Final Report

On Guidelines (revised)

on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2015/10

Contents

1. Executive Summary

Directive 2014/49/EU on Deposit Guarantee Schemes (DGSD) mandates the EBA to develop Guidelines on methods for calculating contributions to Deposit Guarantee Schemes (DGSs) and to review them at least every 5 years.

As part of the latest review of the Guidelines in 2021-2022, the EBA analysed whether the approach to determine the riskiness of institutions of the original Guidelines published in 2015 is appropriate. In particular, the EBA analysed whether institutions that required DGS interventions were among the riskiest according to the Guidelines' methodology. The findings showed that institutions that became subject to a DGS intervention since 2015 were mostly categorised among the riskiest members of their DGS. Thus, the EBA concluded that, overall, the methodology remains appropriate.

Nonetheless, the EBA identified several elements of the calculation method that should be improved. The EBA, therefore, issued a Consultation Paper in July 2022 in which it proposed targeted amendments. The most substantial amendments are to readjust elements of the formulas to calculate the contributions to address technical issues identified in the course of the review; specify how to account for specific types of deposits where the DGS coverage is subject to uncertainty, including in relation to client funds; and require DGSs to regularly review the calibration of the calculation method against prudential benchmarks.

In the context of the public consultation on the draft Guidelines, which the EBA conducted between July and October 2022, the EBA received comments from thirteen respondents. Having assessed the arguments brought forward in the 13 consultation responses received, the EBA has concluded to go ahead with the amendments and to also provide additional guidance on how to apply a stock-based approach to calculating contributions. The stock-based approach, in contrast to the frequently applied flow-based approach, takes into account past contributions of member institutions. Furthermore, the EBA has decided to move, and further refine, the current requirement on the forward-looking approach to raising contributions from the EBA Guidelines on the delineation and reporting of available financial means (AFM) of Deposit Guarantee Schemes to these revised Guidelines on methods for calculating contributions to DGSs.

Taken together, these revised Guidelines introduce more clarity for DGSs and improve the method on how to calculate contributions in a risk-sensitive way and to meet the target level of the DGS fund.

Next steps

The revised Guidelines on methods for calculating contributions to DGSs shall apply from 3 July 2024.

2. Background and rationale

2.1 Background

1. Article 13(3) of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (DGSD)[1] mandates the EBA to issue Guidelines pursuant to Article 16 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (EBA Regulation)[2] to specify methods for calculating the contributions to DGSs in accordance with Article 13(1) and (2) of the DGSD. To that end, the EBA issued Guidelines EBA/GL/2015/10 on methods for calculating contributions to DGSs on 22 September 2015[3], which had to be implemented by 31 May 2016.

2. Article 13(3) of the DGSD further requires the EBA to conduct a review of said Guidelines every 5 years with the first review to be conducted by 3 July 2017. The EBA published the EBA Report on the implementation of the EBA Guidelines on methods for calculating contributions to DGSs ('First review')[4] on 17 January 2018. In that report, the EBA made specific recommendations for revising the current Guidelines. It however stated that the findings were preliminary, given the limited experience of operating the risk-based contribution systems among most DGSs, and data covering only 1 year of risk-based contributions and thus did not revise the Guidelines at the time.

3. Furthermore, following the first review, the EBA identified a number of issues, outlined in the following publications:

   – the EBA Opinion on the eligibility of deposits, coverage level and cooperation between deposit guarantee schemes ('Opinion on eligibility')[5], published on 8 August 2019;

   – the EBA Opinion on deposit guarantee scheme payouts ('Opinion on payouts')[6], published on 30 October 2019;

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[1] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0049

[2] https://eur-lex.europa.eu/eli/reg/2010/1093/

[3] https://www.eba.europa.eu/sites/default/documents/files/documents/10180/1089322/fa336fb5-7264-4381-9eee-cb2144b489e9/EBA-GL-2015-10%20GL%20on%20methods%20for%20calculating%20contributions%20to%20DGS.pdf?retry=1

[4] https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2087449/8ce11a43-d0ee-4550-900f-5e3608ba2682/Report%20on%20the%20implementation%20of%20the%20EBA%20Guidelines%20on%20methods%20for%20calculating%20contributions%20to%20DGS.pdf?retry=1

[5] https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2622242/324e89ec-3523-4c5b-bd4f-e415367212bb/EBA%20Opinion%20on%20the%20eligibility%20of%20deposits%20coverage%20level%20and%20cooperation%20between%20DGSs.pdf?retry=1

[6] https://www.eba.europa.eu/sites/default/documents/files/document_library/EBA%20Opinion%20on%20DGS%20Payouts.pdf

– the EBA Opinion on deposit guarantee scheme funding and uses of deposit guarantee scheme funds[7] ('Opinion on funding'), published on 23 January 2020; and

– the EBA Opinion on the treatment of client funds under the DGSD ('Opinion on client funds')[8], published on 27 October 2021.

4. As a result, at the time of the second review carried out 5 years later (2021-2022), the EBA decided to revise the current Guidelines, based on the issues previously identified and on the additional analysis carried out in 2021-2022, and published a Consultation Paper on draft Guidelines (revised) on methods for calculating contributions to DGSs on 29 July 2022. A public hearing was held on 29 September 2022 before the end of the consultation period on 31 October 2022, by which time the EBA had received 13 responses which have been assessed in detail in the feedback table in Section 4.2 of this Final Report.

5. The following Rationale section provides an overview of the key changes made following the public consultation compared to the proposal that was presented in the Consultation Paper.

2.2   Rationale

6. In order to review the implementation of the Guidelines, and to identify any potential areas for improvement, the EBA had conducted – prior to issuing the Consultation Paper – a survey among national competent authorities (including DGS designated authorities) and DGSs to gather relevant information on the calculation methods used at national level. The survey covered, among other areas, all the elements to calculate the aggregate risk score (ARS) and aggregate risk weight (ARW), past DGS interventions to reimburse depositors or stabilise an institution, the risk that credit unions represent, the use of deposit brokerage platforms to attract deposits and the associated risk.

7. Out of the 30 European Economic Area (EEA) Member States, 25 responded, for a total of 30 out of 36 DGSs (at the time of the survey). Furthermore, the EBA analysed 39 cases of DGS interventions since 2015, where DGSs used their funds, for instance by reimbursing depositors or supporting the restructuring of an institution by issuing a guarantee. These constitute the vast majority of DGS interventions since 2015. To note is that this figure is not to be confused with the number of failures of credit institutions, as not all institutions subject to a DGS intervention failed and not all institutions that failed were subject to a DGS intervention.

8. As a result of the review, the EBA had proposed in the Consultation Paper to:

– Set minimum thresholds for the majority of core risk indicators. This will avoid situations where a credit institution does not meet the prudential requirements linked to a core

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[7] https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2020/EBA%20Opinion%20on%20DGS%20funding%20and%20uses%20of%20DGS%20funds.pdf

[8] https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2021/1022906/EBA%20Opinion%20on%20the%20treatment%20of%20client%20funds%20under%20DGSD.pdf

indicator but is nevertheless not classified as 'high-risk'. The proposed minima will eliminate such instances. It will also improve risk differentiation among credit institutions.

– Adjust the minimum weights of the core risk indicators based on empirical evidence, to better reflect the indicators' performance in measuring the risk to the DGSs.

– Replace the formula for determining the risk adjustment factor of each member institution to remedy an issue in the Guidelines where – in relative terms – the DGS contribution of a credit institution can decrease despite increasing its riskiness. The new exponential formula ensures a constant relationship between the riskiness of institutions and their DGS contributions.

– Specify how to account for deposits where the DGS coverage is subject to uncertainty, including in relation to client funds. This change aims to ensure closer alignment between the amount of covered deposits and the contributions of the credit institution.

– Require DGSs to regularly review the calibration of the calculation method against prudential benchmarks, ensuring the method remains adequate and up to date.

– Clarify the addressees of the Guidelines and their respective roles.

9. Following the public consultation, and in view of the key concerns that have been raised and requests for clarification that have been made by respondents, the EBA introduced the following changes to the Guidelines:

– providing guidance on how to apply a stock-based contribution method in addition to the flow-based contribution method in Section 4.6.iii); and

– clarifying the forward-looking approach to raising contributions in paragraph 17.

10. In the subsections below, this Final Report explains in detail these two changes that the EBA has introduced as a result of the arguments raised in the responses to the public consultation.

11. Additionally, the EBA has introduced other editorial amendments that were not sufficiently substantial or impactful to elaborate on them in this section. Therefore, these have been covered and explained in detail in the feedback table at the end of the Final Report.

12. Finally, the EBA emphasises that the Guidelines will also remain relevant after 3 July 2024, the deadline by which the DGS should meet the target level for the first time, because a) the target level will grow after 3 July 2024 with an increase in aggregate covered deposits and b) following a DGS intervention, the target level will need to be reached again. In both cases, DGSs will continue to raise risk-based contributions.

2.2.1 Apply a stock-based contribution method in addition to a flow-based contribution method

13. One respondent argued that the flow-based contribution method should be either replaced or complemented by a stock-based contribution method. The respondent argued that in the 'flow-based' system, the risk associated with a growth of deposits is not allocated to the respective credit institution, but rather distributed among all member institutions of the DGS.

14. Having assessed that response, the EBA has concluded that nearly all DGSs use the flow-based method to calculate the contribution of an institution on a yearly basis, based on the covered deposits and risk indicators of that institution at a specific date and independently of previous contributions of that institution. The stock-based contribution method that a few DGSs apply also enables DGSs to calculate contributions based on the covered deposits and risk indicators of an institution at a specific date, but in contrast to the flow-based method, does it by also reflecting the aggregate of each institution's contributions of previous periods. In this method, the sum of all contributions of an institution represents the 'stock' of contributions.

15. Under the stock-based approach, to reach the DGS fund's minimum target level of 0.8% of covered deposits, each institution should contribute a total of 0.8% of its covered deposits, multiplied by its most recent ARW. The same applies accordingly if an exception is granted according to Article 10(6) DGSD. Once the DGS fund's minimum target level is reached and yearly aggregate contributions of all member institutions amount to zero, individual institutions may still have to pay contributions if their risk profile increase or their covered deposits grow, while institutions with diminishing risk or decreasing deposits would get credit for future contributions or possibly a refund. In contrast, in the flow-based method, if the minimum target level is reached, there is no obligation to collect further contributions from any institution as long as aggregate covered deposits do not increase.

16. While the flow-based contribution method may be simpler to apply as it does not require keeping meticulous account of the contributions as well as the adjustments to the stock of contributions of individual member institutions, the stock-based method allows to adjust for fluctuations of the covered deposits and the riskiness of each institution over time, even after the target level has been reached.

17. In terms of risk adjustment, the stock-based method always accounts for the current risk profile of a credit institution while ignoring past risk assessments. As a result, especially after the target level has been reached, paid-in contributions can be viewed as a deductible in a future period. The penalisation for a high-risk bank and thus the benefit received by a low-risk bank does not have permanent consequences, in contrast to the flow-based method, which always accounts for the risk profile of a credit institution at the time the contribution is levied.

18. With a view that DGSs are required to reach the target level in 2024, the flow-based approach could lead to the situation that institutions do not have to pay significant amounts of contributions anymore, even if their risk profile increases, unless the DGS continues levying contributions beyond the target level, or if DGS funds are used and need to be replenished. By

contrast, the stock-based approach would enable DGSs to continue levying contributions, thereby accounting for shifts in the riskiness of institutions and their changing market shares of covered deposits even if neither aggregate covered deposits nor the target level change, and DGS funds are not used for a DGS intervention.

19. The current Guidelines do not explicitly refer to the use of the stock-based contribution method. Nevertheless, some DGSs are already applying it, and based on the responses to the public consultations, other DGSs may be considering applying such a method too. Thus, based on the suggestion that had been made by the respondent, the EBA decided to amend the revised Guidelines to explicitly outline how to apply the methodology to such systems and thereby ensure harmonisation of the methods used by DGSs across the EU. To that effect, the EBA introduced a new subsection (iii) under Section 4.6 to modify the calculation formula in paragraph 14 and 16 to explicitly outline how to apply the stock-based approach, should a DGS chose to use it. Furthermore, the EBA is of the view that the difference between the flow-based method and the stock-based method also needed to be made clearer and thus clarified paragraph 16 on the periodic target level.

20. Furthermore, the EBA concluded that the stock-based approach should allow for a safeguard, which is not necessary under the flow-based approach. The advantages of the stock-based approach described in paragraph 17 and 18, i.e. the reactiveness of contributions to changes to the risk profile and covered deposits of a member institution can have destabilising effects without a safeguard. For example, if a member institution's risk profile increases from an ARW of 1 to 1.25 – all other things being equal – that could lead to an increase of roughly one quarter to the stock of its contributions, while it would be only a fraction of that under the flow-based approach. In an adverse scenario, if the increase in contributions is strong enough, this can have a destabilising effect on some member institutions. Therefore, the EBA concluded that under the stock-based approach, there is a need to enable DGSs to apply a smoothening mechanism so that an increase in contributions does not become too burdensome for individual member institutions. To that end, the EBA decided to allow competent authorities in cooperation with designated authorities to require DGSs to take the (weighted) average of the ARW and covered deposits over a few periods when calculating contributions of all member institutions. This would soften the impact of a temporary strong fluctuation of the ARW or covered deposits on the contributions of each member institution. If the changes to the risk profile or covered deposits of a member institution are of a more permanent nature, the contributions will eventually adjust to that new situation. Under the flow-based approach such a mechanism is not necessary, as the periodic contributions are much smaller and changes in covered deposits or the ARW do not have an effect on previously paid contributions.

2.2.2 Clarify the forward-looking approach to raising contributions

21. Some respondents argued that the forward-looking approach to raising contributions in paragraph 17 of the Guidelines in the Consultation Paper sets stricter requirements than the DGSD. In their view, the provision would require loan repayments to be limited in time in order

to maintain the two-thirds target level and the 6-year replenishment period of the DGSD should be used.

22. The EBA had already introduced this requirement in the Guidelines on the delineation and reporting of AFM of DGS (EBA/GL/2021/17).[9] Consequently, by including this requirement in paragraph 17 of the Guidelines on DGS contributions, the EBA did not introduce a new requirement but merely moved it from one set of Guidelines and placed it in more suitable Guidelines as this provision touches upon the calculation of contributions. To avoid duplication of requirements, the EBA decided to delete the same provision from the Guidelines on the delineation and reporting of AFM of DGS (paragraph 21).

23. The rationale for including the provision in paragraph 17 is to set a requirement that DGSs should apply a forward-looking plan when raising contributions, i.e. that DGSs should not only raise sufficient contributions to meet the target level at the deadline required by the DGSD in a reliable manner, but additionally, in the course of the period to reach the deadline, raise sufficient contributions so that qualified available financial means (QAFM) and other AFM are enough to service outstanding liabilities when these become due to avoid the risk of not being able to meet the deadline. Furthermore, the aim of the provision is to prevent that the servicing of a liability leads to an artificial extension of the deadline to meet the target level. This could occur if foreseeable loan repayments of a DGS were structured in such a way that the DGS first exceeded and then breached the two-thirds threshold again. According to Article 10(2) subparagraph 3 of the DGSD, this could start a new 6-year period to meet the deadline. The provision in paragraph 17 of the Guidelines is intended to only affect loan repayments that are *foreseeable* after the DGS intervention has been carried out and that can be planned for with a usual time horizon of more than 1 year, in contrast to unforeseeable events such as a new DGS intervention. Finally, the forward-looking plans should ensure that in cases where a DGS still has a liability after the DGSD-mandated deadline to reach the target level, it raises enough contributions in advance of any further loan repayments to be able to repay them without reducing the level of QAFM below the DGSD-mandated target level.

24. Nevertheless, the EBA agreed with the respondent that the provision is not sufficiently clear. For instance, the proposed paragraph 17 in the Consultation Paper may have been misleading in that it suggested that the periodic target level must be higher than the minimum under paragraph 16 and cannot be equal to that minimum, which is not strictly necessary and depends on the time horizon by when the outstanding liability must be at least partly repaid. Also, the further provisions that were proposed in the Consultation Paper do not indicate sufficiently clearly how they should be applied. The EBA thus decided to improve the clarity of paragraph 17 by reformulating the requirements so that 'the foreseeable servicing of the liability does not lead to undershooting vis-à-vis the funding path of QAFM and that by the time the target level

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[9] https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2021/EBA-GL-2021-17%20GL%20on%20delineation%20and%20reporting%20AFM/1025710/Final%20report%20on%20GLs%20on%20delineation%20and%20reporting%20of%20AFMs.pdf

has to be reached again, the foreseeable servicing of the liability does not, on its own, reduce the DGS's QAFM below the target level.'

25. The funding path of QAFM follows from the application of paragraph 16 and is exemplified in Figure 1 below. In this example, a DGS intervention occurs in year 0 and depletes all the DGS's funds. Following Article 10(2) subparagraph 3 of the DGSD, the DGS has 6 years to meet the target level again. In that period, the DGS's QAFM should increase according to the funding path, represented by the thick black line. Besides using all the DGS's QAFM, the DGS also needs to take a loan. This loan has to be repaid over 8 years in three scheduled instalments in years 2, 4 and 8. It is assumed that aggregate covered deposits do not increase over the 8 years. The application of paragraph 17 would mean that the DGS should not see its QAFM fall below the funding path.

