGSD. EFDI does not take a position regarding the preferred method to address this issue.

RECOMMENDATION L – EDIS AND PREVENTATIVE MEASURES

- EFDI considers that the principle of cost-neutrality within EDIS should also be respected with regard to the use of preventative measures. This is a form of reciprocity that needs to be provided by the system.

14 Furthermore, without the option of alternative measures as per Art. 11(3) DGSD it will not be possible any longer to fulfil the ECB-guidelines “Recognition of IPS for prudential purposes” (November 4, 2016 - ECB/2017/37).
M. EDIS and alternative measures

59. The DGSD provides DGSs with the possibility to finance alternative measures to preserve the access to covered deposits in the context of national insolvency procedures. This national option is provided in article 11(6) of the DGSD. However, similar to the treatment of preventative measures, alternative measures are not covered by the initial EDIS proposal, published in late 2015. The possible use of alternative measures in the context of EDIS has nevertheless extensively been discussed at a technical level within the European Council.15

60. EFDI considers that the criterium of cost-neutrality and the need for full alignment between EDIS and the DGSD should also apply to alternative measures. Similar to the arguments concerning preventative measures, there should be reciprocity within the system concerning the powers available to participating DGS and the resources it has access to. If, within the context of the DGSD, the participating DGS is provided with the option to finance alternative measures, it should also be able to access resources for this. DGSs (and its member banks) can only be reasonably expected to contribute to EDIS if the participating DGS has the opportunity to access these resources for powers that are available under the DGSD. EFDI does not take a position regarding the preferred method to address this issue.

RECOMMENDATION M – EDIS AND ALTERNATIVE MEASURES

- EFDI considers that the principle of cost-neutrality within EDIS should also be respected with regard to the use of alternative measures. This is a form of reciprocity that needs to be provided by the system.

N. Depositor Information

61. Public awareness of the most important design features of deposit insurance is key to avoid the occurrence of bank runs – the raison d’être of DGSs. Stimulated by the entry into force of the new DGS Directive (2015), DGSs have therefore intensified efforts to increase the availability of information for depositors on their DGS and, as a result, strengthen public awareness. In this regard, EFDI signals the importance of article 16 of the DGSD on depositor information, which harmonises how, what, and when banks should communicate concerning the DGS towards depositors. The information sheet set out in Annex I of the DGSD establishes a common and recognizable format to be used by banks to inform depositors.

62. EFDI notes that so far little discussion has taken place on how EDIS should be included in the information that is to be provided to depositors. In its preliminary position paper, EFDI clarified the importance of providing all depositors with the opportunity to contact a DGS in their

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15 See Council of the European Union, EDIS Progress report (State of play), 12 June 2018, 9819/18
own country speaking their own language.\textsuperscript{16} Given the fact that no reference is made to depositor information in the EDIS proposal, it is assumed that the current practice is maintained where local DGSs are by default the point of contact for depositors. This approach, which is in the interest of depositors, is supported by EFDI. That being said, it does seem necessary to include certain information on the role of EDIS within the DGS framework in the standardised information templates. More specifically the information provided to depositors should reveal: a) in case EDIS operates solely as liquidity provider, national DGSs are backed by EDIS, b) to the extent EDIS obtains loss-absorbing capacity, deposits are protected by EDIS. This could be achieved through simple solutions, but the bottom line is to make sure that depositors actually become aware of the existence of EDIS. An awareness campaign would provide added value in enhancing depositors’ confidence.

\begin{center}
\textbf{RECOMMENDATION N – DEPOSITOR INFORMATION AND EDIS}
\end{center}

- EFDI advises that the information provided to depositors should be consistent with the role of EDIS at a particular moment in time. This could be achieved through amendments of the standardised depositor information template of the DGSD and an awareness campaign. EFDI stands ready to contribute with specific suggestions, based on the experience of its members with the template.

\section*{O. Miscellaneous observations}

63. When calculating the liquidity shortfall, the EC proposal takes into account the extraordinary contributions a borrowing DGS would raise within three days after it has been triggered. This requirement is laid down in article 41b(1)(b) of the draft proposal. This calculation applies even in those cases where the DGS would need those extraordinary contributions to finance the remaining shortfall after taking into account the funding that it is expected to receive from EDIS. This provision could therefore force the borrowing DGS to take more time to raise those contributions (i.e., beyond three days) in order to increase the amount of funding it can receive from EDIS, at the risk of delaying repayments to depositors.

