

EBA/GL/2016/04

24 May 2016

Guidelines

on stress tests of deposit guarantee schemes under Directive
2014/49/EU

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1. Executive Summary

Directive 2014/49/EU on deposit guarantee schemes¹ (DGSD) introduces a number of innovations to improve the resilience of deposit guarantee schemes (DGSs) in Europe, including the requirement for DGSs to perform stress tests of their systems every three years, with the first test to occur by 3 July 2017.

Stress tests will verify whether the operational and funding capabilities of DGSs are sufficient to ensure deposit protection within the conditions of Directive 2014/49/EU in times of increased pressure, thereby contributing to the continuous improvement of DGSs. Results of stress tests performed at the level of each DGS will then be put into perspective at European level by way of a peer review to be performed by the EBA at least every five years.

A sufficient level of quality and consistency is necessary for DGS stress tests to be credible assessment tools and for the EBA peer reviews to be based on comparable data. This is why the EBA has adopted own-initiative guidelines containing methodological principles for the conduct of stress tests, prescriptions on the intervention scenarios and areas to be tested, and minimum elements to be tested ahead of the first EBA peer review.

Under these guidelines, DGSs should follow a rational and systematic method for the organisation of tests starting with a programme of tests to be performed over a cycle of two to five years, and proceed for each individual test with a sequence of steps including planning, running of and reporting on the exercise.

DGSs should test various types of scenarios illustrative of areas in which they might intervene. In line with the DGSD, all DGSs should test the repayment of covered deposits that have been determined unavailable. They should also test their ability to contribute to resolution proceedings with a view to ensuring continuous access to depositors' funds. Where a DGS is entrusted with supporting the prevention of an institution's failure, it should test its ability to do so, too.

When conducting tests, DGSs should assess their performance in relation to a broad series of operational and financial capabilities, ranging from access to data, to staff and other operational resources, communication and payment, funding resources, etc. For each of the main areas, the guidelines provide for minimum indicators to be measured by DGSs.

With a view to the first EBA peer review foreseen in 2020, DGSs are required to report results on a minimum block of elements covering the quality of single customer view (SCV) files, operational capabilities, and funding capacity in a payout or resolution scenario requiring an intervention of at

¹ Directive 2014/49/EU of the European Parliament and the Council of 16 April 2014 on deposit guarantee schemes, OJ L 173/149 of 12.6.2014.

least the target level. A preliminary cross-border cooperation test is also required. This foundational series of tests should allow the first meaningful EU-wide overview of the resilience of DGSs in the context of the peer review.

A proportionate approach has been adopted. For example, DGSs retain the ability to calibrate their tests to best fit the reality of their membership (in terms of size, banking model, cross-border footprint, etc.), but specific targets have been defined when it comes to the priority tests to feed into the European peer review.

2. Background and rationale

1. The introduction of stress testing of deposit guarantee schemes (DGSs) is part of several innovations of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (DGSD), alongside other mechanisms, such as *ex ante* funding requirements and cooperation agreements, aimed at reinforcing the credibility and practical effectiveness of DGSs in Europe.
2. Pursuant to Article 4(10) of the DGSD:
 - Member States shall ensure that DGSs perform stress tests of their systems and that DGSs are informed as soon as possible in the event that the competent authorities detect problems in a credit institution that are likely to give rise to the intervention of a DGS. Such tests shall take place at least every three years and more frequently where appropriate. The first test shall take place by 3 July 2017.
 - Based on the results of the stress tests, the EBA shall, at least every five years, conduct peer reviews pursuant to Article 30 of Regulation (EU) No 1093/2010 ('EBA Regulation') in order to examine the resilience of DGSs.
 - DGSs shall be subject to the requirements of professional secrecy in accordance with Article 70 of the EBA Regulation when exchanging information with EBA.
3. Accordingly, based on the results of the first stress tests to be performed by DGSs no later than by 3 July 2017, the EBA must conduct its first peer review at the latest by 3 July 2020.
4. EBA peer reviews in this area, in line with Article 4(10) of the DGSD, should serve to assess the resilience of DGSs in the EU, and identify strengths as well as weaknesses based on a comparison of the outcomes of stress tests. Ultimately, these stress tests should aim to help designated authorities and DGSs to address existing inefficiencies and improve the weakest links.
5. In order to achieve the aims of the DGS peer reviews, stress tests carried out at DGS level should cover a sufficient range of elements and produce comparable results that can inform the EU-wide exercise.
6. Against this background, in order to ensure the correct application of the DGSD and to contribute to strengthening the European system of DGSs, the EBA has decided to adopt own-initiative guidelines on the content of DGS stress tests that would outline test areas, scenarios and a template.

7. These guidelines implement the principle whereby deposit insurers should have in place effective contingency planning and crisis management policies and procedures to ensure they are able to effectively respond to the risk of bank failures and other events². The guidelines also benefit from previous efforts of the European Forum of Deposit Insurers to develop guidance and templates in this area³.
8. In terms of content, first these draft guidelines lay down a number of methodological principles in order to ensure a systematic and comprehensive approach to planning, running and concluding stress test exercises. In order to ensure that key aspects of a system are covered over a cycle, DGSs are required to adopt a multiannual programme shared with the designated authorities and the EBA.
9. Second, these draft guidelines elaborate on the types of intervention scenarios that should be simulated by DGSs, focusing on the possible use of DGS funds provided under Article 11 of the DGSD, namely repayment, contribution in resolution and support for failure prevention.
10. Third, when running stress tests DGSs should test a broad range of operational and funding capabilities, covering key areas and main functions activated when a DGS intervenes, such as access to data, operational resources, repayment periods, and of course the ability to meet liabilities with the *ex ante*, *ex post* and alternative funding means at its disposal.
11. In order for the peer review to achieve its objectives, national DGS stress tests should be run on a sufficiently comparable basis in terms of scenarios and test areas. The principles laid down in these guidelines will ensure minimum consistency and quality of DGS stress tests and will, thus, facilitate comparability within Europe in the context of the peer reviews performed by the EBA. Considering the novelty of DGS stress tests as an EU regulatory requirement and the diversity of experience in conducting stress tests among the DGSs, the build-up of DGS testing capacities, and the level of sophistication and complexity of such tests, will be progressive.
12. In addition, these guidelines lay down a minimum list of priority tests that should be tested and reported by 3 July 2019 ahead of the first peer review. This is without prejudice to the ability of national DGSs to conduct additional tests based on more sophisticated assumptions, or to include the minimum elements as part of more comprehensive tests.
13. At the time these guidelines were adopted, works on the Commission proposal for a European Deposit Insurance Scheme for the banking union were initiated. These guidelines might be reviewed in the future if necessary to reflect the outcome of those negotiations.

² International Association of Deposit Insurers, Core principles for effective deposit insurance systems (Principle 6), November 2014.

³ www.efdi.eu

3. EBA Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU

Status of these Guidelines

1. This document contains guidelines issued 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 (*‘the EBA Regulation’*). In accordance with Article 16(3) of the EBA Regulation, competent authorities and financial institutions must make every effort to comply with the guidelines.
2. Guidelines set out the EBA’s view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. The EBA therefore expects all competent authorities and financial institutions to whom guidelines are addressed to comply with guidelines. Competent authorities to whom guidelines apply should comply by incorporating them into their supervisory 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. In accordance with Article 16(3) of the EBA Regulation, 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 [two months from issuance in all languages]. 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 provided at Section 7 to compliance@eba.europa.eu with the reference ‘EBA/GL/2016/04’. 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 the EBA.
4. Notifications will be published on the EBA website, in line with Article 16(3).

Title I - Subject matter, scope and definitions

Subject matter

5. These guidelines specify the minimum principles and content of stress tests that deposit guarantee schemes ('DGSs') must perform pursuant to Article 4 (10) of Directive 2014/49/EU⁴.
6. They aim at helping designated authorities and DGSs to increase the resilience of the DGSs' systems within the European Union by setting a minimum level of consistency, quality and comparability of DGSs' stress tests.

Scope of application

7. These guidelines apply to DGSs when performing stress tests of their systems in accordance with Article 4(10) of Directive 2014/49/EU.
8. Where designated authorities administer a DGS, they should apply these guidelines when performing stress tests of the DGS's systems. When a DGS is administered by a private entity, designated authorities should ensure that these guidelines are applied by such DGSs.

Addressees

9. These guidelines are addressed to competent authorities as defined in Article 4(2)(iii) of Regulation (EU) 1093/2010.
10. These guidelines are also addressed to competent authorities as defined in Article 4(2)(i) and (iv) of Regulation (EU) 1093/2010, to the extent that their cooperation, as safety net participants, is required in order to ensure adequate performance of the DGS stress tests.

Definitions

11. Unless otherwise specified, the terms used and defined in Directive 2014/49/EU have the same meaning in the guidelines. In addition, for the purposes of these guidelines, the following definitions apply:

Assumptions	means the information and parameters that are predetermined for the conduct of a DGS stress test (e.g. the liquidation of a given credit institution involving a certain amount of losses).
Internal participants	means test participants from the DGS.

