



Cooperation between authorities Preserving the relevance of deposit guarantee in Europe

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Content of this presentation

1. Efficient cooperation with other DGSs and authorities is key to preserving relevance for DGSs in Europe
2. EBA Guidelines on written cooperation agreements

1. COOPERATION IS KEY TO PRESERVING RELEVANCE OF DGS

Primary missions of deposit insurance

- Ex ante (before failure or distress)
 - Reassure depositors about safety of banking sector
 - Reassure depositors about reliability of internal market in banking
- Ex post
 - Reimburse covered deposits in liquidation
 - Support resolution funding to ensure continuity in access

A link in broader chain of financial safety & stability chain (1)

1 - Part of a broader safety net (supervisor, resolution authority, lender of last resort...)

- Cooperation with banking supervisor

DGS eminently linked to financial distress of banks.

Art 4(10): *'MS shall ensure that ... DGSs are informed as soon as possible in the event that the competent authorities detect problems in a credit institution that are likely to give rise to the intervention of a DGS'*. Pb: no overview of cooperation arrangements in this field.

DGS triggered by DA and deposits 'unavailability', not by banking licence withdrawal. Cf. 2014 EBA KTB Recommendation.

Cooperation to address deficiencies of institutions in relation to DGS (e.g. not paying contributions, not providing quality data on SCV files etc.)

- Cooperation with resolution authorities

BRRD and DGSD 2014: recent recognition of DGS role in resolution (even though 12 schemes already had broader mandates)

DGS contributes pro quota of losses. DGS contribution follows resolution authority's decision and determination. But also need to feed in the process of ascertaining the amount of covered deposits.

Uncertainties: cap on DGS use for resolution, effective funding available and impact of depositor preference

A link in broader chain of financial safety & stability chain (2)

2- A member of a « European system of deposit guarantee schemes »

- Article 26 EBA Regulation (2010):

'The Authority shall contribute to strengthening the European system of national deposit guarantee schemes ... ensuring that national deposit guarantee schemes

- *are adequately funded by contributions from financial institutions*
- *provide a high level of protection to all depositors in a harmonised framework throughout the Union'*

- **Repayment of depositors at branches**

Home advances funds. Need to agree on transmission channels, payment modalities, currency, repayment periods etc. Role of written cooperation agreements and mediation.

- **Resolution of cross border groups**

DGS contributes to the extent resolution action is applied to entities in its jurisdiction.

Banking Union: imbalance between national DG and integrated supervision and resolution

- **Building up the « big bazooka »**

0,8% of cov. dep DE +/- = EUR 13 Bn. 0,8% Eurozone cov dep +/- = EUR 42,8 Bn.

Conclusion

DGS cannot be the weakest link in the chain, otherwise it will be bypassed, or worse, could hinder financial stability:

- If not available in resolution (cap)
- If does not have enough funds
- If does not cooperate quickly and efficiently in crossborder payment
- If disturbs the integrated resolution decision within the Banking Union.

But no need worry, it is NOT the weakest link and there is much reflection to improve the situation!

- Stress tests and cooperation agreements
- Five Presidents report

2. REMARKS ON THE DRAFT GUIDELINES ON WRITTEN COOPERATION AGREEMENTS

Rationale for developing guidelines

- Deposit Guarantee Schemes Directive (DGSD) stipulates that the DGSs (or designated authorities) shall have written cooperation agreements in place.
- According to the DGSD, where parties cannot reach an agreement or there is a dispute about its interpretation, parties may ask for EBA binding mediation.
- Need to ensure a common and consistent approach to such agreements to ensure effective cooperation in case of bank failure and facilitate consistent mediation.
- According to DGSD, the agreements must cover at least the modalities for:
 - repaying depositors by the host DGS at branches of credit institutions headquartered in other Member States,
 - the transfer of contributions from one DGS to another in case a credit institution ceases to be a member of a DGS and joins another DGS, and
 - mutual lending between DGSs.

Background and timeline

Background:

- EBA Management Board and BoS decide the EBA should issue GLs on cooperation agreements between DGSs, including a framework agreement.– February 2015.
- EBA Project Team comprised of members from designated, competent and resolution authorities develops the consultation paper (CP) on the GL – April-May 2015
- SCRePol, ResCo and the Board of Supervisors approve the CP – June-July 2015
- Consultation published – 29 July 2015

Next steps:

- Public hearing on the consultation paper – 7 October 2015
- End of consultation – 29 October 2015
- Aim to publish the final GLs in Q1 2016, with translations ready by Q2 at the latest
- Cooperation agreements to be concluded 6 months after publication in all languages (end of 2016)

Content of the GLs

Content of the GLs:

- 1) Payouts in branches,
 - 2) transfer of contributions between DGSs, and
 - 3) lending between DGSs
- Within each of the three key areas the GLs include **minimum core elements** to be included in the cooperation agreements, and, where options are available, suggest the preferred approach.
 - Aim: balance between the need for flexibility given the diversity of DGS models on the one hand, and the need for harmonisation and comparability of cooperation agreements across the EU
 - Particular focus on the detail of payout in branches in other Member States
 - EBA keen to get your input on the technicalities and operational feasibility

Content of the GLs

The case for multilateral agreements

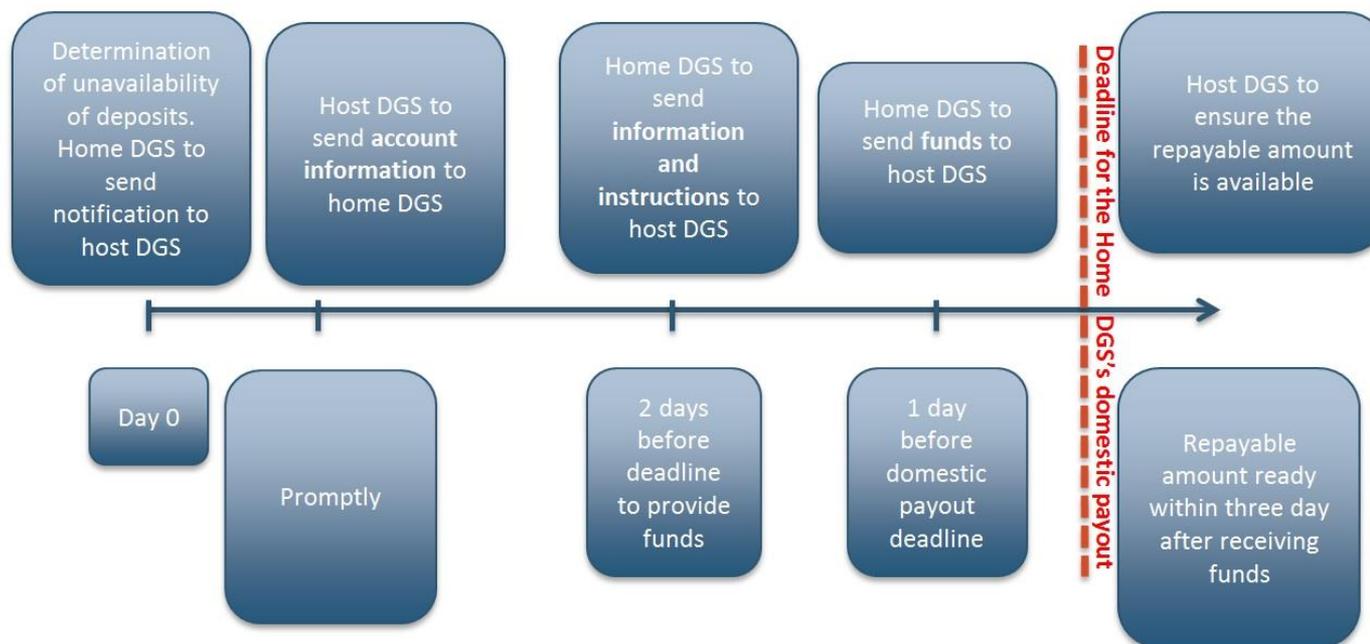
- Avoid signing hundreds of bilateral agreements, the GLs include a multilateral framework cooperation agreement which should be adhered to.
- Where parties to the agreement intend to go beyond the terms of the framework, they can enter into bilateral agreements as long as they comply with the GLs and do not contradict its terms and conditions.
- Bilateral agreement can either serve as:
 - a supplement to the multilateral framework, or
 - as a stand-alone bilateral agreement
- EBA recognises EFDI's work in this area and seeks to align the GLs and the multilateral framework with EFDI templates

Content of the GLs

Payout deadlines

- To ensure that depositors in EU branches are treated similarly to depositors in the home Member State, the GLs provide further guidance on the sequence and timing of payout.
- The deadline for home DGS providing all the instructions, information and funding to the host DGS is one day less than in home DGS's domestic payout (with interim deadlines for separate elements). The GLs then encourage the host DGS to be prepared for payout in 3 days – so 9 days in total.

Box 1. Timeline for payout in branches.



Content of the GLs

Other key areas of the GLs

Costs of living payout

- The home DGS should '**strive**' to provide the host DGS with all the necessary information and funds within three working days after receiving the request from the depositor for a cost of living payout or after being notified by the host DGS.
- Furthermore, where the full payout is imminent, the DGSs may agree to forgo partial payout in the interest of ensuring prompt full payout in a cross-border context.

Currency of repayment

- The cooperation agreement should specify that the currency of the repayment shall be the currency **determined under the law of the home DGS** and should be communicated by the home DGS to the host DGS.
- Where the law of the home DGS allows for a choice between several currencies and where that choice includes the option to use the currency of the host DGS, that option should be used.
- This should minimise the risk of the depositors bearing additional risk of currency exchange rates.

THANK YOU



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