26. In the example, the DGS's raising of contributions and repayment of the loan is represented by the blue line. The DGS would be compliant with paragraph 17 in year 1 and 2 as it would raise more contributions than the minimum required under paragraph 16, so that when it has to make the first loan repayment, its QAFM do not fall below the funding path. In year 3 and 4, however, the contributions would not be sufficient to make the loan repayment in year 4 and still adhere to the funding path, hence the DGS would not be compliant with the Guidelines. In consequence of this breach of compliance, in year 4 and 5 the DGS's QAFM would be below the funding path. At the deadline in year 6 the DGS's QAFM meets the target level but continues raising contributions thereafter in anticipation of the final loan repayment. As a result, in line with the Guidelines, the DGS would be able to make the final loan repayment without breaching the target level.

Figure 1: Example of the funding path after a DGS intervention
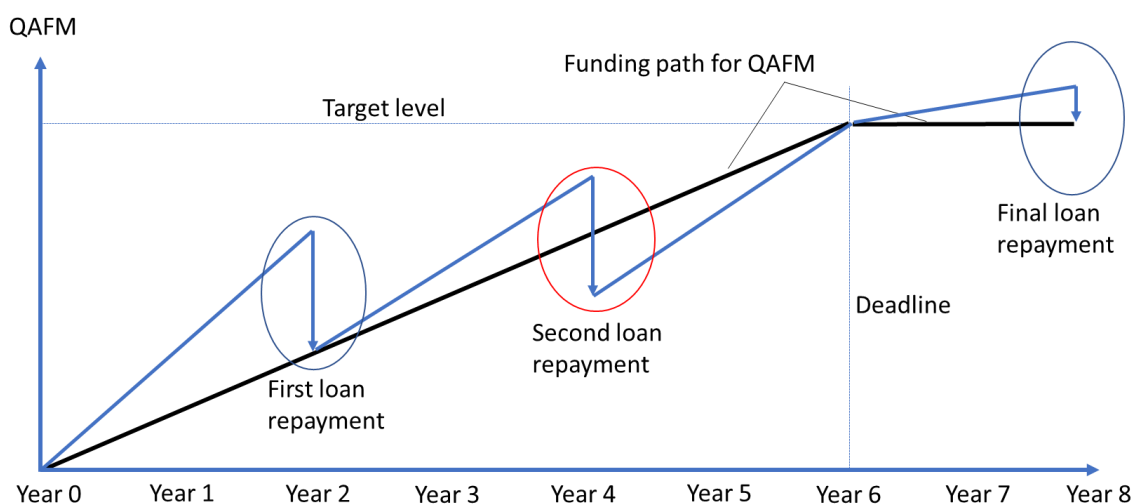
27. The EBA also concluded that with the proposed clarification of paragraph 17, it is no longer necessary to include the requirement from paragraph 17b of the Consultation Paper, which requires that the DGS raises enough contributions so that the two-thirds threshold is not breached due to foreseeable loan repayments within the 6-year period to meet the target level

again. The purpose of this provision was to prevent the artificial extension of the 6-year period. If the DGS complies with the provisions in paragraph 17 in this Final Report, even if in a given year the two-thirds threshold is exceeded and then breached again because of the foreseeable servicing of a loan, this will not lead to changing the time the DGS will take to reach the target level as the funding path anticipates reaching the target level within the initial 6-year period. Consequently, the EBA amended the wording in paragraph 17.

EBA/GL/2023/02

21/02/2023

3. Guidelines (revised)

on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU, repealing and replacing Guidelines EBA/GL/2015/10

1. Compliance and reporting obligations

Status of these Guidelines

1. This document contains Guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010[10]. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the Guidelines.

2. Guidelines set the EBA view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010 to whom Guidelines apply should comply by incorporating them into their practices as appropriate (e.g., by amending their legal framework or their supervisory processes), including where Guidelines are directed primarily at institutions.

Reporting requirements

3. According to Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA as to whether they comply or intend to comply with these Guidelines, or otherwise with reasons for non-compliance, by [dd/mm/yyyyy]. In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website with the reference 'EBA/GL/2023/02'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities. Any change in the status of compliance must also be reported to EBA.

4. Notifications will be published on the EBA website, in line with Article 16(3).

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

2. Subject matter, scope and definitions

Subject matter

5. These Guidelines fulfil the mandate given to the EBA under Article 13(3) of Directive 2014/49/EU[11] (DGSD), to issue Guidelines to specify methods for calculating contributions to DGSs.

Scope of application

6. These Guidelines apply in relation to the development of methods for calculating risk-based contributions of member institutions to a DGS.

7. Competent authorities in cooperation with designated authorities should ensure that these Guidelines are applied by DGSs when developing methods for calculating risk-based contributions by their member institutions and apply them when approving these calculation methods in accordance with Article 13(2) of the DGSD.

8. Where the competent authorities in cooperation with the designated authorities are responsible for developing and/or applying the calculation method, they should apply the provisions of these Guidelines.

9. These Guidelines do not apply to the branches of third-country credit institutions. Nevertheless, competent authorities in cooperation with designated authorities may choose to apply these Guidelines to third-country branches also.

Addressees

10. These Guidelines are addressed to deposit guarantee schemes, competent authorities and designated authorities as defined in Article 2(1)(1), (17) and (18) of the DGSD (and as referred to in Article 4(2), points (i) and (iv) of Regulation (EU) 1093/2010).

Definitions

11. Unless otherwise specified, terms used and defined in the DGSD have the same meaning in the Guidelines. In addition, for the purposes of these Guidelines, the following definitions apply:

Calculation method	means the method for calculating contributions of member institutions to a DGS.
DGS intervention	means any action taken by the DGS that requires the use of DGS funds, to fulfil its duties to protect covered deposits in accordance with Article 11 of the DGSD. These include, but are not limited to, a reimbursement of

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[11] Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (recast) (OJ L 173/149, 12.6.2014, p.149).

	depositors following the failure of a member institution, a DGS contribution to resolution financing, providing a capital injection, guarantee or taking over liabilities of an ailing or failing institution to prevent its failure or alternative measures to preserve the access of depositors to covered deposits.
Member institution	means a credit institution, as defined in point (1) of Article 4(1) of Regulation (EU) No 575/2013[12], affiliated to a particular DGS.
Other available financial means (other AFM)	as defined in the EBA Guidelines on the delineation and reporting of available financial means (AFM) of Deposit Guarantee Schemes (DGS) (EBA/GL/2021/17), published on 17 December 2021.
Qualified available financial means (QAFM)	as defined in the EBA Guidelines on the delineation and reporting of available financial means (AFM) of Deposit Guarantee Schemes (DGSs) (EBA/GL/2021/17), published on 17 December 2021.
SREP	means the supervisory review and evaluation process as described in Article 97 of Directive 2013/36/EU[13] and further specified in the EBA Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU.

3. Implementation

Date of application

12. These Guidelines apply from 3 July 2024. The addressees may apply these Guidelines instead of EBA/GL/2015/10 already at an earlier date of their own choosing, after the date of publication on the EBA's website of the Guidelines in all EU official languages (date of issuance of the Guidelines).

Repeal

13. The Guidelines EBA/GL/2015/10 are repealed with effect from 3 July 2024.

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[12] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012, OJ L 176, 27.06.2013, p. 1.

[13] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

4. Guidance on developing methods for calculating contributions to DGSs

4.1. Calculation formula

14. The DGS should set the periodic contributions of a member institution 'i' by using the following formula.

$$C_i = CR * ARW_i * CD_i * \mu$$

Where:

C_i	=	Periodic contribution from member institution 'i'
CR	=	Contribution rate (identical for all member institutions in a given period)
ARW_i	=	Aggregate risk weight for member institution 'i'
CD_i	=	Covered deposits for member institution 'i'
μ	=	Adjustment coefficient (identical for all institutions in a given period)
i	=	member institution 'i', ranging from 1 to 'n'.

4.2. Contribution rate (CR)

15. The DGS should determine the CR at least annually. The CR for a given period should be:

$$CR = \frac{periodic\ target\ level}{\sum_{i=1}^{n} CD_i}$$

16. At minimum, the DGS should set the periodic target level according to the result of the following formula where the denominator needs to be at least equal to 1:

$$(minimum)\ periodic\ target\ level =$$

$$\frac{minimum\ target\ level - qualified\ available\ financial\ means\ (QAFM)}{remaining\ number\ of\ periods\ until\ the\ minimum\ target\ level\ has\ to\ be\ reached\ in\ acccordance\ with\ Article\ 10(2) of\ the\ DGSD}$$

17. Where the DGS has an outstanding liability, and taking into account the minimum requirement under paragraph 16, the DGS should set the periodic target level in order to raise enough contributions in a forward-looking manner so that the resulting levels of qualified available financial means (QAFM) and other available financial means (other AFM) are sufficient for servicing the outstanding liabilities as soon as these liabilities are due, as well as for reaching

the target level at the deadline, set out in Article 10(2) of the DGSD. When setting the periodic target level, the DGS should ensure both of the following:

a. that the foreseeable servicing of the liability does not lead to undershooting vis-à-vis the funding path of QAFM that follows from the application of paragraph 16; and

b. that by the time the target level has to be reached again in accordance with Article 10(2) of the DGSD, the foreseeable servicing of the liability does not, on its own, reduce the DGS's QAFM below the target level.

18. The DGS may set the periodic target level higher than the minimum required under paragraph 16, for example, to reflect the expected evolution of the aggregate covered deposits of the member institutions.

19. Taking into account paragraphs 16, 17 and 18, the DGS should set the periodic target level to spread out periodic contributions as evenly as possible across time to meet the target level of the DGS.

20. The competent authority in cooperation with the designated authority may allow the DGS to set a lower periodic target level than the minimum required under paragraph 16 where it concludes that levying a lower periodic target level meets the conditions set out in Article 10(2) subparagraph 4 of the DGSD, and does not lead the DGS to violate the requirement to meet the minimum target level at the deadline set out in Article 10(2) of the DGSD. When allowing the DGS to set a lower periodic target level, the competent authority in cooperation with the designated authority may take into consideration the expected evolution of the aggregate covered deposits of the member institutions.

21. The competent authority in cooperation with the designated authority may advise the DGS to set a higher periodic target level than the minimum required under paragraph 16 where it concludes that levying a higher periodic target level meets the conditions set out in Article 10(2) subparagraph 4 of the DGSD, and reflecting the expected evolution of the aggregate covered deposits of the member institutions when it sets a higher periodic target level.

22. Where a DGS levies extraordinary ex post contributions according to Article 10(8) of the DGSD, the DGS should instead determine the CR according to the following formula:

$$CR = \frac{required\ funding\ in\ accordance\ with\ Article\ 10(8)\ of\ the\ DGSD}{\sum_{i=1}^{n} CD_i}$$

4.3. Covered deposits (CD)

23. In relation to Article 7(3) of the DGSD, if a member institution does not accurately determine the precise amount of covered deposits in beneficiary accounts or ascertained maximum possible amount of covered deposits in such accounts, the DGS should assume that all funds in

the beneficiary accounts are covered for the purpose of calculating contributions. Where a member institution reports the precise amount of covered deposits in such accounts, or an ascertained maximum possible amount of covered deposits in beneficiary accounts, the DGS should take these figures into account when calculating the member institution's contributions. The competent authority in cooperation with the designated authority should determine which information is necessary to take into account the precise amount or the ascertained maximum possible amount of covered deposits in a beneficiary account. In any case, the DGS should be able to ascertain the maximum possible amount of covered deposits if it has the information about the number of people who are absolutely entitled to the sums held in a beneficiary account by multiplying that number by the coverage level according to Article 6 of the DGSD. The DGS may reflect temporary high balances for the purpose of ascertaining the maximum possible amount of covered deposits.

24. For the purpose of calculating the contributions to the DGS fund, in other cases where there is uncertainty regarding the eligibility and coverage of a particular individual deposit in practice, the DGS should assume that the deposits are covered. The DGS may include temporary high balances for the purpose of calculating the contributions to the DGS fund.

4.4. Adjustment coefficient (μ)

25. The DGS should calculate the adjustment coefficient μ according to the following formula:

$$\mu = \frac{\sum_{i=1}^{n} CD_i}{\sum_{i=1}^{n} ARW_i * CD_i}$$

4.5. Calculation of the aggregate risk weight (ARW)

26. The DGS should assign the ARW for a member institution 'i' on the basis of the ARS for that institution.

27. The DGS should calculate the ARS by summing up all individual indicators' risk scores (IRS) of that member institution, multiplied by appropriate indicator weights (IW) for each IRS.

28. The DGS should calculate the IRS based on appropriate risk indicators.

(i) Risk categories and risk indicators

Risk categories

29. The DGS should calculate the ARW for an individual member institution based on a set of risk indicators from each of the following five risk categories:

a. Capital: indicators should reflect the level of loss-absorbing capacity of the member institution.

b. Liquidity and funding: indicators should measure the member institution's ability to meet its short- and long-term obligations as they come due without adversely affecting its financial condition.

c. Asset quality: indicators should measure the extent to which the member institution is likely to experience credit losses.

d. Business model and management: indicators should measure the risk stemming from the member institution's current business model and strategic plans, the quality of the member institution's internal governance and internal controls.

e. Potential losses for the DGS: indicators should reflect the potential losses for the DGS stemming from a DGS intervention, which the DGS is unlikely to recover.

Core risk indicators

30. Within each risk category, the DGS should include the core risk indicators specified in Table 1 in the calculation method. As an exception, the competent authority in cooperation with the designated authority may exclude or allow the DGS to exclude, with regard to specific types of institutions, a core indicator upon justification that this indicator is unavailable because of the legal characteristics or supervisory regime of such institutions.

31. Where the competent authority in cooperation with the designated authority or the DGS remove a core risk indicator for a specific type of member institution, they should use the most appropriate proxy for the removed indicator. They should ensure that the risks posed by the institution to the DGS are reflected in other indicators used. They should also take into account the need for a level playing field with other member institutions for which the excluded indicator is available.

32. DGS should apply either of the Capital Coverage Ratio or the Common Equity Tier 1 ratio as a core indicator.

Table 1: Core risk indicators

Indicator name	Formula / Description	Sign
1. Capital		
1.1. Leverage Ratio	Leverage Ratio as stated in Article 429 of Regulation (EU) No 575/2013	(-) A higher value indicates lower risk
1.2.a Common Equity Tier 1 ratio (CET1 ratio)	CET1 ratio as stated in Article 92(2)(a) of Regulation (EU) No 575/2013	(-) A higher value indicates lower risk

1.2.b Capital Coverage Ratio (CCR)	$$\frac{\text{Actual CET1 ratio}}{\text{Required CET1 ratio}} \text{ or } \frac{\text{Actual own funds}}{\text{Required own funds}}$$ Where: 'own funds' as stated in Article 4(118) of Regulation (EU) No 575/2013. 'required CET1' and 'required own funds' refer to the total CET1 and total own funds requirements of an institution according to Article 92 of Regulation (EU) No 575/2013, Article 104(1)(a) and Article 128 (6) of Directive 2013/36/EU.	(-) A higher value indicates lower risk
2. Liquidity and funding		
2.1. Liquidity Coverage Ratio (LCR)	LCR as stated in Article 412 of Regulation (EU) No 575/2013	(-) A higher value indicates lower risk
2.2. Net Stable Funding Ratio (NSFR)	NSFR as defined in Article 428a-428az of Regulation (EU) No 575/2013	(-) A higher value indicates lower risk
3. Asset quality		
3.1 Non-performing loans ratio (NPL ratio)	NPL ratio as specified in Article 11(2) subparagraph (g) point (ii) of Commission Implementing Regulation (EU) 2021/451[14]	(+) A higher value indicates higher risk
4. Business model and management		
4.1. Total risk exposure amount (TREA) / Total assets ratio	$$\frac{\text{Total Risk Exposure Amount (TREA)}}{\text{Total Assets}}$$ Where: 'Total risk exposure amount' as stated in Article 92(3) of Regulation (EU) No 575/2013 DGSs may use different calibrations for member institutions using the internal ratings-based approach or the standardised methods for calculating risk weighted exposures amounts	(+) A higher value indicates higher risk
4.2 Return on assets (RoA)	$$\frac{\text{Net Income}}{\text{Total Assets}}$$ DGSs should calculate the RoA as an average over at least 2 years to avoid including one-off events and avoid procyclicality in contributions.	(-)/(+) Generally, a higher value indicates lower risk, but too high values can also indicate high risk
5. Potential losses for the DGS		

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[14] Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014.

5.1. Covered deposits / unencumbered assets	$$\frac{\text{Covered Deposits}}{\text{Unencumbered Assets}}$$ Where: 'unencumbered assets' is defined in Article 411(5) of Regulation (EU) No 575/2013.	(+) A higher value indicates higher risk

Additional risk indicators

33. In addition to the core risk indicators, the DGS may define and include additional risk indicators that are relevant for determining the differences in risk profiles of its member institutions.

34. If a Member State has, through regulation, imposed restrictions on institutions within a certain subsector in a manner that substantially reduces the likelihood of a DGS intervention, the DGS may reduce contributions from member institutions belonging to the respective low-risk sector in accordance with Article 13(1) second subparagraph of the DGSD, by including an additional risk indicator, under the condition that the competent and designated authority have cooperatively, after consulting the DGS, allowed it, based on empirical evidence indicating that within these low-risk sectors the occurrence of DGS interventions has been consistently lower than in other sectors.