⁴ Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (OJ L 173, 12.6.2014, p. 149).

External participants	means test participants outside the DGS, including affiliated credit institutions, relevant public authorities or third-party observers.
Single Customer View file ('SCV file')	means a file containing the individual depositor information necessary to prepare for a repayment by a DGS, including the aggregate amount of eligible deposits of every depositor.

Title II- Requirements regarding stress tests

1. Objectives of DGS stress tests

12. DGS stress tests should contribute to incrementally increasing the resilience of the European system of DGSs, by:

- (i) testing the ability of DGSs to perform the tasks entrusted to them in accordance with Directives 2014/49/EU and 2014/59/EU⁵, including when cooperating with other DGSs within the European Union;
- (ii) identifying which dimensions of a DGS require improvements or have already improved compared to previous tests;
- (iii) producing results which allow comparability and peer reviews.

2. Methodology for DGS stress tests

13. In order to ensure a comprehensive approach, stress tests should be programmed over a medium-term cycle as described in subsection 2.1. Subsequently, each stress test exercise should follow a number of key phases as described in subsection 2.2.

14. To safeguard compliance with Article 4(11) of Directive 2014/49/EU, designated authorities should ensure that DGSs obtain and use the information necessary to perform stress tests of their systems only for the performance of those tests and keep it no longer than is necessary for that purpose. To safeguard compliance with Article 4(9) of that Directive and in particular where the test involves the processing of data pertaining to depositors' accounts, designated

⁵ Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (OJ L 173, 12.6.2014, p. 190).

authorities should ensure that DGSs preserve confidentiality, process that data pertaining to depositors' accounts in accordance with Directive 95/46/EC⁶ and fully protect those data including by means of applying anonymisation methods as appropriate.

2.1 Programming of a cycle of stress tests

15. DGSs should define a programme of test exercises with a view to covering, over a period which is not less than two to five years, the intervention scenarios and test areas described in sections 3 and 4, respectively, of these guidelines.
16. The programme should set out the estimated timeframe of programmed exercises and define the planned scope of each exercise in terms of test areas and types of intervention scenarios.
17. The programme may include comprehensive tests covering all test areas under a given intervention scenario, or targeted tests covering only some test areas (e.g. access to data) or covering a specific test area without testing an intervention scenario (e.g. routine SCV file checking). In any event, all the intervention scenarios and test areas laid down in these guidelines should be tested over the programme cycle.
18. The programme should be updated on a regular basis, taking into account the results of previous stress tests (e.g. results that would highlight a need for a deeper assessment of certain areas), actual DGS interventions or regulatory developments (e.g. a shortening in repayment deadlines).
19. Where a real-life intervention occurred during the cycle and enabled a DGS to assess the resilience of some or all of the test areas and/or intervention scenarios planned for testing under the programme, the DGS may amend the programme to reflect that the real-life-based test will substitute the originally envisaged test. In such a case, instead of completing all the key phases described in section 2.2, the DGS may focus on the reporting and corrective action phases.

2.2 Key phases of a stress test exercise

20. DGSs should complete the following phases when conducting a stress test exercise.

Planning phase

21. DGSs should appoint a steering team or steering officer (hereinafter referred to as 'steering team') in charge of planning and coordinating the various tasks involved in a stress test exercise. Senior management should ensure that the steering team is provided with all the information necessary and receives full support from the rest of the staff of the DGS.

⁶ Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (OJ L 281, 23.11.1995, p. 31).

22. Ahead of each exercise, the steering team should define the timeframe for executing the test and identify the internal and/or external participants involved.
23. Based on the programme defined pursuant to subsection 2.1, the steering team should define in more detail the focus of the test, intervention scenario, test areas, indicators to be measured, and assumptions underpinning the exercise (e.g. level of losses incurred by a credit institution, level of payout in liquidation or credit institutions to be covered by quality checks of SCV files).
24. DGS may use assumptions from previous intervention cases and assess the way in which the DGSs' systems performed. They may also simulate the way in which, under the current conditions, their scheme would behave if it were faced with a similar situation.
25. The DGS should allocate the necessary resources for the test in terms of supporting staff, budget and infrastructure. The adequacy of these means should be continuously reviewed during the development of the exercise.
26. DGSs should make arrangements to ensure objectivity in the definition of assumptions for the stress test, the running of the test and the elaboration of unbiased conclusions. Such arrangements should be documented by the scheme and ensure that objectivity requirements apply to all participants to the test and in all phases. As part of those arrangements, DGSs should establish a clear separation between the steering team and other participants who, within the DGS, also take part in the exercise.
27. Alternatively, those arrangements should provide for the participation of external observers of the process. Observers may be the designated authorities where they are not themselves administering the schemes, other public authorities, consultancy firms or other DGSs. Observers should strive to verify that the process is being led objectively and, in case of doubt, express their concerns to the steering team. Observers should have access to the relevant information regarding all phases of the process. Any information shared in this context should be subject to strict professional secrecy requirements. The requirement to establish separation or alternatively involve observers should be considered as met with regard to the tests of SCV files.
28. The steering team should contact the internal and external participants who will be involved in the various stages of the exercise and ensure mutual understanding as to the role expected by everyone in the exercise.

Running phase

29. When running the test, the steering team should request and collect from test participants the information necessary to assess the performance of the DGS's systems in relation to the test areas and indicators described in section 4.

30. Tests may be run in various formats, including live roleplaying sessions where internal and external participants simulate the actions and decisions they would take in a given intervention scenario, or back-office exchanges (e.g. where the steering team requests SCV files from an institution and measures the accuracy of the information).
31. Distinguished from the steering team, participants in the running phase should represent those authorities, entities or even internal departments, including within the DGS, which would have to take the necessary actions or decisions or provide the necessary information in a real-life scenario. This may include internal participants (for example, the internal department in charge of funding issues within the DGS) or external participants (for example resolution authorities which would determine, after consulting the DGS, its contribution to resolution).

Reporting and corrective action phase

32. The steering team should process and interpret the results of the test with a view to making an objective assessment of the resilience of the DGS in the areas measured.
33. The steering team should record results in a consistent manner over time, using a standard template such as the template developed by the European Forum of Deposit Insurers. DGSs should report stress tests results to the designated authorities at least annually.
34. Stress tests should be part of a continuous improvement process. Accordingly, where weaknesses in a DGS's systems are identified in the context of a stress test, that DGS should take corrective measures. Where weaknesses have been identified that are attributable to credit institutions, for example flaws in the quality of SCV files, the DGS should seek corrective measures, if necessary via the competent authority in charge of the supervision of those institutions. The DGS should then seek to ascertain, in subsequent tests, that the weaknesses have been remedied.

2.3 Cooperation with relevant administrative authorities

35. DGSs should keep designated authorities fully informed when planning and conducting stress tests, unless the DGS is also the designated authority. For this purpose, DGSs should submit their programme of test exercises, as referred to in section 2.1, to the designated authorities and the EBA. The first programme should be shared with the designated authorities and the EBA by [six months after issuance]. Any material update should be promptly notified to the designated authorities and the EBA.
36. Subsequently, when planning each exercise, they should inform designated authorities of the scope of the test in terms of participating credit institutions, test areas, intervention scenarios, and any other relevant information as referred to in section 2.2 (planning phase), and allow sufficient time before the start of the exercise to allow the designated authorities to provide comments.

37. In addition, before testing an intervention scenario as defined in section 4, DGSs should inform the public authorities that would be involved in the kind of scenario being tested. At a minimum, the 'relevant administrative authority' identified pursuant to Article 3(1) of Directive 2014/49/EU, as well as the competent authority referred to in Article 2(1)(17) of the same Directive, should be informed when testing a repayment scenario. The competent and resolution authorities should be informed when testing a resolution scenario.
38. DGSs should seek the opinion of those authorities on assumptions for the test and offer them participation in the running phase. Where a DGS is separate from the designated authority, such participation or consultation may be organised via the designated authority.
39. Competent and resolution authorities should cooperate, directly or via designated authorities, with DGSs in defining scenarios and running tests.

3. Intervention scenarios

40. In order to comprehensively assess their capacity to effectively deal with cases of institution failure, DGSs should test intervention scenarios as prescribed in this section.

3.1 DGS functions to be covered by scenarios

41. DGSs should test their ability to fulfil their tasks in all the types of intervention set out in Directives 2014/49/EU and 2014/59/EU, namely:
- to compensate depositors in the event of a credit institution's insolvency pursuant to Article 11(1) of Directive 2014/49/EU ('repayment function');
 - to finance the resolution of credit institutions in order to preserve continuous access to deposits in pursuant to Article 11(2) of Directive 2014/59 and Article 109 of Directive 2014/59/EU ('contribution to resolution function');
 - to use their available financial means for alternative measures in order to prevent the failure of a credit institution, if allowed under the law of the Member State where the DGS is established, pursuant to Article 11(3) of Directive 2014/49/EU ('Failure prevention function');
 - to use their available financial means to finance measures to preserve the access of depositors to covered deposits in the context of national insolvency proceedings, if allowed under the law of the Member State where the DGS is established, pursuant to Article 11(6) of Directive 2014/49/EU ('contribution to insolvency scenario').

