



EUROPEAN CENTRAL BANK

EUROSYSTEM

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ECB-PUBLIC

## OPINION OF THE EUROPEAN CENTRAL BANK

of 20 April 2016

### on a proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 806/2014 in order to establish a European Deposit Insurance Scheme (CON/2016/26)

#### Introduction and legal basis

On 20 January 2016 the European Central Bank (ECB) received a request from the Council of the European Union for an opinion on a proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 806/2014 in order to establish a European Deposit Insurance Scheme<sup>1</sup> (hereinafter the 'proposed regulation'). On 1 February 2016, the ECB received a request from the European Parliament for an opinion on the proposed regulation.

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union (TFEU) since the proposed regulation contains provisions affecting the European System of Central Banks' contribution to the smooth conduct of policies relating to the stability of the financial system, as referred to in Article 127(5) TFEU, and the ECB's tasks concerning policies relating to the prudential supervision of credit institutions, as referred to in Article 127(6) TFEU. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

#### **1. General observations**

1.1 A European Deposit Insurance Scheme (EDIS) is the necessary third pillar to complete the Banking Union, following the establishment of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). Since liability and control need to be aligned, establishing a common safety net for depositors at the European level is the logical complement to elevating responsibility for banking supervision and resolution to the European level. With the SSM and the SRM fully operational, national authorities, to a large extent, no longer have control over the key elements determining whether a national deposit guarantee scheme (DGS) has to make pay-outs to insured depositors or contribute to resolution financing. Thus, the liability for ensuring that there are sufficient financial means to underpin the confidence of all depositors and thereby safeguard financial stability should be assumed at the same level and be elevated to the EDIS. The proposed regulation follows up on the recommendations from the Five Presidents' Report<sup>2</sup>, which called for the launching of an EDIS. As pointed out in the report, a banking system can only be truly uniform

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<sup>1</sup> COM(2015) 586 final.

<sup>2</sup> The Five Presidents' Report of 22 June 2015 on 'Completing Europe's Economic and Monetary Union', available on the Commission's website at [www.ec.europa.eu](http://www.ec.europa.eu).

if the level of confidence in the safety of bank deposits is equally high in all Member States. An EDIS would also bring benefits resulting from risk diversification and is more likely to be able to withstand shocks, since risks would be spread more widely across a larger pool of financial institutions, and individual pay-out events would therefore be less likely to overwhelm the capacity of the system.

- 1.2 The ECB fully shares the Commission's view that a single system of deposit protection is the necessary third pillar of the Banking Union and that it is needed to further enhance depositor protection and to underpin financial stability, thus contributing to the deepening of Economic and Monetary Union (EMU)<sup>3</sup>.
- 1.3 The ECB further welcomes the fact that the proposed regulation puts in place a gradual process of increasing the mutual insurance of participating DGSs in order to finally achieve a uniform system of deposit insurance that limits the link between a bank and its home sovereign.
- 1.4 Overall, the ECB welcomes the fact that the proposed regulation sets a clear roadmap and timeline with clearly defined and limited transitional steps towards a fully-fledged EDIS. The stages of re-insurance and co-insurance should therefore be seen as transitions towards full insurance, which is scheduled to start in 2024. This staggered approach takes into account the need to make further progress in other areas of the Banking Union and the EMU as a whole. Furthermore, this approach aims to ensure that there is sufficient time to accumulate ex-ante contributions across the Banking Union prior to the start of the full insurance stage. Finally, equal treatment of credit institutions affiliated to the participating DGSs will be ensured by taking into account the institution-specific risks relative to all other credit institutions in the Banking Union when determining their respective contributions. In order to further underpin the credibility of the EDIS and to effectively sever the bank/sovereign link at the national level, a fiscally neutral common public backstop for the EDIS should be established at the latest at the start of the full insurance stage
- 1.5 However, a well-performing Banking Union requires further steps beyond the establishment of the EDIS. To this end, the Commission Communication 'Towards the completion of the Banking Union'<sup>4</sup> sets out a number of measures to further reduce risks in the banking sector and to level the playing field. In this context, the ECB emphasises the importance of the full and timely implementation of Directive 2014/49/EU of the European Parliament and of the Council<sup>5</sup> as a necessary precondition to the EDIS and therefore calls on the Member States concerned to comply with this obligation as quickly as possible<sup>6</sup>. The ECB welcomes and fully supports all other risk reduction measures set out in the Commission Communication. Progress on these other measures