35. The DGS may reduce the contributions of a member institution that is part of an institutional protection scheme (IPS) according to Article 13(1) third subparagraph of the DGSD by including an additional risk indicator in the calculation method. The IPS membership indicator should reflect the additional solvency and liquidity protection provided by the IPS to the member institution. To that end, the additional risk indicator should measure the amount of the IPS ex-ante funds that are available without delay for both recapitalisation and liquidity funding purposes. This may also include additional funding commitments callable upon request and backed by liquidity reserves held by IPS members. To measure whether these ex ante funds are sufficiently large to provide a credible and effective support for that member institution, the DGS should set them in relation to the size of the IPS member institution.

Requirements for risk indicators

36. The DGS should use risk indicators that capture a sufficiently wide spectrum of sources of risk in the calculation method. If and when a DGS chooses additional indicators, this may include, but is not limited to, risks stemming from money laundering, poor governance or poor quality of Single-Customer-View files.

37. The DGS should align the selection of the risk indicators with the best practices in risk management and with the existing prudential requirements.

38. The DGS should use the values of risk indicators for each member institution calculated on an individual basis.

39. However, the DGS should calculate the value of risk indicators at a consolidated level where the Member State exercises the option provided for in Article 13(1) of Directive 2014/49/EU to allow the central body and all credit institutions permanently affiliated to the central body, as referred to in Article 10(1) of Regulation (EU) 575/2013, to be subject as a whole to the risk weight determined for the central body and its affiliated institutions on a consolidated basis.

40. Where a member institution has received a waiver from meeting capital and/or liquidity requirements at the individual level pursuant to Articles 7, 8 or 21 of Regulation (EU) 575/2013, the DGS should calculate the corresponding capital/liquidity indicators at the consolidated or sub-consolidated level.

41. To calculate values of risk indicators for a given period the DGS should use:

    a. the value at the end of the reporting period for positions from the income statement;

    b. the average between the value at the end of the reporting period and the value at the end of the previous reporting period for positions from the balance sheet.

(ii) Weights for risk indicators and categories

42. The DGS should assign weights to all risk indicators in the method for calculating contributions so that their sum equals 100%.

43. When assigning weights to particular risk indicators, the DGS should assign at least the minimum weights to the risk categories and the core risk indicators, as specified in Table 2.

Table 2: Minimum weights for the risk categories and the core risk indicators

Risk categories and core risk indicators	Minimum weights
1. Capital	**20%**
1.1. Leverage ratio	10%
1.2. CET1 ratio or CCR	10%
2. Liquidity and funding	**15%**
2.1. LCR	5%
2.2. NSFR	10%
3. Asset quality	**12.5%**
3.1. NPL ratio	12.5%
4. Business model and management	**15%**
4.1. TREA / Total assets	5%
4.2. RoA	10%
5. Potential losses for the DGS	**12.5%**
5.1. Covered deposits / Unencumbered assets	12.5%
Sum	75%

44. The sum of the minimum weights specified in these Guidelines for the risk categories and the core risk indicators amounts to 75% of total weights. The DGS should distribute the remaining 25% among the risk categories laid down in paragraph 29.

45. The DGS should allocate the flexible 25% of weights by distributing them among the additional risk indicators and/or by increasing the minimum weights of the core risk indicators. The weight of any indicator should not be higher than 25%.

46. Where a core indicator is not used, the DGS should assign the remaining core indicator from the same risk category the full minimum weight for this risk category.

47. Where there is only one core indicator in a category, and this core indicator is not used, the DGS should replace it by a proxy with the same minimum weight as the core indicator.

48. For any risk indicator, the DGS should assign it one weight and apply that same weight for all member institutions.

(iii) Individual risk indicators (IRS)

49. For each value of a risk indicator, the DGS should assign an individual risk score (IRS) ranging from 0 to 100, where 0 indicates the lowest risk and 100 the highest risk. For the calculation of each IRS, the DGS may either apply the 'bucket' or the 'sliding scale' method.

50. DGSs should apply expert judgement to calibrate the thresholds, but should in any case respect the following minimum thresholds:

    a. For the leverage ratio, core equity tier 1 ratio, liquidity coverage ratio and net stable funding ratio, if the value of the indicator of a member institution is lower than the applicable minimum regulatory requirement according to Article 92(1), 412 and 413 of Regulation (EU) No. 575/2013, then the corresponding IRS should be 100.

    b. For the capital coverage ratio, if the value of the indicator of a member institution is lower than 100%, then the corresponding IRS should be 100.

    c. For the total risk exposure amount / total assets ratio and covered deposits / unencumbered assets ratio, if the value of the indicator of a member institution is above 100%, then the corresponding IRS should be 100.

The 'bucket' method for the IRS

51. In the 'bucket' method, for a given risk indicator, the DGS defines a fixed number of risk classes (buckets), with the minimum being two buckets. The DGS should define the number of buckets to reflect different levels of risk posed by the member institutions (for example, high, medium, low risk) assessed on the basis of the respective risk indicator.

52. For each bucket of a risk indicator 'j', the DGS should determine an upper and lower boundary of the value 'A' of the risk indicator in such a way that member institutions with a similar level of risk are grouped into the same bucket. The DGS should determine the buckets' boundaries either on a relative or an absolute basis, where:

   a. When using the relative basis, the DGS should distribute member institutions evenly between buckets. The DGS determines the boundaries of the buckets after determining the values 'A' of the risk indicator of member institutions in the same bucket.

   b. When using the absolute basis, the DGS should determine the boundaries of the buckets to reflect that all values 'A' of the risk indicator within these boundaries represent a similar level of risk and that all member institutions with a similar level of risk end up in the same bucket.

53. The DGS should set the number and boundaries of the buckets to ensure there is sufficient and meaningful differentiation of member institutions. The DGS should avoid calibrating the number and boundaries in such a way that member institutions, despite representing significant differences in the risk levels measured by a particular risk indicator, would be classified in the same bucket.

54. The DGS should not set an upper boundary for the highest bucket and should not set a lower boundary for the lowest bucket.

55. For each bucket of a risk indicator, the DGS should assign a corresponding IRS. The DGS should assign an IRS of 100 to the riskiest bucket and an IRS of 0 to the least risky bucket. The DGS may deviate from this rule for risk indicators which can only have two possible values and where one of which represents an average risk level. If the DGS decides to make use of this possibility, then it should assign an IRS of 50 to the bucket representing the average risk level while the IRS assigned to the other bucket should be either 100 or 0.

The 'sliding scale' method for the IRS

56. In this method, for each institution 'I' and for each risk indicator 'j', the DGS should calculate an IRS based on the value 'A' of the risk indicator. The DGS should define an upper boundary 'a_j' and a lower boundary 'b_j' for each indicator. If the indicator's value is between the defined boundaries, the DGS should assign the value of the IRS between 0 and 100 according to the following two formulas:

   a. When a higher indicator value indicates a higher risk and the indicator is above the upper boundary 'a_j', the DGS should fix the value of the IRS at 100. Similarly, when the indicator's value is below the lower boundary 'b_j', the DGS should fix the value of the IRS at 0. The corresponding formula is:

$$IRS_{ij} = \begin{cases} 100 & if \ A_{ij} > a_j \\ 0 & if \ A_{ij} < b_j \\ \dfrac{A_{ij} - b_j}{a_j - b_j} * 100, & if \ b_j \le A_{ij} \le a_j \end{cases}$$

where j = indicator 'j', ranging from 1 to 'm'.

b. Analogously, if a lower indicator indicates a higher risk and the indicator is below the lower boundary 'b_j', the DGS should fix the value of the IRS at 100. Correspondingly, when the indicator value is above the upper boundary 'a_j', the DGS should fix the value of the IRS at 0. The corresponding formula is:

$$IRS_{ij} = \begin{cases} 0 & if \ A_{ij} > a_j \\ 100 & if \ A_{ij} < b_j \\ \dfrac{a_j - A_{ij}}{a_j - b_j} * 100, & if \ b_j \le A_{ij} \le a_j \end{cases}$$

57. For each risk indicator the DGS should calibrate the upper boundary 'a_j' and the lower boundary 'b_j' to ensure there is sufficient and meaningful differentiation of member institutions. The DGS should avoid calibrating the upper and lower boundaries in such a way that all member institutions, despite significant differences in the area measured by a particular risk indicator, should persistently fall either below the lower or above the upper boundary.

(iv) Aggregating the IRS into the ARS

58. Each IRS of the risk indicator 'j' for an institution 'i' should be multiplied by the risk IW assigned to a specific risk indicator 'j'. The weighted IRS should then be summed up in an ARS according to the following formula:

$$ARS_i = \sum_{j=1}^{m} IW_j * IRS_{ij}$$

Where:

$$\sum_{j=1}^{m} IW_j = 100\%$$

(v) Calculating the ARW based on the ARS

59. For every ARS, the DGS should assign a corresponding ARW by setting the thresholds for the ARW and by applying either the 'bucket' or 'sliding scale' method, irrespective of the method used to determine the various IRSs of the risk indicators.

60. The DGS should assign the ARW to the ARS in such a way that it is possible for member institutions to be assigned to the lowest and highest ARW, and for the various risk classes to be

populated. In particular, the DGS should avoid calibrating the model in such a way that almost all member institutions, despite having significantly different risk profiles, would be assigned to only one risk class (for example, the risk class for institutions with an average risk profile) and hence assign them the same ARW. However, this does not imply that in each period the DGS should necessarily use the full interval and assign member institutions to the ARW corresponding to the lowest and the highest thresholds of the ARW.

Thresholds for ARW

61. The DGS should set the upper threshold 'α' and lower threshold 'β' of the ARW to reflect the differences in risk incurred by different member institutions.

62. The DGS should set the upper threshold 'α' of the ARW between 150% and 200%.

63. The DGS should set the lower threshold 'β' of the ARW between 50% and 75%.

64. The DGS may set a wider interval upon justification that the interval limited to 50%-200% does not sufficiently reflect the differences in business models and risk profiles of member institutions and that it would create moral hazard by artificially grouping together member institutions with very different risk profiles.

The 'bucket' method for the ARW

65. If the DGS applies the bucket method, it should define ranges for the ARS in such a way that they correspond to a particular risk class (bucket) and assign an ARW to each bucket according to the following formula:

$$ARW_i = \beta * (\frac{\alpha}{\beta})^{(\frac{Bucket_p - 1}{P-1})}$$

Where:

P = the total number of buckets for the ARW;

p = the number of the bucket, starting at 1 (the lowest possible risk bucket) and ending at P (the highest possible risk bucket);

$\beta = ARW(1)$, i.e., the desired ARW value corresponding to bucket 1 (lower limit); and

$\alpha = ARW(N)$, i.e., the desired ARW value corresponding to bucket P (upper limit).

66. The DGS should set the number of buckets 'P' in proportion to the number and variety of member institutions. However, the DGS should set at least four buckets 'P'. The DGS should set at least one bucket for member institutions with an average risk, at least one bucket for low-risk members and at least two buckets for high-risk institutions.

The 'sliding scale' method for the ARW

67. If the DGS applies the sliding scale method, it should assign each ARS a corresponding ARW according to the following formula:

$$ARW_i = \beta * \left(\frac{\alpha}{\beta}\right)^{\left(\frac{ARS_i}{100}\right)}$$

Where:

the ARS of an institution 'I' can take any value between 0 and 100;

$\beta = ARW(0)$, i.e. the desired ARW value corresponding to an ARS value of 0 (lower limit); and

$\alpha = ARW(100)$, i.e. the desired ARW value corresponding to an ARS of 100 (upper limit).

68. In this method, the ARW associated to the ARS is growing exponentially, with an upper boundary 'α' and a lower boundary 'β'. For a given institution where the ARS is 100 (the riskiest score), the corresponding risk weight will be 'α', which is the highest risk weight. Similarly, if the ARS is 0, the corresponding risk weight will be 'β', which is the lowest risk weight.

69. Where the distribution of the ARS of member institutions of a DGS covers only a partial range of the possible ARS, instead of the full range from 0 to 100, the DGS may reflect that situation by deciding to apply a threshold 'γ' of the ARS higher than 0 and a threshold 'δ' lower than 100. In this case, an ARS smaller or equal to 'γ' should be assigned an ARW of 'β' and an ARS higher or equal to 'δ' should be assigned an ARW of 'α'. The corresponding enhanced formula is:

$$ARW_i = \beta * \left(\frac{\alpha}{\beta}\right)^{\left(\frac{ARS_i - \gamma}{(\delta - \gamma)}\right)}$$

Where:

$0 < \gamma < \delta < 100$;

γ is the lower threshold of the ARS translating to the lowest ARW β; and

δ is the actual upper threshold of the ARS translating to the highest ARW α.

70. The DGS should set the thresholds 'γ' and 'δ' so that no member institution's ARS exceeds 'δ' or falls below 'γ' at the time of the calibration.

4.6. Optional modifications to the calculation formula

71. The DGS may modify the calculation formula in Section 4.1 of these Guidelines as described below.

(i) Minimum contribution

72. The DGS may require member institutions to pay a minimum contribution (MC) irrespective of the amount of their covered deposits by applying either of the following modified calculation formulas to calculate the individual contributions:

   a. In cases where the DGS requires member institutions to pay a part of their total periodic contributions in the form of a minimum contribution in addition to a risk-based contribution:

$$C_i = MC + (CR_{MC1} * ARW_i * CD_i * \mu)$$

   Where:

   MC= Minimum contribution, which is identical for all member institutions; and

$$CR_{MC1} = \frac{periodic\ target\ level - n * MC}{\sum_{i=1}^{n} CD_i}$$

   b. In cases where the DGS requires member institutions to pay either a risk-based contribution or a minimum contribution, whichever is higher:

$$C_i = Max\ \{MC\ ;\ (CR_{MC2} * ARW_i * CD_i * \mu^*)\}$$

   Where:

   MC= Minimum contribution, which is identical for all member institutions;

   x = The number of institutions that should only pay the minimum contribution.

   The method to determine x is described in Annex 1;

$$CR_{MC2} = \frac{periodic\ target\ level - x * MC}{\sum_{i=x+1}^{n} CD_i}$$

   and

$$\mu^* = \frac{\sum_{i=x+1}^{n} CD_i}{\sum_{i=x+1}^{n} (ARW_i * CD_i)}$$

73. When setting a minimum contribution, the DGS should take due care of the risk of moral hazard inherent in setting fixed contributions and the risk of creating barriers for entering the market of banking services.

(ii) Use of DGS funds for failure prevention

74. Where a Member State allows a DGS, including an IPS officially recognised as a DGS, to use the available financial means for alternative measures in order to prevent the failure of a credit institution, this DGS may include an additional factor in its own risk-based calculation based on

the total risk exposure amount of the institution. In this case, The DGS should apply the following modified calculation formula:

$$C_i = CR * ARW_i * (CD_i + TREA_i) * \mu^{**}$$

Where:

$TREA_i$ = amount of total risk exposure amount of institution 'i'; and

$$\mu^{**} = \frac{\sum_{i=1}^{n}(CD_i)}{\sum_{i=1}^{n}(ARW_i * (CD_i + TREA_i))}$$

75. Before the DGS may implement the additional factor, the competent authority in cooperation with the designated authority should assess, as part of the approval of the calculation method, whether its introduction is commensurate with the risk of having to intervene in order to prevent the failure of institutions beyond the protection of covered deposits.

(iii) Stock-based contributions method

76. Where the competent authority in cooperation with the designated authority allows the DGS to apply a stock-based contribution method instead of the flow-based contribution method, the DGS should apply the following calculation formula instead of the one described in paragraph 14:

$$C_i = CR_{stock-based} * ARW_i * CD_i * \mu - \sum net\ C_i\ of\ previous\ periods$$

Where:

$CR_{stock-based}$ = Stock-based contribution rate (identical for all member institutions in a given period)

$\sum net\ C_i\ of\ previous\ periods$ = The sum of contributions of member institution 'i' for previous periods net of any adjustments.

77. To calculate $CR_{stock-based}$, the DGS should apply paragraph 15, but should modify paragraph 16 as follows where the denominator needs to be at least equal to 1:

$$(minimum)\ periodic\ target\ level =$$

$$(minimum)\ stock\ based\ target\ level\ for\ the\ current\ period =$$

$$\frac{minimum\ target\ level - qualified\ available\ financial\ means\ (QAFM)}{remaining\ number\ of\ periods\ until\ the\ minimum\ target\ level\ has\ to\ be\ reached} + QAFM$$
$$in\ acccordance\ with\ Article\ 10(2) of\ the\ DGSD$$

78. The sum of net contributions of previous periods of all n member banks of the DGS should be equal to the QAFM of the DGS:

$$\sum_{i=1}^{n} \sum net\ C_i\ of\ all\ previous\ periods = QAFM$$

79. The DGS should establish the sum of previous contributions of member institution 'i' for either all previous periods, or for an adequate period of time for which the DGS is able to establish the previous contributions of all member institutions, or according to an adequate proxy that reflects the past contributions of member institution 'i'. For each member institution 'i' the DGS should count that sum of previous contributions net of adjustments, stemming for instance from DGS interventions or recoveries, so that paragraph 78 is respected.

80. The competent authority in cooperation with the designated authority may require the DGS to replace the ARW_i and CD_i in the formula in paragraph 76 with the (weighted) average of the ARW_i and the (weighted) average of CD_i over a few periods. Where that is the case, the DGS should select the number of periods over which to take the average to avoid strong fluctuations in the contributions of member institutions. This requirement does not dispense the DGS to meet its minimum target level according to the deadlines set out in Article 10(2) first and third subparagraph of the DGSD.