Repayment function

42. All DGSs should test their ability to repay depositors as provided for under Article 11(1) of Directive 2014/49/EU. No DGS should abstain from testing the repayment function on the grounds that it has tested the resolution or failure prevention functions described hereinafter, or that all affiliated credit institutions would fall under one of the categories described in paragraph 52.
43. In a repayment scenario, the DGS should simulate the failure of one or several credit institutions in order to assess whether the repayable amount as referred to in Article 7 of Directive 2014/49/EU would be available within the repayment periods prescribed in Article 8 of that Directive.
44. Over the time of the programme cycle, DGSs should test the areas and apply the indicators described in section 4.

Contribution to resolution

45. Resolution scenarios should assume intervention in relation to an affiliated credit institution that has been placed under resolution in accordance with Directive 2014/59/EU and for which a DGS contribution is required under Article 109 of that Directive.
46. DGS stress tests under resolution scenarios may be performed on a stand-alone basis or may be part of a broader resolution test performed under the leadership of resolution authorities, provided that the areas and indicators described in section 4 are tested and applied, respectively.
47. Where a DGS stress test under a resolution scenario is performed on a standalone basis, the DGS should consult the resolution authority in designing the scenario and running the test, and should request it to participate in the test. Resolution authorities should cooperate with the DGSs and provide them with the necessary information, either directly or through the designated authorities, to design and run stress tests.
48. The assumed level of DGS contribution to resolution financing should be calibrated in consideration of the rules laid down in Articles 108 and 109 of Directive 2014/59/EU and the profile of credit institutions selected for the test involving a resolution scenario.
49. In exceptional cases, after consulting the resolution authority, a DGS may abstain from testing resolution scenarios where it conversely determines that no affiliated credit institution falls in any of the categories described in paragraph 52.

Failure prevention

50. Where, pursuant to Article 11(3) of Directive 2014/49/EU, a DGS is allowed to use funds for the prevention of failure of a credit institution, it should perform at least two types of tests:

- a test simulating a significant deterioration of the financial situation of one or several affiliated credit institutions, including their capital position, asset quality and liquidity position. In this context, the test should assess whether the DGS would be able to prevent failure under the conditions set out in Article 11(3) of Directive 2014/49/EU, including by considering the type of alternative measures that could be implemented and whether the DGS would have the funding capacity to provide the necessary support; and
- a test of the risk monitoring systems of the DGS. Where distress situations have been recorded in the past, DGSs should determine whether the monitoring systems have been able to detect the imminence of the risk.

3.2 Selection of affiliated credit institutions to be included in intervention scenarios

51. With a view to testing an intervention scenario, a DGS should select one or more of its affiliated credit institutions whose profile is adequate in relation to the planned focus of the test, including the type of functions or areas tested, the severity and complexity of the scenario, and its geographical reach.
52. With a view to testing a resolution scenario, a DGS should select one or more affiliated credit institutions from the following categories:
 - a) credit institutions classified as significant supervised entities and directly supervised by the ECB in accordance with Part IV of Regulation (EU) 468/2014⁷;
 - b) credit institutions identified as global systemically important institutions (G-SIIs) or other systemically important institutions (O-SIIs) pursuant to Article 131 of Directive 2013/36/EU⁸;
 - c) in case a resolution authority has set and made public indicative thresholds above which an institution would be likely, in case of failure, to be subject to a resolution action in accordance with Article 32(1) of Directive 2014/59/EU, credit institutions meeting such thresholds. This provision should not be construed as prescribing any partial or full disclosure of the resolution plan or resolution strategy for the concerned institutions, nor as an obligation for resolution authorities to set or make public such thresholds.

⁷ Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) (ECB/2014/17) (OJ L 141, 14.5.2014, p.1).

⁸ 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 and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p.338).

3.3 Severity and complexity of scenarios

53. DGSs should test scenarios assuming different levels of severity and complexity. Over time DGSs should apply increasingly sophisticated and severe scenarios.
54. In order to ensure historical relevance, DGSs should, over the cycle, test scenarios assessing the capacity of their systems to deal with intervention cases of a type and intensity experienced in the past, and in particular during the 2008-2012 period.
55. This prescription is without prejudice to the need to test broader or more severe scenarios with a view to assessing the ability of the DGS to perform its functions in the future.
56. Different geographical scopes should be tested, with a progressive introduction of scenarios requiring intervention in support of depositors at branches established in other Member States. This requirement is not applicable where no affiliated credit institution has any branch in other Member States.

4. Test areas and indicators

57. Stress tests should cover two main risk areas:
 - (i) operational risks, i.e. risks that the DGS cannot meet its obligations due to inadequate or failed internal processes, inadequate staffing and systems; and
 - (ii) funding risks, i.e. risks that the funding sources provided for in Article 10 of Directive 2014/49/EU (regular contributions, extraordinary contributions and alternative funding arrangements) are insufficient to enable the DGS to meet its potential liabilities, or to meet them within the time periods required by national or Union law.
 58. Stress tests should cover various operational stages of a DGS intervention, ranging from pre-failure planning to preparation upon failure, to execution of intervention, including repayment, contribution to resolution, etc. They should apply both quantitative and qualitative indicators, and should at a minimum measure the indicators set out in this section.
 59. Operational and funding capabilities should be tested under the intervention scenarios described in section 3. In addition, DGSs may also run targeted exercises independently of any scenario, for example regular checks of SCV files of a given institution.
 60. In relation to DGS intervention in resolution, test areas and indicators may focus on the collection of data, transmission of data to resolution authorities, and funding mechanisms and arrangements.
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4.1 Operational capabilities

61. DGS stress tests should cover the DGS's capacity to run the processes and mechanisms involved in an intervention, including access to data, staff and other operational resources, communication, payment systems, time measurement, and home-host cooperation.

4.1.1 Access to data

62. Access to good quality data on credit institutions, depositors and deposits should be tested as a matter of priority in order to ensure that DGSs are prepared to perform their tasks at all times.

a. Information on affiliated credit institutions, depositors and deposits

63. DGSs should test the arrangements in place for requesting and obtaining SCV files from affiliated credit institutions and assess the quality of those files and the timeliness of their transmission.
64. SCV file quality may be assessed in the context of a scenario-based test or in the context of regular routine tests with some or all of the affiliated credit institutions.
65. The quality of an institution's SCV files may be tested based on a sample covering a subset of depositors, provided the sampling method is determined by the DGS, not the institution, and provided the sample is sufficiently large and diversified to be representative of the institution's book of eligible deposits. This is without prejudice to the right of DGSs to test full SCV files.
66. The quality of the SCV files should be assessed in relation to whether it would provide the DGS, in case of failure, with all the information necessary to complete its intervention in relation to a depositor, including the identity of depositors, their contact details, accounts held and corresponding amounts, and amounts of eligible and covered deposits. For this purpose, DGSs should define criteria for a valid or invalid SCV file (e.g. incorrect identification numbers, incorrect addresses, different names with the same identification numbers, several records for the same depositor etc.) and measure the number of invalid SCV files as a share of the institution's records or, where applicable the sample.
67. Where insufficient quality has been observed at an institution, a follow-up check should be conducted within at least two years to assess progress. The DGS may adjust this two-year period where, considering the human and other resources available, it is necessary to prioritise tests at other credit institutions that raise concerns in terms the quality of SCV files' or on the basis of the DGS's general risk assessment of credit institutions.
68. Where, according to national law, arrangements are in place to earmark, on a continuous basis, temporary high balances ('THBs') as defined in Article 6(2) of Directive 2014/49/EU or

beneficiary accounts as governed by Article 7(3) of that Directive, those THBs should be included in the SCV files' tests. This prescription should not entail any obligation for the DGS or the affiliated credit institutions to request information from depositors as a result of the test.

69. DGSs should use the following indicators:

- i1: Overall quality assessment of the SCV files resulting from the tests, main shortcomings, main reasons for shortcomings, expectation of future developments (qualitative)
- i2: Quality assessment of arrangements in place for requesting and obtaining SCV files (qualitative)
- i3: Time to obtain transmission of SCV files, from the day of the request to the affiliated credit institution (quantitative)
- i4: Share of substandard SCV files or SCV files' entries (missing, inaccurate, or not containing the data necessary for processing and payment) (quantitative)

b. Information on problems detected at a credit institution that are likely to give rise to the intervention of a DGS.

70. DGSs should assess the arrangements in place (legal or administrative provisions, memoranda of understanding, etc.) for obtaining, as provided for in Article 4(10) of Directive 2014/49/EU, information on problems detected at a credit institution that are likely to give rise to the intervention of a DGS. In this regard they should assess whether these arrangements would allow sufficiently early information, for example where competent authorities exercise powers under Article 27 of Directive 2014/59/EU (early intervention) or Article 104 of Directive 2013/36/EU⁹ (supervisory powers), or where competent or resolution authorities determine under Article 32 of Directive 2014/59/EU that an institution is failing or likely to fail.