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<sup>3</sup> See the ECB Report Financial Integration in Europe 2016 (forthcoming), 'The Five Presidents' Report of 22 June 2015 on 'Completing Europe's Economic and Monetary Union', available on the Commission's website at [www.ec.europa.eu](http://www.ec.europa.eu); the Marjolin lecture delivered by Mario Draghi, President of the ECB, at the European Money and Finance Forum (SUERF) conference organised by the Deutsche Bundesbank, Frankfurt, 4 February 2016 and the speech by Mario Draghi, President of the ECB, at the ECB Forum on Banking Supervision, 4 November 2015, Frankfurt, both available on the ECB's website at [www.ecb.europa.eu](http://www.ecb.europa.eu).

<sup>4</sup> COM(2015) 587 final.

<sup>5</sup> 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).

<sup>6</sup> Euro area Member States where transposition is still outstanding are expected to complete this task by the end of the first quarter of 2016.

needs to be achieved in parallel with the establishment of the EDIS, not only in order to ensure a level playing field, but also to promote financial integration. However, a solution that makes the transition from one phase of EDIS to the next dependent on the progress with regard to risk reduction could cause delays. If such a conditional phasing-in of EDIS is supported, any milestones on risk-reduction would have to be precisely defined *ex-ante*, objectively verifiable, realistically achievable and legally linked to the transitions between the phases in the EDIS proposal. In order to ensure that EDIS is not postponed indefinitely, the list of milestones should include the most important elements that are needed to further strengthen the Banking Union. This list should primarily be limited to matters with a clear material link to EDIS and should not refer to ongoing discussions for which the timeline is unclear.

- 1.6 Finally, the ECB considers that an impact assessment may be warranted on the most important elements of the proposal in view of the proposed regulation and its interaction with Union legislation, in particular Directive 2014/49/EU and Directive 2014/59/EU of the European Parliament and of the Council, and the role of the Single Resolution Board (hereinafter the 'Board'), as compared to the current role of the decision-making bodies responsible for national DGSs.

## 2. Specific observations

### 2.1 *Objective of the proposed regulation*

The ECB welcomes the fact that the proposed regulation aims to be consistent with Directive 2014/49/EU by complementing its principles and rules<sup>7</sup>. The key task of a DGS under Directive 2014/49/EU is 'to protect depositors against the consequences of the insolvency of a credit institution'<sup>8</sup>. The proposed regulation governs the relationship between the EDIS, the Deposit Insurance Fund (DIF) and the DGSs, whereby the national schemes remain fully liable for the compensation of depositors. Against this background the ECB considers it necessary to expressly clarify, within the text of the proposed regulation, that the EDIS also has the objective of ensuring the highest possible level of depositor protection across the Member States of the Banking Union.

### 2.2 *Scope of the EDIS*

The ECB further welcomes the fact that the proposed regulation should apply to all DGSs that are officially recognised in the Member States participating in the Banking Union under Directive 2014/49/EU<sup>9</sup>, i.e. statutory DGSs, contractual DGSs and institutional protection schemes as well as all credit institutions affiliated with such schemes. However, all credit institutions with access to EDIS resources must be regulated and supervised on the basis of Regulation (EU) No 575/2013 of the European Parliament and of the Council<sup>10</sup> and Directive 2013/36/EU of the European

<sup>7</sup> See recital 15 of the proposed regulation.

<sup>8</sup> See recital 14 of Directive 2014/49/EU.

<sup>9</sup> See Article 1(3) of the proposed regulation amending Article 2 of Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 on a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (OJ L 255, 30.7.2014, p. 1), see also Article 1(2)(a), (b) and (c) and Article 2(1) of Directive 2014/49/EU.

<sup>10</sup> Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L176, 27.6.2013, p. 1).

Parliament and of the Council<sup>11</sup>. This is fully in line with the recommendation of the Five Presidents' Report that the EDIS's scope should coincide with that of the SSM and that the risk-based fees should be paid by all the participating banks in the Member States. In fact, only an all-encompassing uniform deposit protection regime will achieve an equal level of depositor confidence across the Banking Union, thus preventing market fragmentation and competitive distortion.