4.7. Calibration of the calculation method and its regular review

81. The DGS should calibrate the calculation method based on expert judgement, taking into consideration the characteristics of the national banking sector, and the degree of heterogeneity among member institutions. The calibration of the calculation method includes:

   a. the selection of risk indicators;

   b. the weighting of the risk indicators;

   c. the upper and lower boundaries of the IRS;

   d. the method for calculating the IRS;

   e. the thresholds of the ARW;

   f. the method for calculating the ARW;

   g. the application of optional modifications to the calculation formula.

82. The DGS should reflect in the contribution of each member institution, and hence in the calibration of the calculation method, an increased liability incurred by a DGS as a result of a member's participation related to:

   a. the likelihood of a DGS intervention;

b. the potential losses for the DGS stemming from a DGS intervention, on a net basis after potential recoveries from the bankruptcy estate of the failed institution.

83. The DGS should align the incentives provided by the calculation method with prudential requirements.

84. The DGS should take into account national accounting and reporting practices.

85. The DGS should calibrate all elements of the calculation method to be consistent with relevant historical data. For this purpose, historical data should include: (i) data about institutions' failures, DGS interventions, resolution action or measures by other public authorities to prevent the failure; and (ii) data about net losses or recovery rates of the DGS from such events.

86. The competent authority in cooperation with designated authority should regularly – at least every 5 years and before the regular 5-year review of these Guidelines – compare the results obtained in applying the calculation method with an appropriate benchmark for their risk assessment, for example with the risk assessment performed under the SREP. This comparison should be made in a holistic manner. The competent authority in cooperation with the designated authority should inform the EBA of the holistic outcome of this comparison and the discrepancies observed.

87. The DGS should review and, where necessary, recalibrate all the elements of the calculation method – at least every 5 years and following the regular 5-year review of these Guidelines – to ensure that the performance of the calculation method is sufficiently risk sensitive and that it provides for sufficient risk discrimination of its member institutions. Changes in data reporting, regulatory or institutional changes should also trigger checking and verifying the performance of the model.

4.8. Update or correction of contributions

88. Where the DGS needs to adjust already paid periodic contributions of member institutions, for instance because of updates of indicators of some member institutions to correct accounting errors, the DGS should be able to offset the adjustment with the next due periodic contribution instead of having to reimburse and raise past contributions again.

4.9. Data collection

89. The DGS should have in place adequate systems to collect all the necessary information to calculate the contributions of each member institution. In cases where the DGS does not gather information directly from member institutions but relies on the information provided by the competent or designated authorities, either statutory provisions or formal arrangements should be in place so that the information required by the DGS for administering the contributions is collected and transmitted on a timely basis.

90. For the purpose of calculating contributions, the DGS should make use of information already available to it or requested from member institutions by competent authorities as part of their reporting obligations. The DGS should strike a balance between requiring information necessary for the calculation of contributions and avoiding making unduly burdensome requests for information from the member institutions.

91. The DGS should only require data that is not already reported on a regular basis if such data is needed for determining the risk that member institutions pose to the DGS.

4.10. Transparency and data confidentiality

92. The DGS should disclose to the public at least the description of the calculation method and the parameters of the calculation formula, including risk indicators, but not necessarily their respective weights.

93. The DGS should disclose the results of the risk classification and its components for a particular member institution to that member institution, but not to the public.

94. The DGS should keep confidential the information used for calculating contributions which is not otherwise publicly disclosed.

4.11. Approval of calculation method

95. The DGS should seek approval from the competent authority in cooperation with the designated authority before the initial implementation of the calculation method. The DGS should obtain renewal of approval of the competent authority in cooperation with the designated authority at a frequency which the competent authority in cooperation with the designated authority deems appropriate and, in any event, before introducing any material changes to an already approved calculation method. The DGS should notify the competent authority and designated authority of non-material changes to the calculation method on a yearly basis.

Annex 1 – Method for identifying x for calculating minimum contributions

1. The following method describes how to identify 'x' to calculate the contribution rate of the minimum contribution according to paragraph 72b.

2. First, the DGS should rank all member institutions in increasing order by the product of their ARW and covered deposits $ARW_i * CD_i$. The order of their rank is described by the index 'r'. The member institution with the smallest $ARW_i * CD_i$ has rank r=1 and the member institution with the highest $ARW_i * CD_i$ has rank r=n.

3. Second, for each member institution, the DGS should calculate separately the interim contribution $interimC_r$ according to the following formula:

$$interimC_r = \frac{periodic\ target\ level - (r-1) * MC}{\sum_{i=r}^{n} ARW_i * CD_i} * ARW_r * CD_r$$

4. Third, the DGS should compare the $interimC_r$ of each member institution with the minimum contribution MC. It should then count the number 'x' of institutions that should only pay the minimum contribution MC, i.e. whose $interimC_r \leq MC$.

5. Fourth, the DGS should apply the identified number 'x' of institutions paying the minimum contribution in the formulas in paragraph 72b.

4. Accompanying documents

4.1 Draft cost-benefit analysis / impact assessment

1. As per Article 16(2) of Regulation (EU) No 1093/2010 (EBA Regulation), any Guidelines and recommendations developed by the EBA shall be accompanied by an Impact Assessment (IA), which analyses 'the potential related costs and benefits'.

2. This analysis presents the IA of the main policy options included in this Final Report on the revised Guidelines on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU (revised) ('DGSD') repealing and replacing Guidelines EBA/GL/2015/10.

3. Since the EBA has already issued Guidelines on the methods for calculating contributions and conducted an impact assessment at the time, consequently, in this impact assessment the EBA analyses the impact of the changes that the proposed policy options would have compared to keeping the current Guidelines unchanged. Given the nature of the object of study, the EBA conducted a qualitative and theoretical IA.

10. Problem identification and background

4. Article 10(1) of the DGSD introduced the requirement for DGSs to collect contributions to raise AFM and Article 10(2) of the DGSD set the target level for these AFM. Article 13(1) of the DGSD requires the contributions to be based on the amount of covered deposits and the degree of risk incurred by the respective member. Article 13(2) of the DGSD states that DGSs may use their own risk-based methods for determining and calculating the risk-based contributions by their members. Article 13(3) mandates the EBA to issue Guidelines to specify methods for calculating the contributions to DGSs in accordance with paragraphs 1 and 2 of Article 13 of the DGSD. Furthermore, Article 13(3) subparagraph 3 of the DGSD requires the EBA to review these Guidelines at least every 5 years.

5. Against this background, on 22 September 2015, the EBA issued Guidelines on methods for calculating contributions to deposit guarantee schemes. The EBA reviewed these Guidelines for the first time in the EBA Report on the implementation of the EBA Guidelines on methods for calculating contributions to DGS ('first review'), published on 17 January 2018.

B. Policy objectives

6. In 2022, the EBA reviewed these Guidelines for the second time. As the EBA conducted the first review only 1 year after entry into force of the Guidelines, the EBA was of the view that the findings on possible shortcomings had to be confirmed before introducing changes to the

Guidelines, which it now intends to introduce by presenting the Final Report on the revised Guidelines on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU (revised) repealing and replacing Guidelines EBA/GL/2015/10.

7. The policy objective for the review of these Guidelines is to improve the calculation method to ensure more risk-appropriate contributions by member institutions to the DGS.

C. Options considered, assessment of the options and preferred options

Entire change of the method

8. The general aim of the method is to determine institutions' contributions to deposit guarantee schemes in line with these institutions' risk of DGS intervention. Under the current method, DGSs calculate for each member institution IRS based on various risk indicators. These IRSs are then weighted and aggregated to an ARS. The ARS is then translated into an ARW, which represents the risk factor that determines the level of contributions of a member institution and the higher the ARW is, the higher the contributions will be.

9. Having said that, the general relevance of the method could be evaluated by looking at the links between the ARS-ARW levels and the interventions of DGSs with regard to ailing or failing institutions. The EBA assessed whether the ARS and ARW levels were linked with the DGS interventions and the following options have been considered:

Option 1a: complete change of the method if there are no links between ARS-ARW and DGS interventions

Option 1b: not changing the whole method if the ARS-ARW demonstrate a good indication of DGS interventions

10. The EBA based its analysis on the data provided by the DGSs on their interventions in the years 2015-2021. The EBA analysed the ARS of institutions subject to a DGS intervention relative to all institutions in their respective DGS. All DGSs together reported 39 interventions but reported ARS for 30 of them only. The data provided for these institutions is end-of-year data. The last available data for each institution before the intervention date show that 25 out of 30 institutions had an ARS above the Median ARS of institutions in their DGS. Out of 30, 20 had an ARS in the upper quartile, of which 17 were among the top 10% of institutions with the highest ARS in their DGS. The positioning is relative to all other institutions in the same DGS at year end before the date of intervention. Figure 3 illustrates the position of the ARS of institutions subject to a DGS intervention within their DGS. It illustrates that more than half of all DGS interventions occurred in the context of institutions that were classified among the riskiest 10% regarding the ARS of their DGS.

Figure 2. Position of ARS of institutions subject to a DGS intervention relative to their DGS, by reason for intervention. Data as of year end before the date of intervention.
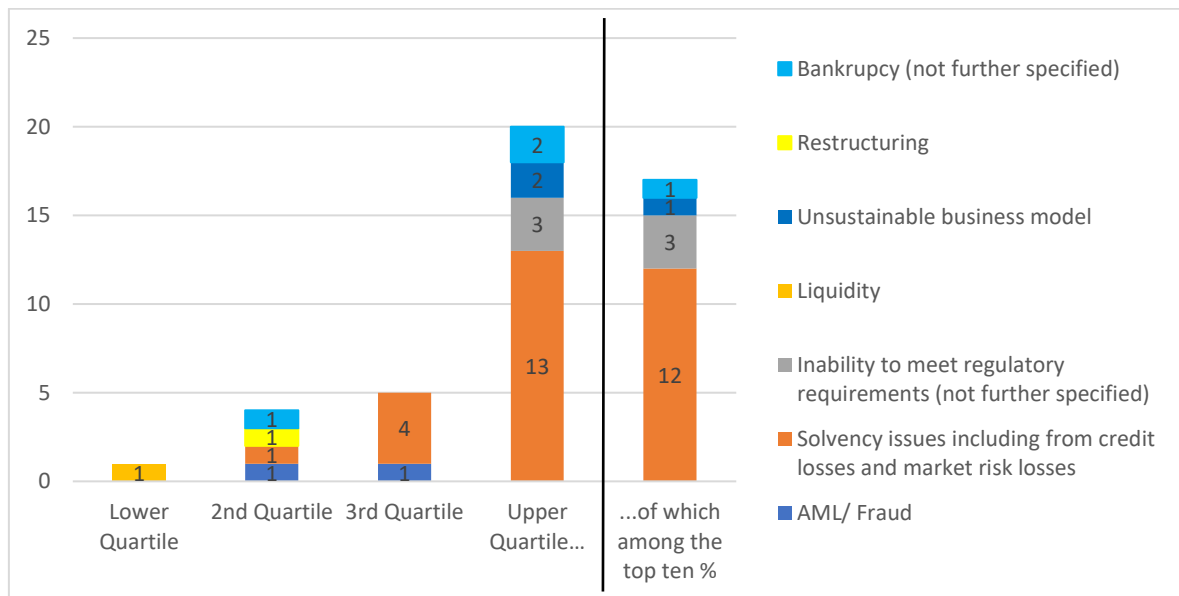
11. In the same fashion, the EBA also analysed the ARW of institutions subject to a DGS intervention relative to all institutions in their respective DGS for which there are 8 more data points than for the ARS. The last available data for each institution before the intervention date show that 33 out of 38 institutions had an ARW above the median ARW of institutions in their DGS. Out of 38, 28 had an ARW in the upper quartile, of which 23 were among the top 10% of institutions with the highest ARW in their DGS. The positioning is relative to all other institutions in the same DGS at year end before the date of intervention. Figure 4 illustrates the position of the ARW of institutions subject to a DGS intervention within their DGS. It illustrates that more than 60% of all DGS interventions occurred in the context of institutions that were classified among the riskiest 10% regarding the ARW of their DGS.

Figure 3: Position of ARW of institutions subject to a DGS intervention relative to their DGS. Data as of year end before the date of intervention.
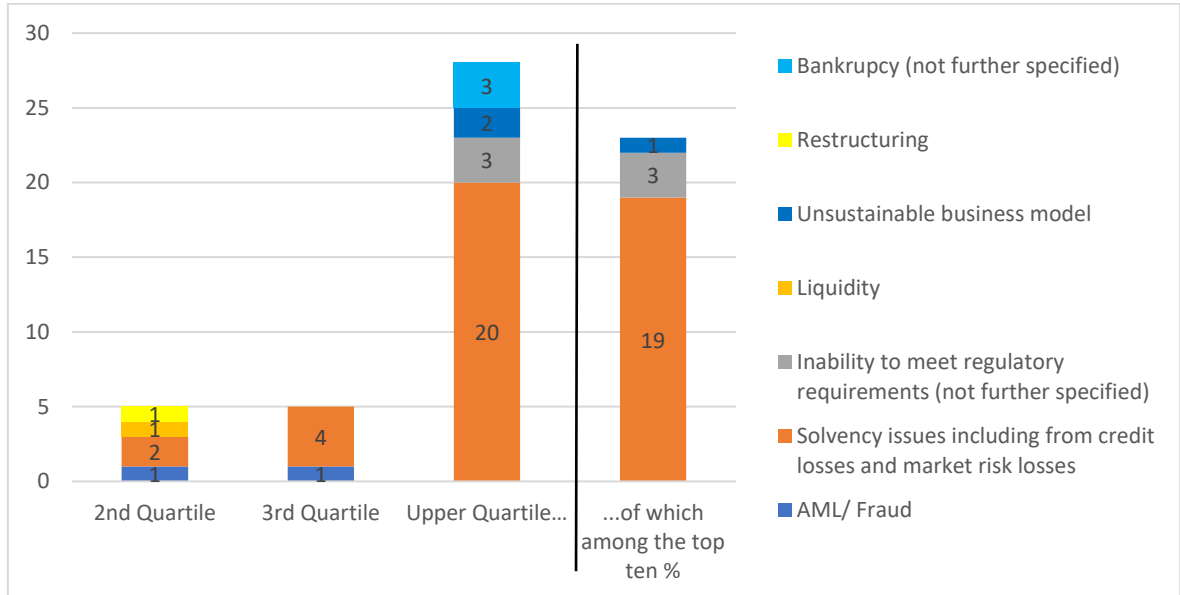
12. The ARS and ARW seem to accurately reflect increased riskiness of an institution with regard to DGS interventions due to issues with solvency, unsustainable business models and inability to meet regulatory requirements. In contrast, the ARS and ARW do not seem to accurately reflect money-laundering/fraud-related issues, restructuring issues and liquidity issues. DGS interventions for those reasons feature among those institutions below the median ARS and ARW. Only one institution that had solvency issues had an ARS and 2 institutions an ARW below the median. Concerning the ARS for institutions subject to 'bankruptcy', some institutions are in the upper quartile and one institution in the second quartile while, for the same institutions, their ARW is always in the upper quartile.

13. Figure 5 and Figure 6 below illustrate the trend of the ARS and ARW level for the 3 years preceding a DGS intervention, sorted by reasons for the DGS intervention. N-1 represents the end-of-year data before the DGS intervention. Only 12 institutions subject to an intervention reported the ARS and ARW for those 3 years. Judging from the levels of the ARS and ARW, no trend can be identified, pointing neither to increasing nor decreasing risk of a DGS intervention. Also, when looking at the reasons for intervention, there is no clear trend. Furthermore, the EBA deems the sample too small and the results too weak to draw conclusions for the trends on the basis of this specific analysis.