64. After receiving a contribution from EDIS, a participating DGS has to report certain information on a daily basis to SRB. This requirement is laid down in article 41b(1)(b) of the draft proposal. The information to be reported to (amount repaid, use of the cash contribution, difficulties encountered…) does not look targeted and proportionate, while unduly diverting the

\textsuperscript{16} Indeed, the possibility for depositors to communicate with a DGS close to their home was a key motivation for the introduction of home-host-cooperation in the revised DGSD.
DGS attention from the crisis operations. Once pay-out to depositors has commenced, the reporting requirements do not change anything to the risk assumed by the DIF as the determination of the loss covered remains fully at the discretion of the Board. The information could be provided with a larger interval, on top of a more elaborate report to be established once the most non-complex deposit claims have been paid-out.

65. In the EC proposal, a borrowing DGS does not pay any interest on the loan it gets from the DIF. While it is understandable that no interest is billed on the part of the financing that the DIF will take in charge in the end through a loss-sharing, a borrowing DGS should, through an interest rate, bear the cost of the liquidity provided (i.e., opportunity costs because the DIF at that stage is not able to make a return on its funds through a conservative investment strategy). Moreover, applying an interest rate will motivate a DGS to reimburse the funding received in the shortest delay according to its capacity.

66. The limitations established in the EDIS proposal by the EC for re-insurance (articles 41a & 41c of the EDIS proposal) lead to a differential treatment of participating DGSs based upon the absolute size of their covered deposit base. Article 41a(4) of the proposal sets two limits for the liquidity support and for the excess loss to be covered by the DIF: 20% of the initial target level of the DIF and 10 times the target level of the participating DGS. Mixing parameters determined at the EU level on one hand and at the national level on the other hand, leads to differential access limits of national DGSs to the DIF resources. For instance, the proposed setting would enable the smallest DGSs to receive in the first-year of re-insurance already 8% of their covered deposits in funding from EDIS (i.e., 10 times the target level). Simultaneously, a large DGS that would represent one third of covered deposits within the Banking Union would only be able to receive approximately 0.21% of its covered deposits in funding from EDIS in the first-year of re-insurance.

67. When calculating the liquidity shortfall, the EC proposal doesn’t take into account any outstanding loans of the borrowing DGS. The calculation of the liquidity shortfall laid down in article 41b(1)(b) of the draft proposal uses the term “available financial means”. The DGSD’s current definition of “available financial means” does not exclude any borrowed amounts by the DGS. A DGS might have substantial “available financial means” intended for repayment right before the maturity of loans it borrowed for a large payout in the past, so as to be able to honor its borrowing commitments. In case of a new substantial payout event prior the maturity of the DGS’s loans, the DGS would not qualify for EDIS liquidity (or only for a lesser amount) due to its

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17 It is also noted that article 41p(2) does not contain a final date for the period during which the daily reporting requirement applies.

18 According to article 41a(4) of the EDIS proposal published by the EC, during the re-insurance stage the funding provided to a DGS cannot exceed 20% of the initial target level of the DIF. The initial target level is 20% of 4/9th of the sum of the minimum target levels of all participating DGSs (see article 74b(1)). Assuming that each participating DGS has a target level of 0.8%, the initial target level is 0.8% of the covered deposits of all participating DGSs. This equals approximately 0.07% of total covered deposits within the Banking Union. For a DGS that represents 1/3th of all covered deposits in the Banking Union, this limit therefore equals approximately 0.21% of its covered deposits.
borrowed resources which are included in the available financial means. It would then be forced to use the funds intended for loan repayment for the new payout and then would have to refinance its loans at the last moment, which could turn out to be very difficult and problematic. The participating DGS would therefore face an unequal treatment compared to other DGSs and would not be able to use EDIS liquidity support even though it has contributed to EDIS. That is why the determining of the depletion of funds at national level should take into account any borrowing received by participating DGSs (by deducting this from the available financial means), since participating DGSs also has to meet its commitments as borrowers.