71. DGSs should use the following indicator:

- i5: Quality of the arrangements in place for obtaining information from competent or resolution authorities on problems detected at a credit institution which could give rise to DGS intervention, including whether they ensure receiving timely information on early deterioration of an institution's financial situation (qualitative).

⁹ 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 and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L176, 27.6.2013, p.338).

4.1.2 Staff and other operational resources

72. DGSs should test, under the scenarios described in section 3, whether they would have at their disposal the necessary resources to cope with the sudden increase in activity caused by an intervention, in terms of budget, staff, office space, IT equipment, call centres etc., including by reallocating existing permanent resources or entering into temporary outsourcing arrangements.
73. A conclusive assessment in this regard should not exclusively rely on a hypothetical budget increase but should at least in part reflect contingency mechanisms arranged for in good times (e.g. some provisioning for employing staff on a temporary basis).
74. DGSs should use the following indicators:

- i6: Adequacy of the existing staff, budget and other resource that would be available in a real-life scenario (quantitative and qualitative)
- i7: Adequacy of extra staff, budget and other resources that would be available at short notice when needed (quantitative and qualitative)

4.1.3 Communication with depositors and the wider public

75. DGSs should make an assessment of the communication processes that would be applied on the occurrence of a repayment scenario, reviewing the communication strategy and resources.
76. DGSs should use the following indicators:

- i8: Time to set up call centres and ad hoc websites or webpages (quantitative)
- i9: Capacity of websites or call centres in terms of number of connections or calls (quantitative)

4.1.4 Payment instruments

77. DGSs should test their ability to proceed with payments to depositors, i.e. to effectively transfer the repayment amounts to depositors.
78. To that effect, they should assess the quality of existing processes for collecting payment details, the payment instruments available (e.g. bank transfers, cheques, prepaid cards), and where applicable their capacity to pay in foreign currencies.
79. Once they have reviewed the various processes and instruments available, they should verify their capacity to apply them swiftly in stress situations involving a high number of payments.

80. DGSs should use the following indicators:

i10: Review of payment instruments available for payout scenarios (qualitative)

i11: Adequacy when applied to a high number of payments, as defined in the scenarios (qualitative)

4.1.5 Repayment and contribution periods

81. DGSs should measure the time from the determination of unavailability of deposits until the point when the repayable amount must be available in accordance with Article 8(1) of Directive 2014/49/EU and, on that basis, measure any delay compared to the repayment periods provided for under Article 8(2) to 8(5) of such Directive.

82. Where applying resolution scenarios, DGSs should measure the time necessary to make their contribution pursuant to Article 11(2) of Directive 2014/49/EU.

83. DGSs should use the following indicators:

i12: For repayment scenarios, time from the determination of unavailability of deposits to the moment when the repayable amount is made available (quantitative)

i13: Where THBs or beneficiary accounts are earmarked on a continuous basis as described in paragraph 68, time elapsed from the determination of unavailability of deposits to the moment when the repayable amount is made available (quantitative)

i14: For resolution scenarios, time elapsed from the resolution authority's request to the making of the contribution (quantitative)

4.1.6 Home-host cooperation

84. DGSs should test the systems in place for repaying depositors at branches set up by their affiliated credit institutions in other Member States.

85. First, DGSs should verify that they are able to retrieve SCV files regarding depositors at such branches.

86. Second, they should measure the time taken to prepare payment instruction files and to submit them to the DGSs of host Member States within the deadlines provided for in the EBA Guidelines on cooperation agreements between deposit guarantee schemes under Directive 2014/49/EU¹⁰.

¹⁰ EBA/GL/2016/02.

87. Third, they should submit a sample payment instruction file to the DGSs of host Member States in order to test that communication channels are properly established and obtain confirmation from those DGSs that the file would contain all necessary information to effect a payment.
88. This subsection 4.1.6 does not apply to DGSs for which no affiliated credit institution has any branch in another Member State, or where the only affiliated credit institutions with branches in other Member States would fall in one of the categories described in paragraph 52.
89. DGSs should use the following indicators:

- i15: Ability to extract earmarked SCV information on depositors at branches set up by their affiliated credit institutions in other Member States (qualitative);
- i16: Time to produce and transmit to host authorities payment instruction files, from the transmission of SCV files by institution (quantitative);
- i17: Quality assessment of channels for the transmission of payment instruction files;
- i18: Confirmation from host DGSs that the payment instruction files would be adequate for repaying depositors;
- i19: Ability to meet the deadlines laid down in the Guidelines on cooperation arrangements between deposit guarantee schemes under Directive 2014/49/EU.

4.2 Funding capabilities

90. In addition to operational capabilities, DGSs should test the adequacy of their funding means in order to meet their payment obligations under the intervention scenarios described in section 3.
91. First, DGSs should assess the adequacy of the *ex ante* funding available at the time of the exercise for the necessary repayment or resolution contribution. In this regard, the adequacy test should consider the amounts that would effectively be available within the repayment period. This implies an assessment of the liquidity of the invested available financial means and payment commitments, including under market stress.
92. Second, where *ex ante* funding is insufficient, DGSs should assess the adequacy of extraordinary *ex post* contributions and alternative funding means to meet the shortfall within the repayment deadline. In this regard, reliance on *ex post* funding should take into account the constraints laid down in Article 10 (8) of Directive 2014/49/EU, including whether some institutions' payments may be deferred in whole or in part on the grounds that the

payments would jeopardise their liquidity or solvency position¹¹. Likewise, DGSs should consider whether the necessary extraordinary *ex post* contributions would meet the annual 0.5% ceiling laid down in that provision. Where this is not the case, they should make an explicit judgement as to whether they would be able to raise the 0.5% ceiling.

93. Reliance on alternative funding means, such as loans or credit lines from public or private third parties, should be based on an objective assessment of elements known at the time of the test, such as mutual lending commitments entered into via written cooperation agreements, formal credit lines, etc.

94. DGSs should use the following indicators:

- i20: Adequacy of *ex ante* funds to cover the funding need (shortfall in absolute value and as a share of the need)
- i21: Qualitative assessment of the DGS's ability to liquidate assets invested as part of the available financial means within the deadline
- i22: Adequacy of *ex post* and alternative funding means to cover the funding needs not covered by *ex ante* funds (shortfall remaining after exhausting *ex post* and alternative funding means) (quantitative)
- i23: Quality assessment of arrangements in place for accessing alternative funding means (reliability, quantity) (qualitative)

5. Priority tests

95. With a view to the first EBA peer review, by 3 July 2019 DGSs should perform and report results on the following tests:

- 1) SCV file tests: formal routine checks of SCV files of all affiliated credit institutions. These tests should also ensure that the SCV files earmark deposits at branches in other Member States.
- 2) An operational capability test: a test applying a payout scenario and measuring the operational capability indicators described in section 4. The test should be severe enough to challenge the ability of DGSs to deliver critical processes, resources and IT systems effectively and efficiently in stressed conditions. For this purpose, DGSs should select a credit institution with a number of depositors of no less than the

¹¹ See the delegated act to be adopted by the Commission pursuant to Articles 104(4) and 115 of Directive 2014/59/EU. [Insert instead the full title of the delegated act if published in the OJ together with the OJ reference].

second quartile of affiliated credit institutions not falling in any of the categories described in paragraph 52.

- 3) An operational cross-border cooperation test: a test run in cooperation with at least one other DGS and assessing at least whether the DGS is able to effectively transmit to a host DGS a payment instruction file regarding depositors at a foreign branch of a given affiliated credit institution, with confirmation from the host DGS that the file contains all the information necessary to effect the payment. This provision is not applicable to DGSs for which no affiliated credit institution has any branches in other Member States, or where the only affiliated credit institutions with branches in other Member States fall in one of the categories described in paragraph 52.
- 4) A funding capability test: a test measuring the financial capability areas and indicators described in section 4 in either a payout or a resolution scenario, involving a single or multiple failure, and assuming a DGS intervention of a level of at least 0.8% of covered deposits or, where a lower target level has been set in conformity with Article 10(6) Directive 2014/49/EU, that lower target level.

96. Any of the tests above may be conducted jointly.

97. DGSs should report results on the above priority tests to the designated authorities and the EBA using the template in Annex 1.

98. The first programme cycle referred to in section 2.1 should include the completion of the priority tests specified in this section.

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99. These guidelines apply from [two months from issuance].

6. Accompanying documents

6.1 Impact assessment

Article 16(2) of the EBA Regulation provides that the EBA should carry out an analysis of ‘the potential related costs and benefits’ of any guidelines it develops. This analysis should provide an overview of the findings regarding the problem to be dealt with, the solutions proposed and the potential impact of these options.

A. Problem identification

DGSs play an essential role in the protection of financial stability by building depositor confidence, protecting against bank runs, and preserving insured depositors from the consequences of a credit institution’s failure.

The protection provided to depositors by DGSs has been strengthened in the 2009 and 2014 reforms of the DGSD, with an increased coverage level and shortened repayment periods.