### 2.3 *Governance of the EDIS*

The ECB welcomes the fact that the EDIS will be administered by the Board. It is important that the EDIS is administered by an independent Union body that is shielded from political influence and will ensure access to the DIF on equal terms for all DGSs. The Board should expect to benefit from synergy effects by simultaneously administering the resolution and deposit insurance funds, notably by being able to draw on the expertise it has accumulated in the exercise of its resolution tasks when administering the Single Resolution Fund (SRF). Efficiency gains might be achieved since the administration and investment of both funds require similar know-how and expertise. However, performing these new tasks in an effective manner may require the allocation of additional resources to the Board (see paragraph 2.9). Resources for both the SRF and the DIF should be clearly earmarked for their respective purposes, specifically avoiding the risk that resources for deposit protection might be commingled and potentially 'consumed' for resolution purposes.

The ECB welcomes the proposed arrangements whereby the ECB is entitled to designate a permanent representative who may participate in the meetings of all sessions of the Board, including the EDIS plenary session and the joint plenary session.

Finally, the ECB welcomes the fact that only national resolution authorities or designated authorities are members of the EDIS decision-making bodies. No private entities that administer a national DGS would be directly involved in an EDIS plenary session. The ECB welcomes this restriction and recalls that according to the definition provided in Article 2(1)(18) of Directive 2014/49/EU, only (public) designated authorities are allowed to participate in resolution colleges. In fact, since private entities that administer DGSs are owned by banking associations in some Member States, granting them access to confidential information on banks that are their competitors may raise serious commercial confidentiality issues.

### 2.4 *Minimising costs for liquidation and control over the use of the EDIS*

Looking at the resolution procedure, where Directive 2014/59/EU of the European Parliament and of the Council expressly states that resolution authorities should try to minimise resolution costs and avoid destruction of value, the authorities in charge of liquidation should also have the general objective of minimising liquidation costs, thereby also ensuring that losses for covered deposits, and consequently, the DGSs, are minimised. In order to achieve this goal, the authorities in charge of liquidation should be permitted to carve out the covered deposit book together with certain other

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<sup>11</sup> 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).

assets of the failing credit institution and transfer them to a private sector purchaser. This purchase and assumption type of transaction may, in many cases, be less expensive for a DGS than just paying out the guaranteed deposits in liquidation. Similarly, it is necessary to clarify, within the text of the proposed regulation, whether the financial resources of the EDIS can be used for implementing the alternative measures currently provided for in Article 11(6) of Directive 2014/49/EU. Since the manner in which the liquidation process is conducted will be key for safeguarding the DGS's funds and therefore also those of the EDIS, it is important that the Board has the possibility to exercise some control over the national liquidation process. Thus, similarly to Council Regulation (EU) No 806/2014, which provides for the Board taking over resolution from national resolution authorities if SRF funds are to be used, the Board should be able to have a say in the liquidation proceeding if it is likely that EDIS resources will be needed. This would ensure that the control over the liquidation proceeding is directly aligned with the liability coming from the deposit protection.

## 2.5 *Risk-based contributions*

The ECB strongly supports the fact that the proposed regulation introduces a methodology throughout the Banking Union for calculating risk-based contributions from the co-insurance stage and that it designates the Board to set each credit institution's contribution level relative to all other participating credit institutions. This is crucial to ensuring that contributions are allocated fairly and the EDIS is robustly funded. The degree of risk is determined in accordance with a methodology based on the criteria<sup>12</sup> envisaged in the proposed Article 74c. Such a determination has to take into account the institution-specific risk relative to all other credit institutions in the Banking Union. Comparing such risks across the Banking Union and adjusting the respective contributions on this basis helps to establish the right incentives for business decisions and limits the risks of free-riding and moral hazard. This is important in order to alleviate concerns that some banking sectors could potentially be 'subsidised' by other banking sectors.

An important issue to consider will be whether, and if so to what extent, the risk-based approach to determine the level of contributions should also reflect the likelihood to trigger deposit insurance for a credit institution, and especially the likelihood that it should be put into liquidation as opposed to resolution.