**RECOMMENDATION O – MISCELLANEOUS**

- EFDI recommends not taking into account extraordinary contributions in the computation of the liquidity shortfall a DGS faces.
- The reporting requirements for participating DGSs towards the authority responsible for EDIS (e.g. the SRB) should be more targeted and proportionate.
- The liquidity support extended by the DIF and not taken in charge by the DIF as a consequence of loss coverage should bear an interest to cover opportunity costs.
- Limitations to the amount of funding that can be received from EDIS should only be formulated in terms of a percentage of covered deposits of the participating DGS.
- The definition of “available financial means”, as used for the calculation of the liquidity shortfall, should exclude any borrowing received by participating DGSs.
ANNEX I: AVAILABLE FUNDING UNDER DIFFERENT APPROACHES

Table 1 compares the funding available for hypothetical pay-out cases of respectively 0.4% and 0.8% of covered deposits under, first, the DGSD funding path and, second, the EDIS funding path as proposed by the original proposal of the EC.\(^\ast\) Under the DGSD, DGSs gradually have to build up a fund of (in most cases) 0.8% covered deposits within 9 years after 2016. This means for example that the available financial means of DGSs are expected to reach 0.36% of covered deposits in 2019. Table 1 shows that the funding path in the original EDIS proposal is a combination of the (remaining) resources available for participating DGSs and the resources available in the DIF. However, until full insurance is reached, a DGS can only access the DIF to cover part of its funding shortfall. For example, in 2019 it would have been the case that (at least) 0.28% of covered deposits under the participating DGS would still be available on the national level. This would leave the DGS with a liquidity gap of 0.12% (i.e., 0.4% - 0.28%). The liquidity gap would – given the proposed design of the re-insurance phase – be covered for 1/5\(^{\text{th}}\) by the DIF (i.e., EDIS). In total, the readily available funding, including EDIS resources, for a pay-out equal to 0.4% of covered deposits within a participating DGS, would be 0.3% of the covered deposits within the participating DGS. This would be a decrease compared to the resources that would originally have been available in a system without EDIS.

The key observation in table 1 is that for medium-sized pay-outs, the re-insurance and co-insurance phase in the original EDIS proposal provides a set-back in available funding. For small failures (e.g., a pay-out of less than 0.1% to 0.2% of covered deposits within a DGS), EDIS does not have much of an impact (unless there are subsequent failures within a DGS, because the national resources become depleted which leads to the risk that insufficient liquidity is provided by EDIS). For medium-sized failures, EDIS can reduce the amount of readily available funding, which forces a participating DGS to rely stronger on alternative funding arrangements. For large failures (e.g., greater than 0.8% of covered deposits), EDIS increase the amount of funding available although the other restrictions applicable to the re-insurance phase (see paragraph 35) should also be taken into account. Altogether, the proposed design conflicts with the criterium established in this report that all else being equal, the national available resources combined with the funds available for pay-out from the DIF should not be lower than in the absence of EDIS (criterium 3).

Table 2 discusses an alternative design of re-insurance and co-insurance, which reflects the new model suggested by the EC in late 2017. The Commission proposed that in a first re-insurance phase, EDIS would first cover up to 30% of the liquidity shortfall (in 2019), which subsequently would increase to 60% (2020) and 90% (2021). After a conditional transition, EDIS would move forward to co-insurance where full liquidity coverage would be provided. Table 2 shows that the

\(^{\ast}\) Calculations below are made under the assumption that the access to EDIS financing does not reach the limitations mentioned in paragraph 66.
alternative design improves the amount of resources available during the co-insurance phase. At the same time, it still conflicts with criterium 3 during the re-insurance phase.

Table 3 and 4 look at the issue from a different perspective, by comparing the liquidity available for a 500 million euro pay-out by a small, medium-sized or large DGS. While this is technically another way of formulating the scenario’s shown in table 1 and 2, it helps to understand the importance of the criterium that available resources should not be lower than in the absence of EDIS. Table 3 and 4 shows that:

- For a small DGS that only covers 10 billion euro in deposits, a 500 million euro pay-out is very sizeable. It would not be able to manage such a pay-out with a fund of 0.8% covered deposits. Under all circumstances, the funding made available improves the ability of the DGS to cover its funding needs. Nevertheless, in the original EC proposal (table 3), it is not until full insurance is provided that the readily available resources become sufficient to completely finance the pay-out. The alternative EC proposal (table 4) already covers all liquidity needs as of co-insurance.