In the meantime the amount of deposits and customer deposits in the balance sheets of large European banks covered by the EBA Key Risk Indicators has increased steadily over the last couple of years¹². This equally holds for the share of deposits to total liabilities as well as for the share of customer deposits to total deposits. According to a recent estimate, covered deposits in the EU amounted to around EUR 7 000 billion (end 2012), two thirds of eligible deposits (EUR 10 500 billion) and nearly half of the total deposits (EUR 14 650 billion) held with EU credit institutions¹³. The increasing importance of deposits and, in particular, customer deposits as funding sources can be observed across a large number of EU Member States.

Against this background, in order to efficiently fulfil their missions, which by definition are exercised in crisis situations, the new DGS Directive requires DGSs¹⁴ to regularly perform stress tests of their systems¹⁵ and, based on the results of these tests, entrusts the EBA with the task of conducting EU wide peer reviews of the resilience of DGSs.

In this context the problem which the EBA is faced with is twofold:

First, lacking guidance at EU level on the minimum content and methodologies of DGS stress tests, there is a risk that stress tests are performed with very different levels of sophistication and

¹² EBA: Risk Assessment of the European Banking System (June 2015)

¹³ JRC: Technical report on updated estimates of EU eligible and covered deposits (2014)

¹⁴ DGS Directive Article 4(10)

¹⁵ Those provisions of the DGS Directive are consistent with recommendations of the FSB: Thematic Peer Review on Deposit Insurance Schemes (2012) and IADI: Core Principles for Effective Deposit Insurance Systems (2014).

robustness, which could undermine the overall quality of the European system of national deposit guarantee schemes, particularly in cross-border crisis management situations¹⁶.

Second, without sufficient consistency in the manner in which stress tests are performed, results could fall short of being comparable and reviewed effectively across Member States in the context of the peer review required under Article 4(10) of the DGS Directive.

B. Policy objectives

At a high level, these guidelines are expected to contribute to enhancing the financial stability ensured by fully functioning and effective DGSs. These guidelines should facilitate the functioning of the Internal Market for banking services and the protection of depositors in the EU.

More specifically, these guidelines aim at increasing the resilience of the European system of deposit guarantee schemes and strengthening the credibility of national stress tests by¹⁷ ensuring that DGS stress tests:

- (i) test the ability of deposit guarantee schemes to fulfil their missions;
- (ii) identify areas requiring improvements; and
- (iii) produce results in a manner allowing comparability and peer reviews.

At the operational level, these guidelines are intended to ensure that national DGS stress tests cover a sufficient range of elements and ensure a minimum level of consistency and quality in stress tests performed at national level. They should provide national schemes with good practices and tools.

C. Baseline scenario and options considered

Under the baseline scenario, pursuant to Article 4(10) of the DGS Directive, Member States shall ensure that DGSs perform stress tests of their systems. Based on the results of the stress tests, the EBA shall, at least every five years, conduct peer reviews pursuant to Article 30 of the EBA Regulation in order to examine the resilience of DGSs.

The first set of options considered by the EBA refers to:

C1. Regulatory intervention on stress tests, and whether the EBA should:

¹⁶ JRC: Investigating the Efficiency of EU Deposit Guarantee Schemes (2008) and IADI: Cross-Border Deposit Insurance Issues raised by the Global Financial Crisis (2011)

¹⁷ For comparison with guidance on stress test methodology for the EU banking sector see EBA: Methodological Note on EU-wide Stress Test (2014) and for the EU insurance sector EIOPA: Insurance Stress Test (2014).

- (i) abstain from additional regulatory intervention on peer reviews of DGS stress tests (Option 1.1);
- (ii) issue guidelines on its own initiative pursuant to Article 16 of the EBA Regulation (Option 1.2).

Concerning the content of these guidelines, five further sets of options have been considered concerning the following issues:

C2. The organisation of stress tests:

- (i) abstain from providing guidance on the organisation of stress tests (Option 2.1);
- (ii) provide guidance on the organisation of stress tests (Option 2.2).

C3. Test scenarios should:

- (i) not only cover liquidation or resolution or early intervention (3.1.1), but all types of interventions (3.1.2);
- (ii) cover not only domestic (3.2.1), but also cross-border failures (3.2.2);
- (iii) cover not only mid-size (3.3.1), but also large and multiple failures (3.3.2).

C4. Test areas:

- (i) test the operational capability of DGS (Option 4.1);
- (ii) test the financial capacity of DGS (Option 4.2);
- (iii) test both the operational capability and the financial capacity of DGS (Option 4.3).

C5. Concrete tests to be required ahead of the first EBA peer review:

- (i) do not ask specific tests to be prioritised (Option 5.1);
- (ii) define priority tests to be run and reported by mid-2018, to feed into an early peer review exercise which itself could provide useful input to the 2019 review of the Directive (Option 5.2);
- (iii) define priority tests to be run and reported by mid-2019 for review in mid-2020, without connection to the 2019 review of the Directive (Option 5.3).

C6. Prioritisation of tests:

- (i) Priorities in C.5 should be defined top-down by setting concrete figures in terms of the minimum size of failure or intervention (Option 6.1).

E.g. a failure involving a DGS payout of 1.3% of covered deposits; an average failure of the 2008 crisis; or a bank of a certain determined size.

(ii) Priorities should be defined bottom-up by providing an analytical framework which DGS should apply to their membership in order to define themselves the tests to be prioritised (Option 6.2).

E.g. apply a loss distribution model and deduce, in line with a certain confidence level, the quantity of DGS intervention which should be tested.

D. Cost-Benefit Analysis¹⁸ and preferred options

In April 2015, the EBA conducted a special survey amongst national DGS and designated authorities. Sixteen Member States responded to that survey (out of which 10 were Euro Area Member States). In total, eighteen DGSs answered the questionnaire because for one Member State three DGS responded.

D1. Options concerning regulatory intervention on stress tests

Whereas two-thirds of the respondents indicated that they, or the DGSs they supervise, conduct some type of stress test, one-third currently does not test their scheme at all. Furthermore, amongst those already conducting some form of stress test, every third DGS is only tested with respect to its operational capacity. Other test characteristics (frequency, type of scenarios, areas) vary widely across Member States. Overall, practices on DGS stress tests are very heterogeneous¹⁹, with a significant number of respondents not conducting any dedicated stress test at all. In order to achieve the aims of the DGS peer reviews, stress tests carried out at national level should cover a sufficient range of elements and produce comparable results that can inform the EU-wide exercise. Against this background, the EBA has decided to adopt own-initiative guidelines on the content of stress tests that would contain scenarios and a template (Option 1.2).

D2. Options concerning the organisation of stress tests

Besides guidance on stress scenarios and areas, these guidelines could also provide guidance on the organisation of stress tests (phases of the test). The provision of guidance on the organisation of national stress tests would probably cause only small incremental costs.

¹⁸ Complementary, refer to EC: Impact assessment accompanying the Directive on Deposit Guarantee Schemes and report on its review (2010)

¹⁹ This finding is consistent with earlier surveys at global level, published in IADI: Organizational Risk Management for Deposit Insurers (2007) and IADI: Evaluation of Deposit Insurance Fund Sufficiency on the Basis of Risk Analysis (2011).

At the same time, a more harmonised approach to the organisation of DGS stress tests (Option 2.2) would contribute to making the results more comparable and reliable and consequently is the preferred option.

D3. Options concerning concrete test scenarios

More generally, concerning the test scenarios the guidelines could either only cover a narrow set (Options 3.1.1, 3.2.1, 3.3.1) or extend to a broader set of scenarios (Options 3.1.2, 3.2.2, 3.3.2) regarding the type of interventions, geographical scope and severity. In general, the broader the set of scenarios covered, the higher the costs for DGS and other safety net participants, and credit institutions for conducting the stress tests. Similarly, the benefits for depositors, and the financial system and real economy at large should be higher in case of a broader set of scenarios tested. The protection of depositors, financial resources of the DGS and potentially other safety net participants and the stability of the financial system would benefit from a broader coverage of scenarios. Taking into account the objectives of these guidelines, the broader coverage of scenarios with respect to types of failure, geographical scope and severity is generally the preferred option (Option 3.1.2, Option 3.2.2, Option 3.3.2)²⁰.

D4. Options concerning concrete test areas

In general, the more areas are tested, the higher the costs for DGS and other safety net participants, and credit institutions for conducting the stress tests. According to the survey results, half of DGSs currently conduct some kind of operational stress test, in particular related to the timely availability and quality of information (SCV files). Of those who responded, only a few Member States currently conduct systematic tests of the availability of sufficient funding. The harmonisation and (on average) increase of the coverage level to EUR 100 000 was only introduced by the 2010 revision of the Directive. Given the possibility of inter-DGS borrowing, the use of DGS resources for resolution purposes and the prevailing risk of failure of cross-border groups, the financial capacities of DGSs are increasingly important in the new European DGS framework. For DGSs to effectively establish credibility and fulfil their function, both the operational capability as well financial capacity are crucial. Consequently operational and financial areas should both be tested (Option 4.3).