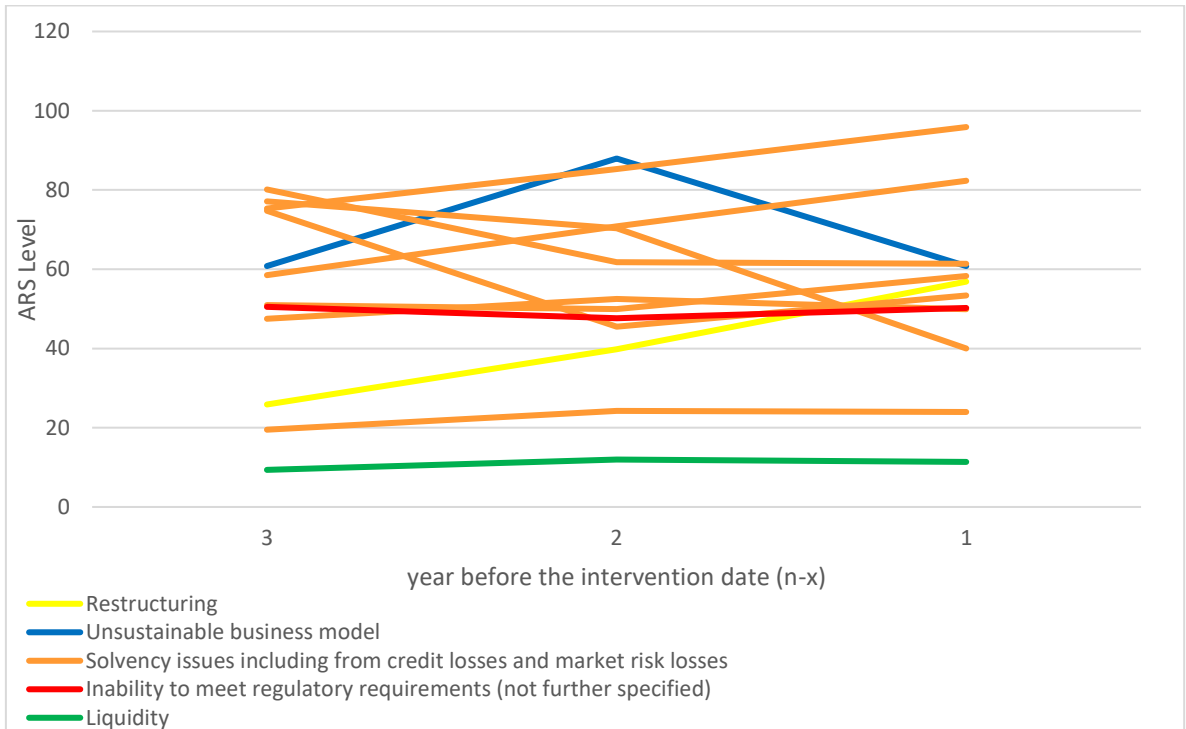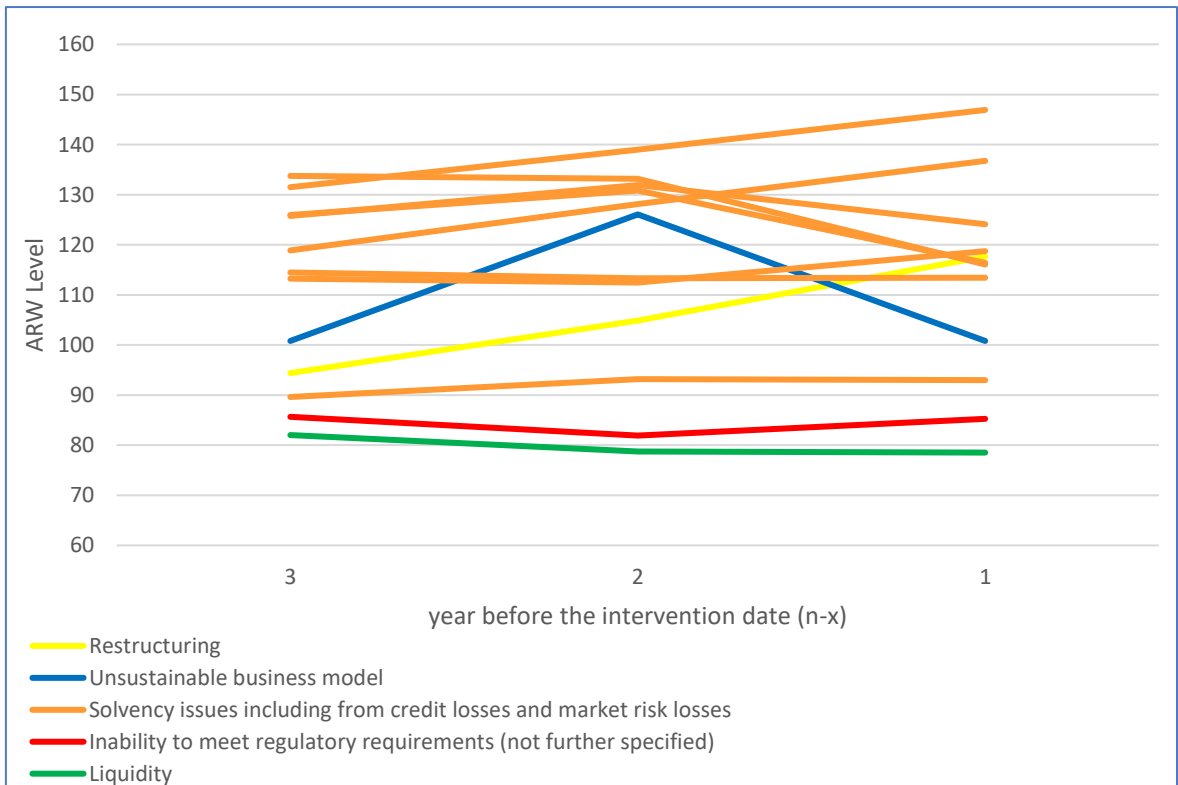**Figure 4: ARS last 3 years before DGS intervention (coloured by reason for intervention)**

Figure 5: ARW last 3 years before DGS intervention (coloured by reason for intervention)

14. The purpose of the methodology is to ensure that riskier institutions pay higher contributions than less risky institutions with the same amount of covered deposits. The methodology seems to be working especially well with regard to solvency and profitability issues, which are at the core of most DGS interventions. The results are less convincing for anti-money laundering (AML) / fraud cases and liquidity issues, which, however, represent only a minor share of DGS interventions.

15. Although the relative ARS and relative ARW of institutions subject to a DGS interventions are elevated in the majority of cases, there are still several institutions that were not within the top quartile nor above the median of the ARS and ARW. Furthermore, the trend of the absolute ARS and absolute ARW does not seem to clearly indicate that an institution's circumstances are deteriorating. This can however be related to several factors:

- Firstly, the sample of institutions subject to a DGS intervention remains small and it is not possible to make very robust conclusions on this basis; however, trends would become clearer if the sample was larger.

- Secondly, it might be the case that the situation of institutions subject to DGS interventions has been stable – albeit bad – for a few years, and hence the levels of ARS and ARW were elevated, but no upward trend was discernible.

- Thirdly, it might be the case that the DGS interventions were triggered due to sudden events or shocks, rather than slowly building up, and hence they would become clear only shortly before the failure. That is particularly the case in DGS interventions related to money laundering / terrorist financing (ML/TF) and/or fraud.

- Fourthly, it might be the case that the deterioration in one important aspect drags the credit institution down, while other indicators remain fairly stable and thus the overall score does not deteriorate much.

16. The analysis above confirms that the ARS and ARW were elevated for institutions subject to a DGS intervention. In more than two thirds of the cases, institutions subject to a DGS intervention were among those institutions in the top quartile of the ARS and ARW among the population of members of their DGS, and in most cases even in the top 10%. Also, the ARS and ARW point in the same direction in nearly all cases.

17. Based on these considerations, the EBA is of the view that overall the methodology seems to achieve its goal in that riskier institutions pay higher normalised contributions. With regard to specific risks, such as those emanating from ML/TF, fraud or poor governance, DGSs are already flexible in tailoring the methodology to their banking sectors by including appropriate additional indicators that capture such risk. The benefits of changing the methodology are not obvious, while the change in the overall methodology may be related to some implementation costs for the DGSs. Depending on the features of the alternative model, it may also lead to additional costs for credit institutions.

18. Consequently, the EBA views **option 1b as the preferred option.**

The translation of the raw indicators into the IRS and the range of the IRS used

19. In the First Report on the review of the GL on method for calculating contributions to DGSs, the EBA identified that up to one quarter of DGSs seem to use only a small part of the IRS range, raising concerns about consistency across DGSs. The analysis performed for the purpose of this review reinforces previous findings. Table 3 shows that there are few indicators where nearly all DGSs use the full range of IRS (from 0 to 100), and some where about half of DGSs use the full range. Furthermore, for indicators such as 'Leverage ratio', 'LCR', 'NSFR', the media range used is 66, and the minimum is as low as 33.

Table 3: Use of full or partial IRS range

Using:		Full range	Partial range	of those using partial range		
	Total # DGS	#DGS	# DGS	Minimum range	Median range	Maximum range
Leverage ratio	27	20	7	33	66	99
CET1 ratio	23	13	10	50	80	97
Capital coverage ratio	3	3	0			
LCR	26	15	11	33	66	91
NSFR	5	4	1		66	
NPL ratio	28	26	2	75	81	86
RWA / Total assets	28	23	5	66	83	95
RoA	27	21	6	50	87	98
Unencumbered assets / Covered deposits	26	16	10	44	79	97

20. Under the current Guidelines, there are no thresholds applicable for the IRS. Thus, the EBA considered the following options:

   Option 2a: keep the current provisions of the Guidelines.

   Option 2b: set minimum thresholds to ensure that indicator values breaching certain values are assigned an IRS of 100.

21. The reasons for the DGS not using the full range of the IRS can be manyfold, but the EBA identified that the main reason is that the thresholds are set independently of the actual values of the indicators from institutions that are members of a given DGS. Furthermore, as shown in Table 4, the EBA identified that for two indicators, some DGSs set thresholds for an IRS=0 that are breaching the minimum regulatory requirements. Most notably, the thresholds for the LCR and NSFR can be as low as 40% each, yet still correspond to an IRS of 0, despite being well below the minimum regulatory requirement of 100% each (once fully applicable). In other cases, there

seems to be a buffer between the minimum regulatory requirement and a value corresponding to an IRS of 0, such as for the leverage ratio (4% vs 3%) and CET1 ratio (7% vs 4.5%).

Table 4: Minimum and maximum thresholds for the core indicators across DGS

	Total # DGS	Range of threshold for IRS=0			Range of threshold for IRS=100			Delta of the thresholds (max-min)		
		Minimum	Median	Maximum	Minimum	Median	Maximum	Minimum	Median	Maximum
Leverage ratio	26	4%	10%	18%	1%	4%	7%	1%	5%	15%
CET1 ratio	22	7%	20%	33%	5%	10%	15%	2%	9%	29%
Capital coverage ratio	3	200%	200%	4283%	100%	100%	205%	100%	100%	4078%
LCR	27	40%	197%	1372%	30%	100%	206%	5%	60%	1166%
NSFR	11	40%	120%	160%	3%	90%	100%	20%	30%	60%
NPL ratio	26	0%	2%	8%	2%	9%	25%	1%	6%	20%
RWA / Total assets	26	0%	35%	70%	40%	70%	101%	10%	34%	100%
RoA	28	0%	1%	15%	-18%	0%	0%	0%	1%	20%
Unencumbered assets / Covered deposits	25	100%	230%	1969%	0%	119%	194%	7%	100%	1969%

22. The objective of setting appropriate thresholds for the translation of minimum and maximum indicator values into the IRS and using as full of a range of the IRS as possible, is to ensure adequate differentiation between institutions exhibiting different indicator values. That ensures that more risky institutions contribute more to the DGS fund, while the less risky ones contribute less, ceteris paribus.

23. The EBA concluded that there can be good reasons why the range of the IRS is not fully used, especially when the raw indicators of institutions do not exhibit pronounced divergence in risk profiles and that the absolute values of the indicators point to low levels of risk. Nevertheless, the EBA also concluded that in some cases it does not seem evident why some DGSs do not make full use of the IRS range, especially when the thresholds for allocating an IRS=0 is below minimum regulatory requirements. In view of the EBA, introducing minimum thresholds for the IRS when an IRS =100 seems justified, with the flexibility to apply stricter thresholds.

24. The EBA is of the view that Option 2b sets appropriate thresholds to ensure a more harmonised approach, and avoids instances where, for example, an institution that breaches minimum regulatory requirements is not assigned the maximum IRS of 100. Under this option, the proposed minimum thresholds are based on:

   a)   the minimum regulatory requirements (for the leverage ratio, CET1 ratio, LCR and NSFR); or

b)   expert judgement (for the capital coverage ratio, UA/CD ratio, RWA/total assets ratio).

25. The EBA assessed that there is no need to set a specific minimum threshold for the RoA and the NPL ratio as the banking markets are quite diverse and the situation may change considerably over time.

26. Under this option, DGSs can set stricter thresholds as a result of the calibration of the calculation method and the proposed minimum thresholds serve as a backstop. DGSs could also choose to apply stricter thresholds corresponding to an IRS=100, or to apply additional thresholds as is the case for the RoA.

27. This option in itself would not generate any additional costs for the industry, as it does not relate to how much funds it needs to contribute to the DGS, but rather how the contributions are divided among the institutions. For instance, where member institutions currently breach regulatory minima and are not assigned the maximum IRS, the change in the Guidelines is likely to lead to higher contributions for these institutions, and consequently, lower contributions for the institutions that do meet such regulatory minima. Such an impact is welcome as it contributes to the aim of ensuring adequate differentiation between institutions. This option would generate minimal costs for the authorities and/or DGSs responsible for calculating the contributions, as it would require a mere change of thresholds in their models.

28. On these grounds, **option 2b has been chosen as the preferred option.**

Minimum weight of core indicators

29. Under the current Guidelines, each core indicator, and its corresponding IRS, has a minimum weight in the calculation of the ARS. The EBA reviewed the appropriateness of those minimum weights in light of the survey answers and the performance of the core indicators to indicate a DGS intervention. The following options were considered:

Option 3a: Keep the existing minimum weights of core indicators.

Option 3b: Change some of the minimum weights of core indicators.

30. Of the 39 institutions subject to a DGS intervention, DGSs provided the ARS, ARW and core indicators for 30 of them. For these institutions, the EBA analysed the levels and the trends of the core indicators at the year end before the DGS intervention. Table 5 summarises the results of the analysis by listing for each core indicator the number of institutions subject to a DGS intervention for which a certain level was breached and the reason for intervention of those institutions. It also identifies the number of institutions for which the trend of that core indicator was deteriorating, again with the associated reason for intervention. The institutions observed under 'level' and 'trend' can be the same, but this is not necessarily the case. For each institution, multiple observations are possible. There were not enough observations for the capital coverage ratio to be considered for this analysis. Also, the core indicator unencumbered assets / covered deposits was not included in the table as it is not meant to provide an

indication for the likelihood of a DGS intervention, but rather for the losses for the DGS in case of a DGS intervention.

Table 5. Level and trend of core indicators for institutions subject to a DGS intervention

Core indicator	Level		Deteriorating trend**	
	Observations	*Reason for the intervention – number of institutions*	**Observations****	*Reason for the intervention – number of institutions*
Leverage ratio	12 institutions had a leverage ratio of < 3% or even < 0% (7 institutions) before the DGS intervention	*Solvency issues: 11* *Restructuring: 1*	13 institutions (decreasing trend)	*Solvency issues: 9* *Liquidity: 1 institution* *Unsustainable business model: 1* *Restructuring: 1* *Bankruptcy: 1*
CET1 ratio	17 institutions had a CET1 ratio of < 10.6%* or even < 0% (8 institutions) before the DGS intervention	*Solvency issues: 15* *Unsustainable business model: 1* *Restructuring: 1*	12 institutions (decreasing trend)	*Solvency issues: 9 institutions* *Liquidity issues: 1* *Unsustainable business model: 1* *Restructuring: 1*
NPL ratio	23 institutions had an NPL ratio higher than 5% before the DGS intervention (of which 17 above 15%)	*AML/ Fraud: 2* *Solvency issues: 16* *Inability to meet regulatory requirements: 3* *Unsustainable business model: 1* *Restructuring: 1*	10 institutions (increasing trend)	*Solvency issues: 7* *Inability to meet regulatory requirements: 1* *Unsustainable business model: 1* *Restructuring: 1*
RoA ratio	-23 institutions had a negative RoA before the DGS intervention - 1 institution had an RoA very close to 0 + - 2 institutions had negative RoAs 2 years before DGS intervention but slightly positive (0.2% and 0.4%) the year just before the DGS intervention	*AML/ Fraud: 1* *Solvency issues: 17 institutions* *Inability to meet regulatory requirements: 3* *Liquidity: 1* *Unsustainable business model: 1* *Restructuring: 1* *Bankruptcy: 2*	13 institutions (decreasing trend)	*Solvency issues: 10 institutions* *Inability to meet regulatory requirements: 1* *Unsustainable business model: 1* *Bankruptcy: 2*
RWA / Assets ratio	NA***	NA***	6 institutions (increasing trend)	*Solvency issues: 6*
LCR/ NSFR	For the only bank subject to an intervention due to liquidity, during the 3 years reported we have levels of LCR above 150% and no clear trend. No NSFR reported for this institution.			
*ECB Overall SREP requirements and guidance for CET1 capital in 2019 (unchanged from 2018) at 10.6%				
**Only possible for institutions with more than 1 year of data – to be noted that out of the 30 institutions in this table, 8 had data for just 1 year				

No universal thresholds with which to compare

31. Table 6 provides an overview of how many out of the 30 DGSs reported applying the various core risk indicators. Note that 1 DGS has 2 sub-funds with differing RBC methodologies, bringing the total number of DGS in the analysis to 31. The table shows the minimum, medium and maximum weights of the core indicators applied by the DGSs that reported the applied weights. One reporting DGS does not apply the leverage ratio, 1 DGS applies neither CET1 nor capital coverage ratio, 1 DGS does not apply the LCR, 19 did not use the NSFR at the end of 2020, 1 DGS does not apply the NPL ratio, 1 DGS does not apply the RWA / total assets ratio, all DGS use the RoA and 2 DGS do not use the unencumbered assets / covered deposits ratio. Among those DGS not applying one or more core indicators, the reasons were that either the data was not available, such as the NSFR or the leverage ratio for non CRR-institutions, or that another measurement had been chosen. For instance, one DGS replaced the LCR and NSFR with the two indicators 'liquidity buffer over total assets' and 'liquidity buffer over covered deposits'. Furthermore, the table provides the minimum, median and maximum weight of the core indicator in the ARS reported by DGS. Regarding the RWA / total assets ratio, one DGS represents an outlier by assigning a weight of 50%. Taking into account the analysis on the performance of the core indicators in indicating an increased likelihood of a DGS intervention, the EBA highlighted in red the weights of indicators that seem overemphasised (LCR) or not sufficiently emphasised (RoA) in relation to their performance.