Furthermore, for reasons of legal certainty, the proposed regulation needs to address how contributions, which in some Member States are collected above the level of the minimum requirement of 0.8 % of covered deposits, will be used.

## 2.6 *The ECB's role in determining the total amount of ex-ante contributions for each participating DGS*

The ECB welcomes the fact that the proposed regulation stipulates that each year, for the duration of the re-insurance and co-insurance period, the Board will consult the ECB and the national competent authority prior to determining for each DGS the total amount of ex-ante contributions

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<sup>12</sup> These are: (a) the level of loss-absorbing capacity of the institution; (b) the institution's ability to meet its short- and long-term obligations; (c) the stability and variety of the institution's sources of funding and its unencumbered highly liquid assets; (d) the quality of the institution's assets; (e) the institution's business model and management; (f) the degree to which the institution's assets are encumbered.

that it may claim from credit institutions affiliated to the respective DGS. Such regular consultations reflect the expertise of supervisors with respect to the assessment of the riskiness of institutions and enable the ECB and the national competent authorities to ensure that the procedure for the calculation and collection of the contributions does not undermine the soundness of the contributing credit institutions.

## 2.7 *Use of resources*

The ECB welcomes the fact that the proposed regulation requires the use of resources, not only for pay-outs, but also in the event of resolution occurring in any of the three stages of the EDIS. This is important in order to facilitate resolution, which for many failing or likely to fail banks may be in the public interest and thus the preferred solution to insolvency. It is also in line with Directive 2014/49/EU and Regulation (EU) No 806/2014, which require the DGSs to be liable up to the level of covered deposits, provided that depositors continue to have access to their deposits and that participation in the financing of resolution does not exceed the losses the DGSs would have incurred in the event of insolvency.

However, the proposed regulation needs to expressly address whether deposit balances above EUR 100 000, which are temporarily protected from 3 to 12 months according to the legislation of the Member State concerned as permitted by Article 6 of Directive 2014/49/EU, should be covered by EDIS.

## 2.8 *Duty of the EDIS towards DGSs in both the partial and full insurance stages*

The establishment of the EDIS will facilitate access to additional financial resources by DGSs, initially by means of re-insurance and co-insurance, and resources will be built up gradually in the DIF for this purpose. By 2024 at the latest, all contributions collected from the credit institutions affiliated to DGSs should be channelled directly into the DIF in the EDIS. According to Directive 2014/49/EU, however, the national schemes, rather than the EDIS or the DIF, remain fully liable in respect of depositors' compensation claims. Therefore, at the full insurance stage, the proposed regulation should clearly stipulate a legal obligation for the EDIS or the DIF to meet all resource needs related to depositors' claims following an event notified by a national DGS in accordance with Article 41h(2). The ECB understands that such an obligation for the EDIS is intended by Article 41h(1), which states that 'the participating DGS shall be fully insured by the EDIS'. However, a clear legal obligation would need clarification in Article 41m(2) to ensure that the envisaged pro-rata pay-out in the event of multiple simultaneous pay-out events only concerns the distribution of the immediately available financial means, i.e. the EDIS is not discharged from its obligation in relation to the DGSs to fully cover all expenses of the DGSs, following the collection of ex post contributions and/or recourse to alternative funding means. More importantly, the same legal obligation, albeit limited to the specific share that is co-insured, must also apply to the obligations of the EDIS towards the DGSs during the co-insurance phase. This also confirms the need for a fiscally neutral public backstop for the EDIS. Finally, the length of time for the Board to

take a decision on the available financial means pursuant to Article 41m(2) should be reduced, since DGSs are expected to compensate depositors within seven working days<sup>13</sup>.

## 2.9 *Disqualification from coverage by the EDIS*

Article 41i establishes a procedure for disqualifying a DGS from EDIS coverage. Under this procedure the Commission, acting on its own initiative or upon a request of the Board or a participating Member State, may decide that: (a) a DGS has failed to comply with the obligations under the proposed regulation or with Articles 4, 6, 7 or 10 of Directive 2014/49/EU; or (b) a DGS, the relevant administrative authority within the meaning of Article 3 of Directive 2014/49/EU or any other relevant authority of the Member State, in relation to a particular request for coverage by the EDIS, acted in a way that runs counter to the principle of sincere cooperation as laid down in Article 4(3) TFEU.