D5. Options concerning the concrete tests to be required ahead of the first EBA peer review

The guidelines aim at laying down good principles for the conduct of tests in all Member States and for all schemes. On the basis of those principles each and every DGS will be able to design and apply tests that are most adequate in relation to their situation. In Option 5.1 it would be assumed that the minimum principles are sufficiently straightforward to ensure that, by the time the first peer review is exercised, the EBA will have at its disposal results on a sufficiently consistent range of tests in order to be able to draw conclusions on the overall resilience of DGSs in Europe. This is not realistic because starting points are different across Europe in terms of level

²⁰ EBA: Guidelines on the range of scenarios to be used in Recovery Plans (2014)

of expertise and experience in stress testing. It is therefore necessary, in order for the EBA peer review to be based on a sufficiently common ground, to at least define a small set of tests which should be consistently performed by all DGSs.

In terms of timing, two options were considered bearing in mind that a review of the application of the Directive is foreseen in 2019 with a Commission report and several EBA contributions. In this regard it was envisaged to collect some results and conduct a peer review that would produce a useful conclusion ahead of the 2019 review (Option 5.2). However, considering that the first tests are due in mid-2017, that a peer review would take at least a few months and that for the Commission to produce its report in 2019 the EBA should deliver its own contribution several months in advance, results would have to be collected in 2018, which would leave little time for DGSs to conduct a meaningful series of tests.

In contrast, it seems preferable to define a compact series of tests to be prioritised by 1 July 2019, for the first peer review to be delivered in mid-2020 five years after the transposition deadline (Option 5.3).

D6. Options concerning the way of defining the concrete tests to be prioritised ahead of the first EU-wide peer review

The principles laid down in these guidelines are defined in broad terms, leaving to each DGS the task of applying them in the manner that best suits their situation and that of their members (the tailor-made approach). Many DGSs regularly conduct very sophisticated stress tests and will keep on doing so beyond the scope of tests that will be required ahead of the peer review.

In contrast, the EU wide peer review should be based on tests relying on sufficiently homogeneous assumptions in order to produce meaningful comparisons. For that purpose, the tailor-made approach would not produce the desired effects. Therefore, without prejudice to other tests which DGSs will conduct in applying these guidelines, it seems indispensable to define, using benchmarks such as intervention amounts, concrete tests to be prioritised ahead of the peer review. Whenever possible, the priorities are defined in a relative manner (e.g. as a percentage of covered deposits) or allow significant margin of appreciation (for example the funding scenario defines an intervention amount but leaves to the DGS the choice between a payout or a resolution scenario) to avoid undesirable rigidity (Option 6.2). Setting concrete figures (top-down) for the prioritisation of specific test areas would risk not taking national circumstances sufficiently into account (Option 6.1).

The list of priorities set out for the first peer review has been defined with a view to striking a balance between the need to cover sufficient ground ahead of the first peer review, without the aim for an exhaustive series of tests which would not be realistic by mid-2019. In this regard, the priority regarding funding capability testing is calibrated around the target level because it is assumed that, in the steady phase, as a result of the introduction of the financing requirements in the DGSD, DGSs should at least be able to bear an intervention of that level. At the same time it is expected that by the time DGSs run this test many of them will not have reached the target level.

Far from being an obstacle to the conduct of that test, this will allow for an assessment of the progress in the build-up of financing capacity and the ability of schemes to activate other types of funding means such as *ex post* contributions and alternative funding means.

6.2 Views of the Banking Stakeholder Group (BSG)

The BSG supported the EBA's initiative to issue the guidelines, justified in its view by the importance of promoting consistent stress tests across DGSs.

The BSG agreed on the main methodological prescriptions, such as the planning cycle and phases for individual exercises. The BSG agreed with the importance to ensure objectivity of the stress testing processes but pointed to the need to balance costs and benefits.

The BSG considered that the requirement for DGSs to report stress test results to the designated authorities at least annually was too demanding considering that the DGSD only requires them to perform stress tests of their systems at least every three years.

On intervention scenarios and test areas, the BSG agreed that DGSs should test their ability to fulfil their tasks in all types of intervention scenarios as well as a broad range of operational and financial capabilities. The BSG agreed with the proposal to consult the resolution authority in order to identify credit institutions which, given their size, would be subject to resolution proceedings.

The BSG cautioned that the results of back tests on *ex ante* funding should not give rise to an automatic increase in institutions' contributions, because funding gaps can be temporary.

As regards SCV file tests, the BSG agreed with the proposal to perform them on the basis of randomly-selected samples, following usual statistical techniques to ensure the representativeness of that sample.

The BSG agreed on the need to undertake, at least at a very general level and in a qualitative way, an assessment of the arrangements in place in order to identify THBs and deposits on beneficiary accounts upon failure.

The BSG agreed with the list of priority tests proposed and considers that operational tests should focus on payout. However, the BSG expressed concern that, in its currently proposed calibration, the funding priority test which assumes a DGS intervention of a level at least equal to the target level set under national law may lack comparability across DGSs. The BSG considered that a limited cross border test is sufficient.

6.3 Feedback on the public consultation and on the opinion of the BSG

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for three months and ended on 8 February 2016. A total of 6 responses were received, of which 4 were published on the EBA website. A public hearing was also held on 19 January 2016.

This paper presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them, if deemed necessary.

Changes to the draft guidelines have been incorporated as a result of the responses received during the public consultation.

Summary of key issues and the EBA's response

The public consultation showed overall support for the draft guidelines. In addition the Banking Stakeholders Group of the EBA issued an opinion which supported the initiative, stressing the importance of promoting consistent stress tests across DGSs. The main points addressed in the final guidelines are as follows.

1. Proportionality and option to identify institutions which are, in case of failure, likely to be subject to resolution proceedings (paragraph 52)

The guidelines aim at striking the right balance between the need for comprehensiveness and consistency on the one hand, and the need for tests to be adequate in relation to the specific circumstances.

As a result DGSs are required to test a broad series of intervention scenarios encompassing all the functions mandated on them pursuant to the DGSD, but are also given significant flexibility in applying tests that suit the circumstances.

In this spirit, the guidelines leave to DGSs the responsibility of selecting institutions whose profile would be adequate for inclusion in a resolution scenario, but do so on the basis of objective criteria. The original draft relied solely on the SSM thresholds, drawing an analogy from a methodology developed by the Commission pursuant to Article 10(6) of the DGSD. After consulting the resolution authority, the DGS could earmark institutions that were directly supervised by the SSM or, for institutions based outside the banking union, institutions that would meet the SSM thresholds. During the public consultation, respondents insisted that flexibility and proportionality were important for respecting national practices outside the banking union. They pointed out that the guidelines should reflect the possibility, illustrated in recent events, that an institution below the thresholds could likely be subject to resolution proceedings rather than payout scenarios. Therefore, the thresholds should only be considered as

a minimum within SSM participating Member States and could be complemented or substituted by domestic criteria. In order to address these comments while preserving credible and objective criteria, the final guidelines provide for three categories among which DGSs will be able to select one or more institutions for inclusion in a resolution scenario: a) credit institutions classified as significant supervised entities and directly supervised by the ECB, b) credit institutions identified as global systemically important institutions (G-SIIs) or other systemically important institutions (O-SIIs) pursuant to Article 131 of the CRD, and c) institutions that would meet indicative thresholds which the resolution authority would have made public and above which an institution would be likely, in case of failure, to be subject to resolution proceedings.

In contrast, the option to run intervention scenarios on the basis of fictitious institutions has been removed as it was felt that DGSs dispose of sufficient information on their members to base scenarios on existing institutions. A general reminder of DGSs' obligations in relation to data protection has nevertheless been introduced in order to highlight the necessary protection of depositor and other client information received and used in the context of stress tests.

2. Temporary high balances

Most respondents underlined the practical difficulty of testing the impact of temporary high balances (THB) and beneficiary accounts on payout processes and funding capacity, because THBs are generally only identified at the point of failure.

As a result, it is only where DGSs have in place existing arrangements to earmark, on a continuous basis, THBs or beneficiary accounts, that those THBs should be included in SCV files' tests. It is also clarified that this prescription should not entail any obligation for the DGS or the affiliated credit institutions to request information from depositors as a result of the test.

3. Calibration of priority tests

Some respondents expressed concerns that the priority funding test would impose simulating an intervention equivalent to 0.8% of covered deposits even where a lower target level has been authorised. Accordingly, the calibration of the funding test was clarified to ensure that DGSs simulate a level of at least 0.8% of covered deposits or, where a lower target level has been set in conformity with Article 10(6) of the DGSD, that lower target level. Hence, a scheme that has been authorised to set a lower target level between 0.5% and 0.8% of covered deposits is not obliged to test a higher level of intervention. Where a DGS has a target level higher than the level required by the Directive, it may limit the test at 0.8%.

Moreover, the operational payout test is now calibrated. Originally, this test could be applied to any institution 'regardless of size', based on the idea that size would be mostly relevant for funding tests while the key element in this test was to ensure that processes were in place. However, after due reflection it is considered that size should not be overlooked, as elements such as the quantity of data to be processed, number of claims to be handled, number of depositors likely to access communication channels, etc. are key in assessing the operational capabilities of the DGS. In order to set a reasonable standard, it is now prescribed that a DGS

should test the failure of an institution with a number of depositors of no less than the second quartile of affiliated credit institutions not falling in any of the three categories described above for the selection of institution for resolution scenarios.