Table 6: range of indicator weights across DGS

	Total # DGS	Actual indicator weight			Requirement from GL
		Minimum	Median	Maximum	Minimum weight
Leverage ratio	30	9%	10%	15%	9%
CET1 ratio	26	9%	11%	24%	9%
LCR	30	9%	17%	25%	9%
NSFR	12	9%	10%	15%	9%
NPL ratio	30	11%	15%	20%	13%
RWA / Total assets	30	7%	8%	50%	6.5%
RoA	31	7%	8%	17%	6.5%
Unencumbered assets / Covered deposits	29	13%	15%	23%	13%

32. The EBA drew the following conclusions:

a) The RoA and NPL ratio both seem to provide a very good indication of an increased likelihood of a DGS intervention, irrespective of the reason for the DGS intervention. However, while the NPL ratio has a fairly strong minimum weight (13%) that should not be modified, the RoA has a very low minimum weight (6.5%). In practice, DGSs do not assign the RoA a heavy weight (8% in median), thereby possibly not sufficiently emphasising this useful indicator. Thus, this weight should be increased.

b) The CET1 ratio and to a lesser degree the leverage ratio provides a good indication of an increased likelihood of a DGS intervention, especially for issues associated to solvency and profitability. Thus, their weights should be increased.

c) The trend of the RWA / Assets ratio provides some indication of an increased likelihood of a DGS intervention with regard to solvency issues, but overall we can observe that its performance was mediocre at indicating a DGS intervention and that it is difficult to interpret, meaning it is unclear at which level an institution can be considered to be risky. Its weight is rather low (8% in median), except for 1 DGS that assigns it a weight of 50%. Given also that 4 out of 8 core risk indicators offer a better indication of an increased likelihood of a DGS intervention, the minimum weight assigned to the RWA/ Assets ratio should be decreased.

d) While the NSFR could not be assessed on its performance, as it was not yet fully implemented in 2020, the LCR provides no indication of an increased likelihood of a DGS intervention, not even with regard to DGS interventions because of liquidity issues. Consequently, the weight of the LCR seems overemphasised (17% in median). This is possibly a result of the high minimum weight (9%) that it is assigned in the Guidelines and that DGSs that for data reasons could not yet apply the NSFR reassigned the weight of the NSFR to the LCR instead. Concerning the LCR, it is possible that the time span between the date of reporting and the date of intervention may be long, allowing for a significant deterioration between both dates. Thus, even if the LCR were a good measurement for indicating an increased likelihood of a DGS intervention, the DGS may not receive that indication in a timely manner and hence could not reflect it in the calculation for contributions. Thus, the minimum weight for the LCR is too high and should be decreased. In contrast to the LCR, the NSFR should reflect a longer-term perspective and may better suit the calculation method for DGS contributions.
It should be noted here that, given the high level of liquidity in the market associated with the accommodative monetary policy in the review period (2015- end 2021), it is likely that the LCR and NSFR were elevated for most institutions. With a reversal of the monetary policy expected in the coming years, the liquidity indicators may again gain more indicative power. Therefore, it seems appropriate to retain liquidity indicators as core indicators in the calculation methodology, albeit with reduced minimum weights.

e) The **unencumbered assets / covered deposits ratio** provides no indication either and has a heavy weight (15% in median). With regard to the unencumbered assets / covered deposits (UA/CD) ratio, the purpose of this indicator is not so much to provide an indication of an increased likelihood of a DGS intervention, but rather to provide some measurement of the potential loss given default for the DGS in case of a DGS intervention. In light of the foregoing, the EBA opines that there is currently no reason to change this indicator's minimum weight.

33. The EBA identified that the benefits of changing the minimum weights are to increase the risk sensitivity of the calculation method. The cost to the DGS should be negligible, as it would take only a short time to implement. The cost for the banking industry in aggregate would be zero as the aggregate contributions would not change. However, the adjustment of the minimum weights may lead to higher contributions for some institutions, while it would decrease the contributions for other institutions.

34. Given all of the above, **option 3b has been chosen as the preferred option.**

Changing the formula for translating the ARS into the ARW

35. With regard to the formulas for translating the ARS into the ARW, the current Guidelines feature a linear and an exponential formula for the sliding scale method and no formula for the bucket method. The policy objective is to ensure that the relationship between the contributions of a credit institution relative to other credit institutions remains constant to the difference in riskiness between institutions, irrespective of the position of the banking sample on the ARS range. This means that when an institution's riskiness increases by a certain amount, its contributions should also increase proportionally. Thus, the EBA assessed whether those formulas or the absence of formulas for translating the ARS into the ARW achieve this objective or whether an alternative exponential formula is more appropriate. The following options have been considered:

Option 4a: Keep the current formulas for the sliding scale method and no guidance for the bucket method

Option 4b: Change the formula to a new type of exponential formula for both the sliding scale and the bucket method

36. Regarding the sliding scale method, the EBA identified that the calibration of the ARS has an impact on institutions' contributions per covered deposits (normalised contributions). This means that when an institution's riskiness increases by a certain amount, the increase in contributions is not always the same and instead depends on the position of the institution on the ARS range. This applies also in most cases to the bucket method as there is no uniform translation of the ARS to the ARW.

37. The examples in Table 7 below for the current linear and the exponential formula illustrates that for two sets of institutions, one high risk and one low risk, the relative contributions change despite the institutions having the same distance in riskiness.

Table 7: Examples of contributions under current linear and exponential formula in dependency of the position on the ARS scale

Current linear formula												sum Ci	μ
ARS	0	10	20	30	40	50	60	70	80	90	100		
ARW	0.75	0.825	0.9	0.975	1.05	1.125	1.2	1.275	1.35	1.425	1.5		
Cov. Dep.						20	50			30			
Ci unadjusted						22.5	60			42.75		125.25	0.80
Ci adjusted						17.96	47.90			34.13		100	
Cov. Dep.		20	50			30							
Ci unadjusted		16.5	45			33.75						95.25	1.05
Ci adjusted		17.32	47.24			35.43						100	

Current exponential formula												sum Ci	μ
ARS	0	10	20	30	40	50	60	70	80	90	100		
ARW	0.75	0.78	0.81	0.85	0.90	0.94	1.00	1.07	1.16	1.29	1.50		
Cov. Dep.						20	50			30			
Ci unadjusted						18.89	50.15			38.73		107.77	0.93
Ci adjusted						17.53	46.53			35.94		100	
Cov. Dep.		20	50			30							
Ci unadjusted		15.61	40.73			28.34						84.69	1.18
Ci adjusted		18.44	48.10			33.47						100	

38. Ideally, the institutions highlighted in the same colours should have the same contributions. However, the adjusted contributions deviate in dependency where the banking sample is located on the ARS range. This applies also to the bucket method, as there is currently no precise guidance on how to translate the ARS into the ARW.

39. In comparison to that, the proposed exponential formula (option 4b), which applies to the sliding scale and the bucket method would yield the following results as shown in Table 8 below.

Table 8: example of new formula

Proposed exponential formula												sum Ci	μ
ARS	0	10	20	30	40	50	60	70	80	90	100		
ARW	0.75	0.80	0.86	0.92	0.99	1.06	1.14	1.22	1.31	1.40	1.50		
Cov. Dep.						20	50			30			
Ci unadjusted						21.21	56.84			41.99		120.04	0.83
Ci adjusted						17.67	47.35			34.98		100	
Cov. Dep.		20	50			30							
Ci unadjusted		16.08	43.08			31.82						90.97	1.10
Ci adjusted		17.67	47.35			34.98						100	

40. As the example demonstrates, the institutions highlighted in the same colours pay the same contributions, irrespective of where the banking sample is located on the ARS range. This makes the translation of the ARS into the ARW less dependent on the calibration of the ARS. It also means that irrespective of the ARS, a given increase in riskiness of an institution will always translate to the same proportional increase in contributions.

41. With regard to the cost of changing from one formula to another, the EBA notes that the banking sector is already paying contributions and the change in formula will not change the overall amount of contributions that the banking sector is paying. Consequently, on an aggregate level, there is no cost to the banking sector. However, the distribution of contributions may change, with some institutions having to pay more while other institutions will have to pay less.

42. As it should take very little time to substitute the formulas in the calculation method, the EBA estimates the cost for the DGS to be close to zero and not significant compared to the benefits of increasing the consistency of the level of contributions across institutions.

43. To this end, **Option 4b has been chosen as the preferred option.**

Regular recalibration of the method to calculate the ARW

44. The following options were considered:

    Option 5a: not including, in the revised Guidelines, a regular recalibration of the method to calculate the ARW.

    Option 5b: including, in the revised Guidelines, a regular recalibration of the method to calculate the ARW.

45. The EBA is of the view that market conditions may change constantly. For instance, with regard to the poor performance of the liquidity indicators for the indication of DGS interventions, it may be due to the past and current very high level of liquidity in the financial system. In a world with lower excess liquidity the indicator may become more relevant. Therefore, it is necessary that DGSs adapt the methodology to capture risks appropriately, for instance by setting the right weights above the minimum weights. Further, on the example of the indicator weights, while the minimum weights set the framework for a harmonised calculation of DGS contributions, it is nevertheless important that DGSs monitor the market conditions and set the indicator weights accordingly, e.g. by setting higher weights for liquidity indicators in the future.

46. The benefit of requiring DGSs to regularly review the calibration of the calculation method is to ensure the risk sensitivity of the calculation method. The cost for the DGS and for credit institutions should however be limited.

47. Consequently, **option 5b has been chosen as the preferred option.**

Taking into account deposits in beneficiary accounts for the purpose of calculating contributions to DGSs

48. In the EBA Opinion on the treatment of client funds under DGSD, the EBA recommended that it should be ensured 'that client funds are taken into account when calculating contributions to DGS funds, with details to be set out in a revision of the EBA Guidelines on methods for calculating contributions to DGSs.'

49. The said Opinion included an assessment of the materiality of some of the amounts of deposits in beneficiary accounts placed with credit institutions by other credit institutions, payments institutions, e-money institutions and investment firms. The Opinion concluded that 'the limited data that is available, allowed the EBA to arrive at the view that the inclusion of client funds in the coverage of DGSs would probably have a small impact on the overall amount of covered deposits in nearly all MSs, either because the amounts of client funds relative to covered deposits appear to be small, or because they are already covered, or both.'

50. The assessment outlined in the Opinion also showed that currently, across Member States, there are different ways to consider deposits in beneficiary accounts for calculating contributions to DGS funds. Thus, leveraging the current approaches, for the purpose of these Guidelines, the EBA considered how to calculate contributions based on deposits in beneficiary accounts, as opposed to whether it should be done. The four options considered were as follows:

Option 6a: require deposits in beneficiary accounts to be taken into account when calculating contributions, without providing a methodology to do so.

Option 6b: require all account holders to provide detailed information about their clients who are ultimate beneficiary owners of deposits in the beneficiary accounts.

Option 6c: require that all deposits in beneficiary accounts are necessarily used for the purpose of calculating contributions.

Option 6d: require that DGS have in place adequate systems to receive the precise information on covered deposits in beneficiary accounts, without prescribing one method of achieving that aim.

51. The EBA assessed and discarded option 6a as it would lead to the need for each DGSDA/DGS to develop its own methodology and would lead to a divergence of approaches. The EBA also assessed and discarded imposing one single way to reflect deposits in beneficiary accounts in the contributions. Among the possible ways to do it, the EBA assessed that to require all account holders to provide detailed information about their clients who are ultimate beneficiaries (Option 6b), would generate significant burden for many account holders – from financial institutions such as credit institutions, investment firms etc., to solicitors, real estate agents, and others, who would be asked by the credit institutions for this information. Furthermore, in some instances it would not lead to significant differences in contributions than

taking into account the whole deposits because the vast majority of ultimate beneficiaries would have less than 100.000 Euros of deposits in such accounts. The EBA also assessed that, on the other hand, to require that in all instances, all deposits in the beneficiary accounts are taken into account (Option 6c) could in some other instances significantly overestimate the amount that is in fact covered – particularly for the types of account holders who generally hold high amounts of client funds – such as for example certain investment firms specialising in high net worth individuals.

52. The EBA then assessed the requirement for the DGS to have in place adequate systems to receive the precise information on covered deposits in beneficiary accounts, without prescribing one method of doing so. In that approach, by default, all the deposits in the beneficiary accounts should be taken into account when calculating contributions to the DGSs. However, it should be allowed for a credit institution to provide the DGSDA/DGS with the precise information which can outline what proportion of client funds are covered, or an estimate of the maximum amount which might be covered, and for the DGSDA/DGS to use that more precise figure to calculate the contributions from that credit institution. To allow for that to happen, the DGSDA/DGS must have in place adequate systems to receive such information. That approach combines simplicity with flexibility to allow credit institutions to provide more precise information where they wish to do so, to potentially lower the amount of contributions to be paid.

53. For the above-outlined reasons, the EBA chose **option 6d as the preferred option.**

D. Conclusion

54. The proposed revision of the Guidelines EBA/GL/2015/10 should achieve the goal of enhancing the relationship between the risks of the member institutions for the DGS and their contributions to the DGS.

55. The proposed revisions should be feasible with as little extra effort and burden for DGSs and their member institutions as well as for competent and designated authorities. These revisions could modify the contributions by banks to better fit with the corresponding risks but will not increase the total amount of all institutions' contributions.

56. As such, the benefits of these revised Guidelines would outweigh their costs.

4.2   Feedback on the public consultation

57. The EBA conducted a consultation on the Draft Guidelines (revised) on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2015/10 over a 3-month period ending on 31 October 2022. A public hearing was held on 29 September 2022. The EBA received 13 responses, which were all published on the EBA website.

Main comments received during the public consultation

58. One respondent argued that the flow-based contribution method should be either replaced or complemented by a stock-based contribution method. The respondent argued that in the flow-based system, the risk associated with a growth of deposits is not allocated to the respective credit institution, but rather distributed among all member institutions of the DGS. This could lead to a situation in which credit institutions with unchanged or even declining deposits must nevertheless pay higher contributions because they have to co-finance the higher target level of the DGS fund caused by the growth in deposits at another credit institution on a pro rata basis through their contributions. Due to this calculation logic, the flow-based method could lead to member banks with a lower risk and with little or no growth in covered deposits reaching a target level of more than 0.8% of covered deposits and, on the other hand, member banks with strong growth of covered deposits and increased risk contributing less than the target level of 0.8%. The use of the stock-based approach would also largely eliminate the problem regarding the transfer of contributions issue, since in the event of a change of DGS, there would be an institution-related allocation of the qualified available financial means or the proportionate equity of the DGS fund.

59. The current Guidelines do not explicitly refer to the use of the stock-based contribution method although some DGSs are already applying it. Thus, based on the suggestion made by the respondent, the EBA decided to amend the revised Guidelines to explicitly outline how to apply the methodology to such systems and thereby ensure harmonisation of the methods used by DGSs across the EU. To that effect, the EBA introduces a new subsection (iii) under Section 4.6 to modify the calculation formula in paragraph 14 and 16 to explicitly outline how to apply the stock-based approach, should a DGS chose to use it. Furthermore, the EBA concluded that the difference between the flow-based method and the stock-based method also needs to be made clearer and will thus clarify paragraph 16 on the periodic target level. With regard to the issue of transfer of contributions, the EBA concluded that the application of a stock-based method does not per se solve the issue under the current DGSD. Instead, the EBA is of the view that the issue needs to be addressed in the review of the DGSD, as already stated in the EBA Opinion on eligibility.

60. Some respondents argued that the implementation period for the revised Guidelines should be long enough to allow DGSs to properly test the new procedures and argued that the revised Guidelines should not be applied before 1 January 2024, which is however contingent on the condition that they are published in Q1 2023, given that the DGSs need at least 6 months to

implement and test the new procedures. One respondent even suggested to set the implementation date as of 3 July, after the deadline to meet the minimum target level for the first time to avoid any disruptions in the last cycle of raising contributions before the deadline. After further consideration, the EBA acknowledges that DGSs need sufficient time to implement the proposed changes and anticipate an implementation date of 3 July 2024 to avoid unforeseen glitches in the last cycle of raising contributions before meeting the deadline for reaching the minimum target level.

61. Some respondents argued that the forward-looking approach to raising contributions in paragraph 17 of the Guidelines in the Consultation Paper sets stricter requirements than the DGSD. In their view, the provision would require loan repayments to be limited in time in order to maintain the two-thirds target level and the 6-year replenishment period of the DGSD should be used. No new or constraining requirement should be introduced, as this could entail procyclical effects in periods of economic stress and the DGS should be free to take as long as it needs to repay outstanding loans.

62. The EBA already introduced this requirement in the Guidelines on the delineation and reporting of AFM of DGS (EBA/GL/2021/17). Consequently, the EBA does not introduce a new requirement but merely moves it from one set of Guidelines and places it in more suitable Guidelines as this provision touches upon the calculation of contributions. The provision in paragraph 17 provides a requirement that DGSs should apply a forward-looking plan when raising contributions, i.e. that DGSs should not only raise sufficient contributions to meet the target level at the deadline required by the DGSD, but additionally, in the course of the period to reach the deadline, raise sufficient contributions so that QAFM and other AFM are enough to service outstanding liabilities when these become due to avoid the risk of not being able to meet the deadline. The Guidelines also provide that such forward-looking plans should ensure that after a DGS reaches the DGSD-mandated target level ahead of the deadline, on its own, the loan repayments do not reduce that DGS's QAFM to less than two thirds of the target level. That is important because otherwise, loan repayments of DGSs could be structured in such a way that a new period to meet the deadline could artificially restart when sizeable loan repayments are made. Finally, the forward-looking plans should ensure that in cases where a DGS still has a liability after the DGSD-mandated deadline to reach the target level, it raises enough contributions in advance of any further loan repayments to be able to repay them without reducing the level of QAFM below the DGSD-mandated target level.