- For a medium-sized DGS that covers 100 billion euro in deposits, the 500 million euro pay-out would equal 0.5% of covered deposits. As such, the DGSD requirements would ensure that during the build-up of the fund, the DGS would become able to fully cover the funding needs for such a pay-out. However, both in the original EC proposal (table 3) and the alternative proposal (table 4) there would be a setback during re-insurance (both proposals) and co-insurance (only the original EC proposal).

- For a large DGS that covers 1.000 billion euro in deposits, the 500 million euro pay-out is so small, that it would never be an issue to cover the funding needs.

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20 That being said, a 50 million euro pay-out would have the same (setback) effect on a small DGS as the 500 million euro pay-out has on a medium-sized DGS.

21 That being said, a 5 billion euro pay-out would have the same (setback) effect on a large DGS as the 500 million euro pay-out has on a medium-sized DGS.
### Table 1: Comparison between readily available funding under DGSD funding path and original EDIS proposal (2015/0270 (COD))

In percentage of deposits covered by participating DGS

<table>
<thead>
<tr>
<th>Phase</th>
<th>Year</th>
<th>DGSD Funding Path</th>
<th>EDIS Funding Path</th>
<th>Scenario 1: readily available funding for pay-out of 0,4% of covered deposits</th>
<th>Scenario 2: readily available funding for pay-out of 0,8% of covered deposits</th>
<th>Scenario 3: readily available funding for pay-out of 1,5% of covered deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>DGSD</td>
<td>EDIS</td>
<td>DGSD</td>
<td>EDIS</td>
<td>DGSD</td>
</tr>
<tr>
<td>No EDIS</td>
<td>2016</td>
<td>0,09%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0,09%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>0,18%</td>
<td>0,02%</td>
<td>0,14%</td>
<td>20%</td>
<td>0,18%</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>0,27%</td>
<td>0,05%</td>
<td>0,21%</td>
<td>20%</td>
<td>0,27%</td>
</tr>
<tr>
<td></td>
<td>2019</td>
<td>0,36%</td>
<td>0,07%</td>
<td>0,28%</td>
<td>20%</td>
<td>0,36%</td>
</tr>
<tr>
<td>Re-insurance</td>
<td>2020</td>
<td>0,44%</td>
<td>0,16%</td>
<td>0,28%</td>
<td>20%</td>
<td>0,40%</td>
</tr>
<tr>
<td></td>
<td>2021</td>
<td>0,53%</td>
<td>0,26%</td>
<td>0,26%</td>
<td>40%</td>
<td>0,40%</td>
</tr>
<tr>
<td></td>
<td>2022</td>
<td>0,62%</td>
<td>0,42%</td>
<td>0,20%</td>
<td>60%</td>
<td>0,40%</td>
</tr>
<tr>
<td></td>
<td>2023</td>
<td>0,71%</td>
<td>0,60%</td>
<td>0,11%</td>
<td>80%</td>
<td>0,40%</td>
</tr>
<tr>
<td>Co-insurance</td>
<td>2024</td>
<td>0,80%</td>
<td>0,80%</td>
<td>0%</td>
<td>100%</td>
<td>0,40%</td>
</tr>
<tr>
<td>Full</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0,80%</td>
</tr>
</tbody>
</table>

*) Calculated by multiplying the shortfall (required pay-out minus available funding at national level) with the maximum coverage of the shortfall by the DIF and adding this to funds available at national level. Green cells indicate an increase in readily available funding, red cells indicate a decrease. The example assumes that the participating DGS represents 5% of covered deposits within the banking union, implying that the limitations established in article 41a(4) do not restrict the amount of funding that can be provided.
### Table 2: Comparison between readily available funding under DGSD funding path and an alternative design for re-insurance and co-insurance (inspired by the Communication of 11 October 2017)