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

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments			
The EBA's own-initiative competence	One respondent questioned the EBA's competence to issue own-initiative guidelines on stress testing. In contrast the BSG supported it very much and considered it necessary to promote the performance of high quality and consistent stress tests across Member States.	Pursuant to Article 16(1) of the EBA Regulation <i>'the Authority shall, with a view to establishing consistent, efficient and effective supervisory practices within the ESFS, and to ensuring the common, uniform and consistent application of Union law, issue guidelines and recommendations addressed to competent authorities or financial institutions'</i> . Unlike for the issuance of technical standards, the EBA Regulation does not refer to any specific empowerment in connection with guidelines. Therefore the EBA may, on its own initiative without the need for an explicit legislative empowerment, issue guidelines provided they fall into its scope of action defined in	No amendment.

		<p>Articles 1(2) and 1(3) of the EBA Regulation and provided they fulfil the general objectives of Article 16. The aim of the scope analysis is not to search for a special mandate, but to establish the appropriate link to the provisions of the Union acts listed in Article 1(2) of the Regulation. If no such link can be established, the EBA should consider Article 1(3) and verify if the guidelines are necessary to ensure the effective and consistent application of the listed Union acts. In the case of the EBA guidelines on DGS stress tests, the link is clearly established as they fall under the scope of the DGS Directive and more precisely the requirement in Article 4(10) of the DGS Directive, and aim at establishing uniform and consistent application of the stress test requirement as well as facilitating the EBA peer review role.</p>	
Proportionality	Many respondents require a proportionate approach. While they	As acknowledged by the respondents, the guidelines are	Paragraph 95(4) is amended as

	<p>acknowledge that these guidelines do reflect this imperative, they highlight the need to preserve proportionality also in relation to affiliated institutions and having regard to the national options in the Directive such as the possibility to set reduced target levels pursuant to Article 10(6) of the DGS Directive.</p>	<p>underpinned by a proportionality principle. They aim at striking the right balance between, on the one hand, the need for sufficient quality and comparability in the performance of stress tests, and on the other the need for DGSs to retain sufficient margin of manoeuvre in order to best fit their particular banking environment. Accordingly, the guidelines lay down mostly principle-based prescriptions and mandates and few detailed prescriptions, for example on the indicators and the priority tests. In addition, a number of prescriptions ensure that DGSs are not obliged to test intervention scenarios or areas that are not meaningful in relation to a particular situation. For example, DGSs may identify credit institutions which, given their size, would be likely in case of failure to be subject to resolution proceedings and would be included only in resolution scenarios. Likewise, cross-border tests are not</p>	<p>follows:</p> <p>4) <u>A funding capability test</u> - a test measuring the financial capability areas and indicators described in section 4 in either a payout or a resolution scenario, involving a single or multiple failure, and assuming a DGS intervention of a level of at least 0.8% of covered deposits or, where a lower target level has been set in conformity with of Directive 2014/49/EU, that lower target level</p>
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		<p>required in relation to DGSs for which no affiliated credit institution has any branch in other Member States.</p> <p>With regard to the calibration of the priority funding capability test, the guidelines are explicitly referring to <i>‘the target level set under national law application of Article 10(2) and (4) of Directive 2014/49/EU’</i>. A reference to paragraph (6) of Article 10 could bring further clarification in relation to the respondent’s comment.</p>	
Imbalance between DGSs administered by a designated authority and DGSs which are privately run and supervised by a designated authority	Two respondents questioned the difference in treatment between DGSs administered by a designated authority and DGSs which are privately run and supervised by a designated authority, as only the latter need to seek for the consultation or approval of another authority for the planning, design, running and reporting of the stress tests.	The difference between these two kinds of DGSs is justified as the decisions of DGSs managed by a designated authority are already approved by the authority.	No amendment

<p>Role of the DGS for testing resolution measures</p>	<p>Two respondents opposed testing DGS systems in resolution, except for their funding capacities. Resolution testing should be directed to the relevant authorities.</p>	<p>Contribution to resolution funding in support of depositor protection is a compulsory mandate of all DGSs and should therefore be tested.</p> <p>The EBA acknowledges that DGSs which are not resolution authorities have limited capacity to establish the assumptions or simulate the sequence of events inherent in a resolution scenario.</p> <p>For this reason the guidelines establish a reasonable approach both in terms of which elements of the resolution should be tested and in terms of modalities for performing such scenarios.</p> <p>In terms of elements to be tested, DGSs are only required to test the extent to which they would be able to perform their tasks in a resolution, such as communication channels with the supervisor to ensure sufficiently early detection, the ability to deliver information on</p>	<p>No amendment</p>
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		<p>deposits to the resolution authority as necessary to perform resolution, and the ability to meet a contribution request under Article 109 of the BRRD.</p> <p>In contrast, it is clear the assumptions to be made as to the scenario (profile of the institution to be tested, level of loss and DGS contribution, timelines for providing information and funds to the resolution authority) will require extensive involvement from the resolution authority. This is why it is envisaged that either the DGS resolution test is carried out in the context of a resolution exercise performed by the resolution authority in which the DGS participates, or the DGS requests from the resolution authorities the necessary cooperation to establish the assumptions for its own tests (e.g. selection of the institution, level of loss and level of DGS contribution). In line with recital 51 and Article</p>	
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		3(2) of the DGSD competent authorities, designated authorities, resolution authorities and relevant administrative authorities are under a duty to cooperate with each other and it is therefore expected from resolution authorities to lend the necessary cooperation to that purpose, if need be via the designated authority. This is also why the guidelines are also addressed to the resolution authorities.	
Responses to specific questions in the Consultation Paper			
Question 1) What is the best way to ensure the objectivity of the stress tests assumptions and process? Do you support systematically requiring separation between the steering staff and stress test participants? If not, do you support concrete alternatives, for example external	<p>Nearly all respondents agreed that it is important to ensure that stress tests are carried out and reported objectively and conflicts of interest are avoided. They mostly supported the idea that the steering staff should be separate from the testing staff, but only to the extent that this is practicable to the DGS. Some stated that full and systematic separation or segregation is not</p>	<p>It is believed that the text for consultation strikes the right balance between the need to ensure objectivity and the need to avoid unnecessary burden. DGSs are required to adopt and document arrangements for avoiding conflicts of interest. While separation is requested as a default option an alternative is envisaged, which consists of involving external</p>	

<p>audit? What additional details could be laid down with regard to external intervention?</p>	<p>necessary and may be impossible to achieve in practice, especially for smaller DGSs with few staff members. Some respondents pointed out that the need to prevent conflicts of interest should apply not only to internal participants, but to all participants and during all phases. External participants such as designated authorities could also be subject to conflicts of interest. Some pointed to Board control as an alternative to staff separation. All respondents were against any mandatory support by external auditors. One respondent suggested that external observers could be used for a second-level control (auditing) of stress test compliance with the formal procedures adopted by the DGS.</p>	<p>observers. This alternative should not be difficult to arrange as observers can be chosen among a wide range of persons, namely the designated authorities, where they are not themselves administering the schemes, other public authorities, consultancy firms or other DGSs. In no way do the guidelines impose the appointment of external consultants which could increase costs for the DGSs. The decision to hire external auditors is left to DGSs.</p>	
<p>Question 2) Do you agree with the approach</p>	<p>Most respondents agreed with the approach proposed in relation to the selection of institutions. Some</p>	<p>The guidelines aim at striking the right balance between two conflicting needs:</p>	<p>Paragraph 52 is amended as follows:</p>

<p>proposed, which draws on the methodology developed by the Commission for assessing Member State requests under Article 10(6) of the DGSD?</p>	<p>warned against overly formal rules and insisted that flexibility and proportionality were important in order to respect national specificities.</p> <p>In particular, the reference to the Commission methodology under Article 10(6) (referring to SSM thresholds) raised concerns. While one respondent did not understand why this reference was relevant, others considered that the SSM thresholds should only be considered as a minimum and could be complemented or substituted by domestic criteria.</p>	<ul style="list-style-type: none"> - The need for comprehensiveness, so that all functions that are part of the mandate of a DGS be tested; - The need for proportionality and credibility, whereby intervention scenarios should not be tested in relation to institutions whose characteristics would make it unlikely that the scenario would apply. <p>As a result, the guidelines give DSGs the option to identify institutions which, in case of failure, would be likely to be subject to resolution proceedings and would rather be included in resolution scenarios. In order to frame this option in a sufficiently objective way the text subject to</p>	<p>52. With a view to testing a resolution scenario, a DGS should select one or more affiliated credit institutions from the following categories:</p> <ul style="list-style-type: none"> a) credit institutions classified as significant supervised entities and directly supervised by the ECB in accordance with Part IV of Regulation (EU) 468/2014²¹; b) credit institutions identified as global systemically important institutions (G-SIIs) or other systemically important institutions (O-SIIs) pursuant to Article 131 of Directive 2013/36/EU²²; c) in case a resolution authority has set and made public indicative thresholds above which an institution would be
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²¹ Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) (ECB/2014/17) (OJ L 141, 14.5.2014, p.1).