63. Nevertheless, the EBA agreed with the respondent that the provision is not sufficiently clear. For instance, the proposed paragraph 17 may have been misleading in that it suggested that the periodic target level must be higher than the minimum under paragraph 16 and cannot be equal to that minimum, which is not strictly necessary and depends on the time horizon by when the outstanding liability has to be at least partly repaid. Also, the further provisions that were proposed in the Consultation Paper do not seem to be clear enough as to how they should be applied. The EBA thus decided to improve the clarity of paragraph 17 by reformulating the requirements so that 'the foreseeable servicing of the liability does not lead to undershooting vis-à-vis the funding path of QAFM and that by the time the target level has to be reached again,

the foreseeable servicing of the liability does not, on its own, reduce the DGS's QAFM below the target level.' Consequently, the EBA amended the wording in paragraph 17. Furthermore, to avoid duplication of requirements, the EBA will delete the same provision from the Guidelines on the delineation and reporting of AFM of DGS (paragraph 21).

64. Regarding the argument that the provision imposes a deadline by which to repay a loan, the EBA emphasises that the provisions in the proposed revised Guidelines do not stipulate how and by when an outstanding liability should be repaid and hence it will not have a procyclical effect.

65. Detailed feedback on each of the comments received is provided in the table below.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of the responses received	EBA analysis	Amendments to the proposals
Question 1: Do you have any comments on the proposed changes to the addressees or definitions in the Guidelines?			
Definition of 'DGS intervention'	While some respondents agreed with the provided definition of 'DGS intervention' and some respondents had no comments, some respondents expressed concern that the proposed definition widens the role of the DGS in the crisis management and deposit insurance framework, which is not supported by the DGSD. In their view, the primary role of DGSs should be to reimburse depositors, and any other type of DGS intervention should be limited and subject to the conditions laid out in the DGSD, to avoid keeping non-viable banks operating. Another respondent noted that the EBA has not provided any insights into its assessment as to how effectively and/or efficiently DGS interventions were utilised and requires more clarity on the definition.	The revised Guidelines on methods for calculating contributions to deposit guarantee schemes will not affect the role of DGSs as their role is set out in the DGSD. The Guidelines only set out the rules on how DGSs should calculate contributions. To this end, the proposed definition of 'DGS intervention' in the revised Guidelines aims to accurately reflect the situations in which a DGS uses its funds to fulfil its role in line with Article 11 of the DGSD, based on which it should calculate contributions accordingly. The inclusion of the definition improves the current Guidelines which refer to 'failures' of institutions, which is imprecise: a DGS may also need to use its funds outside of cases of bank failures, e.g. if it needs to contribute to the resolution of an institution that has not yet failed, but that is likely to fail. Regarding the suggested assessment of the effectiveness of different types of DGS interventions, the EBA is of the view that it is beyond the remit of the Guidelines on methods for calculating contributions to DGSs to assess the effectiveness of various types of DGS interventions.	No change.
Question 2:	**Do you have comments concerning the proposed allocation of responsibilities to the DGS, competent authority and designated authority in the Guidelines?**		
Formal role of authorities other than the competent and	While one respondent agreed with the proposed allocation of roles to the DGS, competent and designated authority, and one respondent had no comment, another respondent noted that they do not see the role for other authorities	The revised Guidelines do not anticipate a role per se for any other authority than the competent and designated authority. The national framework may anticipate such a role, which is neither required nor disallowed by the revised Guidelines. Nevertheless, the EBA concluded that the reference in	Paragraph 10: 10. These Guidelines are addressed to deposit guarantee schemes, competent authorities

designated authority	such as the macroprudential authority to be involved in setting DGS contributions.	paragraph 12 to the 'national framework' might be misleading, as it is superfluous and amended paragraph 12 accordingly.	and designated authorities as defined in Article 2(1)(1), (17) and (18) of the DGSD (and as referred to in Article 4(2), point (i) and (iv) of Regulation (EU) 1093/2010) ~~and in accordance with the national allocation of responsibilities~~.

Question 3: Do you have any comments on changing the reference from the annual calculation of contributions to the periodic calculation of contributions and on the clarification to set the periodic target level in Section 4.2 of the Guidelines?

Raising contributions at a sub-annual level	While one respondent agreed with the proposed changes, some respondents were against allowing contributions to be raised more frequently than annually. Of those respondents, one respondent argued that this would increase the administrative burden, another respondent stated that it would be incompatible with raising contributions as evenly as possible and yet another respondent argued that given that market analysts were already used to accounting the impact of annual contributions in bank statements in June, raising sub-annual contributions should be limited to specific cases and the reason for this explained publicly by the authority.	The DGSD states in Article 10(1) paragraph 2 that 'DGSs shall raise the available financial means by contributions to be made by their members <u>at least</u> annually.' Since the revised Guidelines cannot contradict the DGSD, the EBA is of the view that the wording of the Guidelines should not suggest that contributions can only be made annually. Therefore, the EBA proposed to amend the wording from 'annual contributions' to 'periodic contributions'. Nevertheless, the revised Guidelines do not impose on DGSs a requirement to increase the frequency of contributions to more than annually.	No change.
Forward-looking approach to raising contributions	While one respondent agreed with the proposed changes in the Consultation Paper, some respondents argued that the forward-looking approach to raising contributions in paragraph 17 of the Guidelines in the Consultation Paper sets stricter requirements than the DGSD. In their view, the provision would require loan repayments to be limited in	The EBA already introduced this requirement in the Guidelines on the delineation and reporting of AFM of DGS (EBA/GL/2021/17). Consequently, the EBA does not introduce a new requirement but merely moves it from one set of Guidelines and places it in more suitable Guidelines as this provision touches upon the calculation of contributions. The	Paragraph 17: 17. Where the DGS has an outstanding liability, ~~it~~ <u>and taking into account the minimum requirement under paragraph 16,</u>

time in order to maintain the two-thirds target level and the 6-year replenishment period of the DGSD should be used. No new or constraining requirement should be introduced, as this could entail procyclical effects in periods of economic stress and the DGS should be free to take as long as it needs to repay outstanding loans.

provision in paragraph 17 provides a requirement that DGSs should apply a forward-looking plan when raising contributions, i.e. that DGSs should not only raise sufficient contributions to meet the target level at the deadline required by the DGSD, but additionally, in the course of the period to reach the deadline, raise sufficient contributions so that QAFM and other AFM are enough to service outstanding liabilities when these become due to avoid the risk of not being able to meet the deadline. The Guidelines also provide that such forward-looking plans should ensure that after a DGS reaches the DGSD-mandated target level ahead of the deadline, on its own, the loan repayments do not reduce that DGS's QAFM to less than two thirds of the target level. That is important because otherwise, loan repayments of DGSs could be structured in such a way that a new period to meet the deadline could artificially restart when sizeable loan repayments are made. Finally, the forward-looking plans should ensure that in cases where a DGS still has a liability after the DGSD-mandated deadline to reach the target level, it raises enough contributions in advance of any further loan repayments to be able to repay them without reducing the level of QAFM below the DGSD-mandated target level.

Nevertheless, the EBA agreed with the respondent that the provision is not sufficiently clear. For instance, the proposed paragraph 17 may have been misleading in that it suggested that the periodic target level must be higher than the minimum under paragraph 16 and cannot be equal to that minimum, which is not strictly necessary and depends on the time horizon by when the outstanding liability has to be at least partly repaid. Also, the further provisions that were proposed in the Consultation Paper do not seem to be clear enough as to how they should be applied. This, the EBA decided to improve the

the DGS should set the periodic target level ~~higher than the minimum required under paragraph 16~~in order to raise enough contributions in a forward-looking manner so that the resulting level<u>s</u> of QAFM and other AFM <u>are</u> sufficient ~~to service~~ <u>for servicing</u> the outstanding liabilities as soon as these liabilities are due ~~to meet the applicable~~ <u>, as well as for reaching the target level at the deadline</u><u>, set out</u> in Article 10(2) of the DGSD~~, and after reaching.~~ <u>When setting</u> the <u>periodic</u> target level ~~for the first time and~~ <u>the DGS should ensure both of the following:</u> ~~a DGS intervention, but ahead of the deadline to meet the~~

<u>a. that the foreseeable servicing of the liability does not lead to undershooting vis-à-vis the funding path of QAFM that follows from the application of paragraph 16, and</u>

<u>b. that by the time the</u> target level has to be reached again ~~according to~~<u>in accordance with</u> Article 10(2) of the DGSD, <u>the foreseeable</u>

clarity of paragraph 17 by reformulating the requirements so that 'the foreseeable servicing of the liability does not lead to undershooting vis-à-vis the funding path of QAFM and that by the time the target level has to be reached again, the foreseeable servicing of the liability does not, on its own, reduce the DGS's QAFM below the target level.'

The EBA also concluded that with the proposed clarification of paragraph 17, there is no need any more to include the requirement from paragraph 17b of the Consultation Paper, which requires that the DGS raise enough contributions so that the two-thirds threshold is not breached within the 6-year period to meet the target level again. If the DGS complies with the provisions in paragraph 17, even if in a given year the two-thirds threshold is exceeded and then breached again because of foreseeable servicing of a loan, this will not lead to changing the time the DGS will take to reach the target level as the funding path anticipates reaching the target level within the initial 6-year period.

Consequently, the EBA amended the wording in paragraph 17. Furthermore, to avoid duplication of requirements, the EBA will delete the same provision from the Guidelines on the delineation and reporting of AFM of DGS (paragraph 21).

Regarding the argument that the provision imposes a deadline for repaying a loan, the EBA emphasises that the provisions in the proposed revised Guidelines do not stipulate how and by when an outstanding liability should be repaid and hence it will not have a procyclical effect.

servicing of the liability does not, on its own, ~~the servicing of such liabilities does not lead to a fall of QAFM to less than two thirds of the target level, and~~

~~c. if a DGS has an outstanding liability after the deadline to reach the target level following an intervention, on its own the servicing of the liabilities does not~~ reduce the DGS's QAFM below the target level.

Question 4: Do you have comments on the proposed approach to account for covered deposits held in beneficiary accounts or other deposits where there is uncertainty about the coverage, as set out in Section 4.3 of the Guidelines?

| Treatment of client funds | While one respondent agreed with the proposed approach on the treatment of covered deposits held in beneficiary accounts (client funds) and viewed it as a prudent approach, some respondents agreed with the general requirement to also levy contributions on client funds, but disagreed with the requirement for credit institutions to provide precise data on covered and uncovered deposits to the DGS, as there is no regulatory requirement in place requiring such reporting for credit institutions. In the view of the respondents, technically, this reporting could only be fulfilled by the account holder and not the credit institution, while legally there is no requirement for account holders to do so. Furthermore, requiring precise data would impose an exaggerated administrative burden on credit institutions and have no added value for the DGS, as the ultimate beneficiaries in such beneficiary accounts change constantly, hence not offering any advantage in a payout case. These respondents also challenged the assumptions that are to be made to calculate contributions if the precise amount of covered deposits in a beneficiary account is unknown, as this would overestimate the covered deposits. One of those respondents argued that credit institutions were legally obliged to open beneficiary accounts and that the proposed approach would impose increased costs to credit institutions, which they could not pass on to the holders of beneficiary accounts alone, but had to pass on to all depositors. That respondent also argues that levying contributions on all deposits in a beneficiary account would be violating the DGSD, as it only requires levying deposits on covered deposits. Instead, the respondents who disagreed with the proposed approach proposed that only | In the EBA Opinion on the treatment of client funds under the DGSD published on 27 January 2021 (EBA/Op/2021/11, pp. 20-21), the EBA opined that client funds should be taken into account when calculating DGS contributions to create a level playing field and identified that taking them into account would insignificantly affect the level of contributions. To address the issue, the EBA identified three possible solutions: 'One way is to require that credit institutions provide a breakdown of amounts by ultimate beneficiary in each beneficiary account, which would allow for a precise calculation. Another way is to assume that all the client funds in the beneficiary account are covered, although they might not necessarily be covered, and thereby possibly overestimate the basis for calculating contributions. A third way is to combine the first two approaches, namely to assume that all the client funds are covered, unless a credit institution can provide detailed information to perform a precise calculation.' Considering that the respondents who are against the proposed approach argued that the first option cannot be imposed on credit institutions and that the second approach would be unfair to those institutions that do report the precise amounts, the EBA confirms that the third path is the most balanced approach, allowing credit institutions to either report the precise amount of covered deposits in beneficiary accounts if they can, or to allow the DGS to estimate the maximum amount of covered deposits in beneficiary accounts, or if that is also not possible, assume that all client funds are covered. The alternative proposed by the respondents is not viable, as leaving it to the DGSs' discretion does not ensure a level playing field and only requiring contributions from institutions that have the data on covered deposits in beneficiary accounts would put other institutions, which do not have the data, at a competitive | Paragraph 23:

In relation to Article 7(3) of the DGSD, if a member institution does not accurately determine the precise amount of covered deposits in beneficiary accounts or ~~established~~ <u>ascertained</u> maximum <u>possible</u> amount of covered deposits in such accounts, the DGS should assume that all funds in the beneficiary accounts are covered for the purpose of calculating contributions. Where a member institution reports the precise amount of covered deposits in such accounts, or a ~~established~~ <u>ascertained</u> maximum <u>possible</u> amount of covered deposits in beneficiary accounts, the DGS should take these figures into account when calculating the member institution's contributions. The competent authority in cooperation with the designated authority should determine which information is necessary to take into account the precise amount or the ~~established~~ <u>ascertained</u> maximum <u>possible</u> |

where the precise amounts of covered deposits in beneficiary accounts are known, they should be accounted for in the DGS contributions of the credit institution. By contrast, where the exact amount is unknown, one respondent argued that the whole balance of the beneficiary account should only then be taken as a basis for calculating contributions if the lack of identification is due to the credit institution's negligence; while another respondent proposed that in cases where the exact amount of covered deposits in beneficiary accounts is unknown, the DGS should retain flexibility on how to treat the beneficiary account.

advantage. Additionally, the EBA emphasises that these assumptions are made only for the purpose of calculating DGS contributions.

Nevertheless, the EBA agrees that the provisions can be further clarified, especially on how to ascertain the maximum possible amount of covered deposits.

amount of covered deposits in a beneficiary account. In any case, the DGS should be able to ascertain the maximum possible amount of covered deposits if it has the information of the number of people who are absolutely entitled to the sums held in a beneficiary account by multiplying that number by the coverage level according to Article 6 of the DGSD. The DGS may reflect temporary high balances for the purpose of ascertaining the maximum possible amount of covered deposits.

Treatment of other deposits where there is uncertainty on the coverage	One respondent argued that in some cases it would not be possible to know the amount of the covered deposits at the time of reporting as the protection of temporary high balances (THB) can only be ascertained by a liquidator in the case of a liquidation.	The EBA emphasises that the assumptions on the coverage level of funds, where there is uncertainty on the coverage level and eligibility, are made for the purpose of calculating DGS contributions only. As coverage of THBs are in many cases not known to credit institutions and would only be ascertained in cases of liquidation, the EBA is of the view that DGSs are best placed to make assumptions regarding the THBs and consequently the Guidelines leave it to the DGSs' discretion how to account for them. In any case, the EBA emphasises that the assumptions in paragraph 24 do not prejudge based on the actual coverage of funds. Nevertheless, the EBA agrees that the provision should be further clarified that it is about the uncertainty on the eligibility	Paragraph 24: For the purpose of calculating the contributions to the DGS fund, in other cases where there is uncertainty regarding the eligibility and coverage of a particular individual deposit in practice, the DGS should assume that the deposits are covered. The DGS may include temporary high balances for the purpose of calculating the contributions to the DGS fund.

and coverage in practice and not about uncertainty linked to diverging interpretations of the DGSD across member states.

Question 5:	**Do you have comments on the proposed changes to the core indicators and additional indicators as set out in Section 4.5 (i)?**		
Agreement with proposed approach	One respondent agreed with the proposed approach.	The EBA acknowledges the feedback.	No change.

Question 6:	**Do you have comments on the definition or calculation of the core indicators?**		
Calculate NPL ratio net of provisions	One respondent argued that the NPL ratio should be calculated net of provisions if no coverage indicator is used as an additional indicator in the risk model.	The EBA understands that the respondent suggests replacing the NPL ratio with the NPL coverage ratio as the core indicator. The analysis of the current Guidelines demonstrated that the gross NPL ratio has performed well in indicating a DGS intervention. Consequently, it seems ill-advised to replace this core indicator. Nevertheless, the EBA acknowledges that provisions can be a useful risk indicator and DGSs are free to use the remaining 25% weight in the ARW to also reflect that indicator.	No change.
Retain the liquidity ratio	One respondent argued to retain the liquidity ratio from the current Guidelines as it is still applicable to credit unions in Ireland, which in turn are not subject to reporting the LCR or the net stable funding ratio (NSFR).	Paragraph 30 of the proposed revised Guidelines allow to exclude '… with regard to specific types of institutions, a core indicator upon justification that this indicator is unavailable because of the legal characteristics or supervisory regime of such institutions.' Paragraph 31 further states, 'Where the competent authority in cooperation with the designated authority or the DGS removes a core risk indicator for a specific type of member institution, they should use the most appropriate proxy for the removed indicator.' Therefore, in the case of Irish credit unions, which according to Article 2 (5)(7) of Directive 2013/36/EU (Capital Requirements Directive – CRD) are excluded from the scope of said Directive, the EBA is of the view that the DGS, competent and designated authority would	No change.