In percentage of deposits covered by (national) DGS

<table>
<thead>
<tr>
<th>Phase</th>
<th>Year</th>
<th>DGSD Funding Path</th>
<th>Potential EDIS Funding Path</th>
<th>Scenario 1: readily available funding for pay-out of 0,4% of covered deposits</th>
<th>Scenario 2: readily available funding for pay-out of 0,8% of covered deposits</th>
<th>Scenario 3: readily available funding for pay-out of 1,5% of covered deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>DGSD</td>
<td>DIF (BU)</td>
<td>DGS (national)</td>
<td>Max. coverage of shortfall by DIF</td>
<td>DGSD</td>
</tr>
<tr>
<td>No EDIS</td>
<td>2016</td>
<td>0,09%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0,09%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>0,18%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0,18%</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>0,27%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0,27%</td>
</tr>
<tr>
<td>Re-insurance</td>
<td>2019</td>
<td>0,36%</td>
<td>0,09%</td>
<td>0,27%</td>
<td>30%</td>
<td>0,36%</td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>0,44%</td>
<td>0,18%</td>
<td>0,27%</td>
<td>60%</td>
<td>0,40%</td>
</tr>
<tr>
<td></td>
<td>2021</td>
<td>0,53%</td>
<td>0,27%</td>
<td>0,27%</td>
<td>90%</td>
<td>0,40%</td>
</tr>
</tbody>
</table>

*Conditional transition from re-insurance to co-insurance*

<table>
<thead>
<tr>
<th>Year</th>
<th>DGSD Funding Path</th>
<th>Potential EDIS Funding Path</th>
<th>Scenario 1: readily available funding for pay-out of 0,4% of covered deposits</th>
<th>Scenario 2: readily available funding for pay-out of 0,8% of covered deposits</th>
<th>Scenario 3: readily available funding for pay-out of 1,5% of covered deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DGSD</td>
<td>DIF (BU)</td>
<td>DGS (national)</td>
<td>Max. coverage of shortfall by DIF</td>
<td>DGSD</td>
</tr>
<tr>
<td>2022</td>
<td>0,62%</td>
<td>0,44%</td>
<td>0,18%</td>
<td>100%</td>
<td>0,40%</td>
</tr>
<tr>
<td>2023</td>
<td>0,71%</td>
<td>0,62%</td>
<td>0,09%</td>
<td>100%</td>
<td>0,40%</td>
</tr>
<tr>
<td>2024</td>
<td>0,80%</td>
<td>0,80%</td>
<td>0%</td>
<td>100%</td>
<td>0,40%</td>
</tr>
</tbody>
</table>

*) Calculated by multiplying the shortfall (required pay-out minus available funding at national level) with the maximum coverage of the shortfall by the DIF and adding this to funds available at national level. Green cells indicate an increase in readily available funding, red cells indicate a decrease. The example assumes that at the end of the re-insurance phase, the DIF has to reach 50% of the target level established by the DGSD. It furthermore assumes that the conditional transition is not delayed due to the targets have not been met. Also, the example assumes that re-insurance commences in 2019.
Table 3: Comparison between small, medium and large member states of readily available funding for a 500 million euro pay-out under DGSD funding path and original EDIS proposal (2015/0270 (COD))

In percentage of deposits covered by participating DGS (unless stated otherwise)