²² 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 and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p.338).

		<p>public consultation relied on a methodology developed by the Commission pursuant to Article 10(6) of the DGSD because that provision explicitly refers to <i>‘credit institutions ... which, given their size, are likely in case of failure to be subject to resolution proceedings’</i>.</p> <p>However, as some respondents pointed out, while the reference to the SSM thresholds might cover some institutions for which it is sufficiently certain that ‘given their size’ they are likely to be subject to resolution proceedings, it is inappropriate to exclude <i>ex ante</i> that any institution below the threshold could be likely to be subject to resolution proceedings. Ultimately this determination should be made based on the specific characteristics of the institution in the context of resolution planning. In addition, the application outside the banking union of thresholds that were set</p>	<p>likely, in case of failure, to be subject to a resolution action in accordance with Article 32(1) of Directive 2014/59/EU, credit institutions meeting such thresholds. This provision should not be construed as prescribing any partial or full disclosure of the resolution plan or resolution strategy for the concerned institutions, nor as an obligation for resolution authorities to set or make public such thresholds.</p>
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		for the purpose of SSM participation raises concerns.	
<p>Question 3)</p> <p>Is it sufficient to test an institution's SCV files on the basis of a sample, or should all SCV files tested? Which process should a DGS follow in order to define a sample of the SCV file to be tested, and to consider that the sample tested is sufficiently representative of the institution's full SCV file?</p>	<p>In the view of most respondents testing an institution's SCV files on the basis of a sample is sufficient, as long as the sample meets certain statistical prerequisites of size, structure and diversification of segments to ensure representativeness of the sample.</p> <p>In contrast two respondents thought that complete SCV files (i.e. including all eligible deposits) should be tested, not just samples as it would provide more realistic verification of the institution's ability to produce SCV files and test the DGS capacity to receive and process these.</p>	<p>The guidelines provide the possibility for sample-testing SCV files as well as for testing the complete SCV files if DGSs consider this necessary.</p> <p>In this case, under the guidelines the sample should be determined by the DGS and should be sufficiently large and diversified. It should be assessed whether it would provide the DGS all the information to complete its intervention in relation to depositors.</p> <p>It is premature to set specific criteria for determination of samples. However the EBA could consider in the future further sampling criteria identification using the results of the peer review.</p>	No change.
Question 4) It is difficult to	Most respondents were against	It is acknowledged that no DGS	Paragraph 68 is amended as

<p>forecast the financial impact of covering temporary high balances protected under Article 6(2) of the DGSD, or beneficiary accounts (protected under Article 7(3) of the DGSD. The ability to perform such assessment depends on the circumstances, for example the existence of certain kind of deposits which can be earmarked. Nevertheless do you agree on the need to undertake, at least at a very general level and in a qualitative way, an assessment of the arrangements in place in order to identify THBs and deposits on beneficiary accounts upon failure?</p>	<p>testing Temporary High Balances (THBs) as a mandatory part of the stress tests. The identification of THBs required involving depositors in the stress test in order for them to declare the THB, which was not deemed realistic.</p> <p>However, some respondents agreed that DGSs should have claims-handling processes in place to deal with Temporary High Balances and beneficiary deposits and that these should be tested. DGSs should be free to take a more general or qualitative approach to testing their processes.</p> <p>One respondent suggested to implement a specific test to assess the capacity to reimburse THBs according to the following process: i) the request made by a depositor to the DGS; ii) the verification of the methodology; iii) the</p>	<p>should be expected, as a result of these guidelines, to request depositors to identify, within the context of a stress test, THBs they might hold at a given time. Prescriptions in this area should therefore remain at a high level, for example a general quality assessment of the process in place to deal with THBs.</p> <p>By exception, if mechanisms are already in place to earmark THBs on a continuous basis, the handling and repayment of THBs should be tested.</p>	<p>follows:</p> <p>68. Where, according to national law, arrangements are in place to earmark, on a continuous basis, temporary high balances ('THBs') as defined in Article 6(2) of Directive 2014/49/EU or beneficiary accounts as governed by Article 7(3) of that Directive, those THBs should be included in the SCV files' tests. This prescription should not entail any obligation for the DGS or the affiliated credit institutions to request information from depositors as a result of the test.</p>
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	reimbursement process to be performed within the set timeline.		
<p>Question 5.</p> <p>Do you agree with the list of priorities above and the 2019 time horizon?</p> <p>Do you agree that as a matter of priority operational tests should focus on payout?</p> <p>Do you believe minimum size criteria should be set in this regard, and which absolute or relative thresholds would you suggest?</p> <p>Do you agree with the calibration</p>	<p>Nearly all respondents agreed with the list of priority tests and the timeframe.</p> <p>One respondent believed the 2019 timeframe to be too short to accommodate resolution tests as such tests require involvement of the resolution authority.</p> <p>All respondents agreed that the focus of the priority operational tests should be on payout.</p> <p>One respondent requested that the funding capability test should take as a reference, where approved by the European Commission pursuant to Article 10(6) of the DGS Directive, the reduced target level</p>	<p>It is acknowledged that the full build-up of <i>ex ante</i> contributions will be progressive and is only due to complete in 2024. On the other hand, the legislator has calibrated the various financial means of DGS with a view to reduce the need for procyclical contributions and minimise reliance on external funding, and therefore the target level serves as a relevant level of stress. Funding tests will allow to assess the ability of the DGS to mobilise its <i>ex ante</i> funding including the liquidity of invested assets and payment commitments – as well as the other types of funding means. It is not expected that a DGS will be fully funded before term, but where it is not the tests will also allow assessing the adequacy of <i>ex post</i> and alternative funding means. In contrast, taking</p>	<p>Paragraph 95 is amended as follows:</p> <p>95. With a view to the first EBA peer review, by 3 July 2019 DGSs should perform and report results on the following tests:</p> <ol style="list-style-type: none"> 1) <u>SCV file tests</u>: formal routine checks of SCV files of all affiliated credit institutions. These tests should also ensure that the SCV files earmark deposits at branches in other Member States. 2) <u>An operational capability test</u>: a test applying a payout scenario and measuring the operational capability indicators described in section 4. The test should be severe enough to challenge the ability

<p>of the funding test, and if not what concrete suggestion would you make?</p> <p>Is the limited cross border test sufficient, or should the requirement be strengthened and prescribe, for example fully-fledged cross-border simulation, in light of the Guidelines on Cooperation Agreements currently under development?</p>	<p>set at national level. Some respondents considered that the funding test should not be based on the target level but on the funding available at the time of the test. For others, the funding test should be calibrated taking considering into account the limited financial resources available in the early years and the fact that countries are moving from <i>ex post</i> to <i>ex-ante</i> contributions. One respondent pointed out that DGSs should not be obliged to apply risk-based contribution methods in the context of funding tests as long as those methods are not compulsory as per the DGSD.</p> <p>All respondents agreed with the limited cross-border test. However some pointed out that cross-border payout tests could not be performed until the cooperation agreements required pursuant to Article 14 are operational. It was suggested a DGS should not be required to perform cross-border</p>	<p>as a reference the funding already available at the time of the test would imply that the intervention does not constitute a stress of funding and would therefore have limited value.</p> <p>With regard to the priority operational cross-border cooperation test, it is acknowledged that a DGS should not be required to perform a test in relation to an institution likely to be subject, in case of failure, to resolution proceedings. This is because a cross-border failure for that institution would not require a payout and would therefore not require the establishment of a payment instruction file. However, in any event the DGS should verify, within the context of its SCV file testing activity, that it is able to identify information on depositors at branches in other Member States.</p>	<p>of DGSs to deliver critical processes, resources and IT systems effectively and efficiently in stressed conditions. For this purpose, DGSs should select a credit institution with a number of depositors of no less than the second quartile of affiliated credit institutions not falling in any of the categories described in paragraph 52.</p> <p>3) <u>An operational cross-border cooperation test</u>: a test run in cooperation with at least one other DGS and assessing at least whether the DGS is able to effectively transmit to a host DGS a payment instruction file regarding depositors at a foreign branch of a given affiliated credit institution, with confirmation from the host DGS that the file contains all the information necessary to effect the payment. This provision is not</p>
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	<p>tests where the only affiliated credit institutions with branches in other Member States are likely, in case of failure, of being subject to resolution proceedings, since a failure would not result in an actual reimbursement of depositors.</p>		<p>applicable to DGSs for which no affiliated credit institution has any branches in other Member States, or where the only affiliated credit institutions with branches in other Member States fall in one of the categories described in paragraph 52.</p> <p>4) <u>A funding capability test</u>: a test measuring the financial capability areas and indicators described in section 4 in either a payout or a resolution scenario, involving a single or multiple failure, and assuming a DGS intervention of a level of at least 0.8% of covered deposits or, where a lower target level has been set in conformity with Article 10(6) Directive 2014/49/EU, that lower target level.</p>
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