Question 7: Do you have comments on the proposed changes to the minimum weights of core indicators and the maximum weight of any indicator, as set out in Section 4.5 (ii) of the Guidelines?

apply the most appropriate proxy for the LCR and NSFR and thus continue using the liquidity ratio.

Limit national discretion for setting stricter thresholds vs increasing flexibility		

Limit national discretion for setting stricter thresholds vs increasing flexibility

One respondent agreed with the proposed changes and one respondent did not object to the proposed changes. Another respondent argued to limit national discretion in order to improve the level playing field across different Member States. In contrast, yet another respondent argued to increase national discretion by reducing the minimum weights for all core indicators to 5% and instead require that each of the five risk categories should have a minimum weight of 15%. In risk categories where there are two core indicators defined, the DGS would be flexible in setting weights above 5% to have a total weight of at least 15% in that risk category. For risk categories where there is only one core indicator defined, the minimum weight for that core indicator would be 15%, which applies to the NPL ratio and the covered deposits / unencumbered assets ratio. This respondent's reasons for proposing this were that it viewed the sample of 39 DGS interventions on which the analysis in the Consultation Paper is based as being too small to deduce robust conclusions; that many of the institutions in the sample subject to a DGS intervention were credit unions, to which the GL do not apply; that the capital core indicators were correlated, pointing to a need to reduce their combined weight instead of increasing it; and that a high RoA rather points to a high risk instead of a low risk.

The Guidelines aim to achieve a level playing field among credit institutions while leaving the necessary flexibility to address national and sectoral specificities. As such, the EBA concluded that prescribing the minimum weights of the core indicators to amount to 75% of the ARW while leaving flexibility to distribute the remaining 25% of weights across core and additional indicators achieves a suitable balance. The suggestion of one respondent to set the minimum weight of each core indicator to only 5% would instead increase flexibility and lead to less harmonisation, which in the view of the EBA would undermine the aim of ensuring a level-playing field.

The EBA acknowledges the correlation between the core capital indicators; however, as their predictive value for a DGS intervention is high, the high minimum weight for them in sum is justified.

Regarding the RoA, the Guidelines leave it open to use a double threshold for the RoA and after a certain value apply a higher risk weight to credit institutions with a higher RoA. Nevertheless, the EBA discovered that the revised Guidelines contain an obvious error and will correct it.

Finally, the EBA performed the analysis of the relevance of the indicators based on the data for the majority of cases where there was a DGS intervention since the adoption of the current

Table 1, point 4.2 last column on the RoA as follows:

(-)/(+) Generally, a higher value indicates ~~higher~~ lower risk, but too high values can also indicate high risk.

Guidelines, and thus, constitutes a robust sample to perform such an analysis.

Increase in minimum weight for NPL ratio	Some respondents argued that the analysis in the CP suggests that the NPL ratio has a good predictive value for a DGS intervention and consequently wondered why the EBA is not suggesting increasing the minimum weight of the NPL ratio.	The EBA concurs that the NPL ratio has a good predictive value and has thus assigned it the highest minimum weight among the core indicators. Increasing its minimum weight further would however require either reducing the minimum weight of another core indicator or reducing the remaining 25% flexibility in weight-distribution.	No change.
Correlation between RoA and the total risk exposure amount / total assets (TREA/TA)	One respondent argued that the RoA and the TREA/TA are positively correlated with increasing risk. In their view the minimum weight of the RoA should not be increased and the minimum weight of the TREA/TA not decreased, as both measures benefit high-risk banks at the expense of low-risk banks.	The EBA conducted an analysis of the correlation according to Spearman and Pearson of all core indicators and found the correlation between the RoA and TREA/TA to be low in both cases. Furthermore, the EBA identified that the RoA has a good predictive value for a DGS intervention. In addition, the EBA notes that the RoA can have an inflexion point: after a threshold, a rising RoA would no longer lead to a lower individual risk score, but to an increasing individual risk score. The Guidelines further state that 'DGSs should calculate the RoA as an average over at least 2 years to avoid including one-off events and avoid procyclicality in contributions.' Consequently, the EBA confirms its previous assessment that the weight of the RoA should be increased.	No change.

Question 8:	**Do you have comments on the proposed changes to the formula to calculate minimum contributions, as set out in Section 4.6 (i) the Guidelines?**

Provide impact assessment of the change to the formula	While one respondent agreed with the proposed changes, another respondent argued that the change in the formula to calculate minimum contributions is not necessary as the current formula is already operationalised and working. Hence, any changes should be subject to an assessment by	The proposed revised Guidelines aim to correct an undesirable technical feature of the calculation method which leads to unstable results. However, the EBA acknowledges that the minimum contribution should be stable across time, which may not be the case under the formula proposed in the CP. Consequently, the EBA will revert to the formula of the current	Revise formulas in paragraph 72b and provide additional methodological guidance in Annex 1.

national competent authorities to confirm that it will not have a substantial impact.

Guidelines but provide clear guidance on how to calculate the minimum contribution in a manner that provides stable results.

Furthermore, the EBA used this opportunity to review all formulas and their presentation and will simplify the formulas in paragraphs 25, 72a and 74, without changing their effect at all.

Reformulate formulas in paragraphs 25, 72a and 74 to simplify their presentation.

Question 9:	Do you have comments on the proposed minimum thresholds for the IRS of some core indicators, as set out in Section 4.5 (iii) of the Guidelines?

| National flexibility vs level playing field. | One respondent agreed with the proposed changes. Another respondent argued that they object to setting stricter thresholds at the national level and implied that the proposed thresholds should be directly applicable instead of being minimum thresholds. Yet another respondent agreed with keeping flexibility at the national level which should ensure recognition of the divergent risk profiles within the diverse range of institutions covered by the DGSs. | The EBA concluded that the level of flexibility and harmonised on the minimum thresholds is appropriate to a) ensure a level playing field and b) nevertheless ensure a risk-adequate calibration of the calculation method. The revised Guidelines reduce flexibility to ensure that institutions which breach regulatory requirements or common-sense thresholds are categorised as high-risk institutions. At the same time, DGSs should set stricter thresholds if this is appropriate to adequately discriminate among credit institutions. | No change. |

Question 10:	Do you have comments on the proposed changes to the formula for translating the ARS into the ARW, as set out in Section 4.5 (v) of the Guidelines?

| Concerns on the sliding scale formula | One respondent agreed with the proposed changes. Another respondent, while agreeing with the new formula for the bucket method, argued that the new sliding scale method seems fairer, but would create more complexity and unpredictability. Yet another respondent agreed with the goal to reduce the need to constantly review the calibration of the ARS to ensure consistency of contributions but expressed the concern that the new sliding scale formula will necessitate the determination of lower and upper thresholds without any clarity of the impact of the degree of change that may be inherent in such a determination. This would be particularly concerning | The EBA confirms that the new formula for translating the ARS into the ARW will lead to more consistent results across DGSs and for each DGS over time than the current formulas, as, in the future, the ARW will only be determined by the relative riskiness of credit institutions in a DGS and not by the calibration of the ARS. The EBA does not view the new formula to be more complex than the current formulas for the sliding scale method. Furthermore, the application of the formula to the bucket method also increases harmonisation across DGSs using different methods.

The EBA confirms that in specific cases, where the range of the ARS is limited, DGSs will need to determine lower and upper | No change. |

for low-risk institutions, as the impact of moving from one risk bucket to another carried a disproportionate impact on them.

thresholds to ensure sufficient risk differentiation among credit institutions. However, in the EBA's view, such lower and upper thresholds can already be applied under the current Guidelines, hence this does not represent a new requirement, but rather a formalisation of current best practices.

The EBA rejects the view that the new formula will in general have a disproportionate impact on low-risk institutions. The concrete impact on each type of institution will depend on the current and future calibration of all the elements of the calculation method, hence a generalisation on which type of institution will be most affected cannot be made. Furthermore, it will ensure that an increase in riskiness of an institution will lead to a consistent increase in contributions across risk classes, which is not the case under the current Guidelines, where it is possible that an identical increase in the riskiness of an institution leads to a steeper increase of contributions for a low-risk institution than for a high-risk institution.

Correction of formula	One respondent stated that in paragraph 69 the range of the parameters should not be $0 > \gamma > \delta > 100$ but instead $0 < \gamma < \delta < 100$.	The EBA agrees that the description of the parameters γ and δ in paragraph 69 is wrong and will correct the text as suggested so that γ is the lower threshold and δ the upper threshold.	Paragraph 69: Where: ~~$0 > \gamma > \delta > 100;$~~ $0 < \gamma < \delta < 100;$

Question 11:	Do you have comments on the proposed regular review and recalibration, as set out in Section 4.7 of the Guidelines?		
Agreement with the proposed changes	Some respondents agreed with the proposed changes, of which one also stated that the regular recalibration would not be relevant as the target level is about to be reached. Another one of those respondents recommended reducing the review period. Yet another of those respondents stated	The EBA acknowledges the feedback. Regarding the SREP score, the EBA points out that not all DGSs have access to the SREP scores and hence, cannot themselves use it to benchmark the results. Nevertheless, paragraph 81 of the proposed revised Guidelines anticipates that the competent and designated	No change.

that the SREP score would be a good benchmark for recalibration.

authority will also benchmark the results 'for example with the risk assessment performed under the SREP.'

Question 12:	**Do you have any further comments regarding the proposed revised Guidelines?**

| Allow for consolidated date | One respondent argued consolidated data should also be considered for banks belonging to banking groups in order to correct individual risk, increasing or decreasing the overall riskiness of the bank. | The scope of protection under the DGSD is the solo institution. Therefore, the EBA is of the view that the indicators should be calculated at an individual level to ensure that the calculation of contributions is as institution-specific as possible. However, the calculation of indicators at a (sub-)consolidated level can make sense when the banking group provides support to each unit. To account for these circumstances, paragraphs 39 and 40 provide the conditions under which a DGS should use (sub-)consolidated data instead of individual level data. These conditions are necessary to ensure that the support within an institution can be reasonably expected. | No change. |
| Implementation period | Some respondents argued that the implementation period for the revised Guidelines should be long enough to allow DGSs to properly test the new procedures. One of the respondents argued that the revised Guidelines should be applied as of 1 January 2024, which is however contingent on the condition that they are published in Q1 2023, given that the DGSs need at least 6 months to implement and test the new procedures. Another respondent stated that the implementation period should be at least 18 months, as national legislation needs to be adapted and IT systems tested. Hence, this respondent argued that the revised Guidelines cannot become applicable before 2024 and it would be reasonable if the Guidelines became applicable after the end of the initial period (3 July 2024), to avoid any disruptions in the last cycle of raising contributions before | The EBA acknowledges that DGSs need sufficient time to implement the proposed changes and anticipates an implementation date of 3 July 2024 to avoid unforeseen glitches in the last cycle of raising contributions before meeting the 3 July 2024 deadline for reaching the minimum target level. | Paragraphs 12 and 13: 12. These Guidelines apply from ~~dd.mm.yyyy~~ 3 July 2024. The addressees may apply these Guidelines instead of EBA/GL/2015/10 already at an earlier date of their own choosing, ~~. [[X] months~~ after the date of publication on the EBA's website of the Guidelines in all EU official languages (date of issuance of the Guidelines)~~"]~~. 13. Guidelines EBA/GL/2015/10 are repealed with effect from ~~dd.mm.yyyy~~ 3 July 2024. |

the deadline. Yet another respondent argued that the date of application should not be before 1 January 2024.

Adjust the target level of the DGS fund to a risk-based target level	One respondent argued that the target level of the DGS fund itself should be risk-based instead of static and suggested that the target level should be set between 0.5% and 0.8% of covered deposits of all member institutions, in dependency of the excess own funds and eligible liabilities of a bank. This respondent argued that in case of resolution, these excess own funds and eligible liabilities would reduce the exposure of DGS funds to a loss. Furthermore, this respondent argued that the existence of resolution plans of a bank should also lead to a decrease in the target level, as resolution plans seek to protect depositors. Given their dependence on these buffers and plans, banks should receive a risk-based coefficient between 0.625 and 1, which would consequently affect the target level of the DGS fund in a range between 0.5% and 0.8% of covered deposits. The respondent also agreed with the possibility to reduce the periodic target level for macroprudential reasons and called for transparency on the criteria for granting the permission to permanently reduce the target level of the DGS fund according to Article 10(6) of the DGSD.	The EBA is of the view that the suggestion refers to the text of the DGSD, not the Guidelines on DGS contributions, given that the (minimum) target level is prescribed in Article 10 of the DGSD and does not anticipate a risk adjustment.	No change.
Disclosure of the calculation of the DGS contribution to individual credit institutions	One respondent suggested increasing the member institutions' understanding of their risk profile, and how the DGS contribution is calculated. To achieve this, the DGS should be required to disclose a description of the institution's contribution to the DGS. The respondent argued that such communication could also encourage the institutions to lower their risk profile where necessary, which could contribute to general stability in the financial	The EBA agrees that it is important for member institutions to understand how their contributions are calculated and especially how they can improve their risk score. Nevertheless, there is the risk that the information provided to one credit institution reveals details about its competitors, because the method is based on relative riskiness vis-à-vis other DGS members. Hence, DGSs need discretion on the level of detail they provide to their member institutions. The EBA concludes	Paragraph 94 (paragraph 88 in Consultation Paper): 94. ~~In contrast, t~~ The DGS should disclose the results of the risk classification and its components for a particular member institution ~~only~~ to that member

sector. The respondent proposed adding an additional paragraph at the end of Section 4.10, reading:

'The DGS should disclose a detailed description of the calculation of the institution's contribution to the DGS to each particular member institution. This description shall enable the institution to fully understand both the level of its contribution and the change of the contribution compared to the previous period.'

that paragraph 88 already states that DGSs should disclose results to member institutions but will amend it to make it clearer.

institution, but ~~and~~ not to the public.

| Recognition of low risk of credit unions | Some respondents agreed with the conclusions of the EBA that credit unions' risk was well captured overall by the methodology to calculate DGS contributions and they emphasise that credit unions have a low risk of default. Nevertheless, one respondent argued that the DGS contributions should be further reduced as they represent a low-risk sector in Ireland. In view of this respondent, credit unions are the only credit institutions paying into the Irish resolution fund and additionally pay into a state stabilisation scheme. Hence, credit unions should also benefit from a reduction of contributions, as can institutions that are members of institutional protection schemes. That respondent also stated that credit unions have a less risky business model than larger banks, their capital and liquidity indicators are very good and due to their small size, they pose a much smaller risk to the DGS fund. | The EBA acknowledges the feedback. With regard to the classification as a low-risk sector, the EBA points out that paragraph 31 of the proposed revised Guidelines offers a possibility to reflect the low riskiness of a sector in the DGS contributions. | No change. |

| Apply a stock-based contribution method in addition to a | One respondent argued that the flow-based contribution method should be either replaced or complemented by a stock-based contribution method. This respondent | The current Guidelines do not explicitly refer to the use of the stock-based contribution method although some DGSs are already applying it. Thus, based on the suggestion made by the respondent, the EBA decided to amend the revised Guidelines | Paragraph 16:

(minimum target level –QAFM) / remaining number of periods |

flow-based contribution method

suggested adding the following formula to Sections 4.1 and 4.2:

Contributions of institution i = Difference of covered deposits of that institution in year t and year (t-1) x Annual target level x ARW of institution i x μ

Where

Annual target level = individual target level of that member institution

The respondent argued that in the flow-based system, the risk associated with a growth of deposits is not allocated to the respective credit institution, but rather distributed among all member institutions of the DGS. This could lead to a situation in which credit institutions with unchanged or even declining deposits must nevertheless pay higher contributions because they have to co-finance the higher target level of the DGS fund caused by the growth in deposits at another credit institution on a pro rata basis through their contributions. Due to this calculation logic, the flow-based method could lead to member banks with a lower risk and with little or no growth in covered deposits reaching a target level of more than 0.8% of covered deposits and, on the other hand, member banks with a strong growth of covered deposits and increased risk contributing less than the target level of 0.8%. The use of the stock-based approach would also largely eliminate the problem regarding the Transfer of Contributions (ToC) issue, since in the event of a change of DGS, there would be an institution-related allocation of the qualified available

to explicitly outline how to apply the methodology to such systems and thereby ensure harmonisation of the methods used by DGSs across the EU. To that effect, the EBA introduces a new subsection (iii) under Section 4.6 to modify the calculation formula in paragraphs 14 and 16 to explicitly outline how to apply the stock-based approach, should a DGS chose to use it.

However, the formula proposed by the respondent does not seem to be correct, because if the covered deposits of an institution decrease from one year to the next, the result of the formula becomes negative and hence that institution will receive a reimbursement, even if the target level is not yet met or if its riskiness increases. For that reason, the EBA proposes to use an amended formula outlined in the said paragraphs.

Furthermore, the EBA concluded that the difference between the flow-based method and the stock-based method also needs to be made clearer and will thus clarify paragraph 16 on the periodic target level.

With regard to the issue of transfer of contributions, the EBA concluded that the application of a stock-based method does not solve the issue under the current DGSD per se. Instead, the EBA is of the view that the issue needs to be addressed in the review of the DGSD, as already stated in the EBA Opinion on eligibility.

until the minimum target level has to be reached in accordance with Article 10(2) of the DGSD

Introduce under Section 4.6 Optional modifications to the calculation formula the following new section:

New subsection (iii) in Section 4.6:

(iii) Stock-based contributions method

financial means or the proportionate equity of the DGS fund.