<table>
<thead>
<tr>
<th>Phase</th>
<th>Year</th>
<th>DGSD Funding Path</th>
<th>EDIS Funding Path</th>
<th>Max. coverage of shortfall by DIF</th>
<th>Scenario: Liquidity coverage for a 500 mln. euro pay-out (in % of required liquidity need)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>DGSD (national)</td>
<td>EDIS</td>
<td></td>
<td>Member State A: Small DGS (10 bln. euro covered deposits)</td>
</tr>
<tr>
<td>No EDIS</td>
<td>2016</td>
<td>0,09%</td>
<td>-</td>
<td>-</td>
<td>2% -</td>
</tr>
<tr>
<td>Re-insurance</td>
<td>2017</td>
<td>0,18%</td>
<td>0,02%</td>
<td>0,14%</td>
<td>20% 4% 22%</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>0,27%</td>
<td>0,05%</td>
<td>0,21%</td>
<td>20% 5% 23%</td>
</tr>
<tr>
<td></td>
<td>2019</td>
<td>0,36%</td>
<td>0,07%</td>
<td>0,28%</td>
<td>20% 7% 24%</td>
</tr>
<tr>
<td>Co-insurance</td>
<td>2020</td>
<td>0,44%</td>
<td>0,16%</td>
<td>0,28%</td>
<td>20% 9% 24%</td>
</tr>
<tr>
<td></td>
<td>2021</td>
<td>0,53%</td>
<td>0,26%</td>
<td>0,26%</td>
<td>40% 11% 43%</td>
</tr>
<tr>
<td></td>
<td>2022</td>
<td>0,62%</td>
<td>0,42%</td>
<td>0,20%</td>
<td>60% 12% 62%</td>
</tr>
<tr>
<td></td>
<td>2023</td>
<td>0,71%</td>
<td>0,60%</td>
<td>0,11%</td>
<td>80% 14% 80%</td>
</tr>
<tr>
<td>Full</td>
<td>2024</td>
<td>0,80%</td>
<td>0,80%</td>
<td>0%</td>
<td>100% 16% 100%</td>
</tr>
</tbody>
</table>

*) Calculated by multiplying the shortfall (required pay-out minus available funding at national level) with the maximum coverage of the shortfall by the DIF and adding this to funds available at national level. Green cells indicate an increase in readily available funding, red cells indicate a decrease. The example assumes that the participating DGS represents 5% of covered deposits within the banking union, implying that the limitations established in article 41a(4) do not restrict the amount of funding that can be provided.
### Table 4: Comparison between small, medium and large member states of readily available funding for a 500 million euro pay-out under DGSD funding path and an alternative design for re-insurance and co-insurance (inspired by the Communication of 11 October 2017)

In percentage of deposits covered by (national) DGS (unless stated otherwise)

<table>
<thead>
<tr>
<th>Phase</th>
<th>Year</th>
<th>DGSD Funding Path</th>
<th>Potential EDIS Funding Path</th>
<th>Scenario: Liquidity coverage for a 500 mn. euro pay-out (in % of required liquidity need)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>DGS DIF (BU) (national)</td>
<td>DGS DGS by DIF</td>
<td>Member State A: Small DGS (10 bln. euro covered deposits)</td>
</tr>
<tr>
<td>No EDIS</td>
<td>2016</td>
<td>0,09%</td>
<td>-</td>
<td>2% - 18% 100%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>0,18%</td>
<td>-</td>
<td>4% - 36% 100%</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>0,27%</td>
<td>-</td>
<td>5% - 53% 100%</td>
</tr>
<tr>
<td>Re-insurance</td>
<td>2019</td>
<td>0,36%</td>
<td>0,09% 0,27% 30%</td>
<td>7% 34% 71% 67% 100% 100%</td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>0,44%</td>
<td>0,18% 0,27% 60%</td>
<td>9% 62% 89% 81% 100% 100%</td>
</tr>
<tr>
<td></td>
<td>2021</td>
<td>0,53%</td>
<td>0,27% 0,27% 90%</td>
<td>11% 91% 100% 95% 100% 100%</td>
</tr>
</tbody>
</table>

Conditional transition from re-insurance to co-insurance

| Co-insurance | 2022 | 0,62% | 0,44% 0,18% 100% | 12% 100% 100% 100% | 100% 100% |
|             | 2023 | 0,71% | 0,62% 0,09% 100% | 14% 100% 100% 100% | 100% 100% |
|             | 2024 | 0,80% | 0,80% 0% 100%    | 16% 100% 100% 100% | 100% 100% |

*) Calculated by multiplying the shortfall (required pay-out minus available funding at national level) with the maximum coverage of the shortfall by the DIF and adding this to funds available at national level. Green cells indicate an increase in readily available funding, red cells indicate a decrease. The example assumes that at the end of the re-insurance phase, the DIF has to reach 50% of the target level established by the DGSD. It furthermore assumes that the conditional transition is not delayed due to the targets have not been met. Also, the example assumes that re-insurance commences in 2019.
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