The ECB supports the fact that the proposed regulation provides safeguards aimed to ensure that all DGSs comply with their respective obligations under the new framework in line with the national implementation of Directive 2014/49/EU. This is important to avoid any risk of free-riding and to mitigate moral hazard. However, given the magnitude of this sanction and the eventual consequences for depositors, disqualification of a national DGS should only be considered where proportionate to the breach committed and imposed after the DGS in question has failed to comply with interim enforcement actions within pre-set deadlines under the procedures to be established under the proposed regulation. Infringements triggering a disqualification should be established in a more precise way in order to enhance legal certainty. Other sanctions, including penalty payments, could be considered for lesser breaches. Furthermore, where a disqualification is decided, a proper mechanism needs to be in place to ensure that the overarching aim of ensuring the adequate protection of all guaranteed deposits is fully respected at any given time. This is particularly important from the full insurance stage, when all contributions collected from the participating credit institutions will be transferred directly into the EDIS, in order to ensure that depositors are not worse off in terms of deposit protection compared to what the situation would be if their DGS was not part of the EDIS and all contributions were accumulated at national level.

In this context, several solutions may be considered. For example, the contributions of the disqualified DGS could be kept in the DIF and the deposits held at the date on which a DGS is disqualified could continue to be covered by the EDIS, by ensuring that depositors have a direct legal claim against the EDIS. Alternatively, the proposed regulation could provide for a methodology and procedure whereby resources collected from credit institutions affiliated to the disqualified DGS would be reimbursed to that DGS upon its disqualification. In any of these scenarios, the amounts to be refunded or available in order to satisfy the direct claims should be capped in order to be consistent with the objective of the disqualification clause. The proposed regulation should provide clear guidance regarding the reimbursement procedure, including the timeline and methodology for the calculation of the amounts to be reimbursed. This methodology could build, for example, on the methodology applied for the repatriation of contributions to DGSs

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<sup>13</sup> Subject to transitional provisions, which, however, expire at the beginning of the full insurance stage.

under the proposed regulation in the event of the termination of the close cooperation arrangements between the ECB and the competent authorities of non-euro area Member States in the framework of the SSM<sup>14</sup>. By the same token, the relevant authority should – if the reimbursement option is not chosen – be entitled to claim resources from the DIF to contribute to a resolution action, in accordance with Directive 2014/59/EU<sup>15</sup>, when a decision establishing that a credit institution is failing or likely to fail has been taken.

The recitals<sup>16</sup> of the proposed regulation imply that the principle of sincere cooperation, as laid down in Article 4(3) of the Treaty on European Union, extends to all relevant entities, bodies and authorities involved in the application of the proposed regulation. However, for reasons of legal certainty, it may be worth expressly mentioning in Article 41i that this principle also applies to the Commission and the Board. Furthermore, the proposed Regulation should be framed in such a manner as to indicate when the conditions under which this principle operates would be deemed to have not been respected, in order to ensure adequate procedural safeguards, predictability of consequences and to avoid unnecessary risks for financial stability.

Finally, Article 41i would also benefit from the introduction of a procedure and timeframe to follow when disqualification decisions are being taken. In this respect, inspiration could be drawn from the procedure under Article 258 TFEU<sup>17</sup>. In addition, clarification with regard to the relationship between the disqualification procedure provided for in Article 41i and the infringement procedure under Article 258 TFEU may be necessary. In this regard, it is noted that disqualification of a DGS without any repatriation of the contributions provided by the institutions affiliated to this DGS would amount to an automatic violation of Article 10(2)<sup>18</sup> of Directive 2014/49/EU by the DGS concerned. This is because according to the proposed Article 74c(4), the contributions that credit institutions affiliated to a particular DGS pay within the EDIS count towards the minimum target level that the participating DGS must reach in accordance with Directive 2014/49/EU. Furthermore, it is not the DGSs themselves that must comply with certain requirements contained in Articles 4, 6, 7 and 10 of Directive 2014/49/EU, but rather the Member States or other entities, e.g. affiliated credit institutions.

## 2.10 *Recovery of the DIF's resources*

The procedures for the DIF to recover the resources provided to a DGS in the event of a pay-out event are mainly linked to progress with collection efforts in national insolvency proceedings. The length of such proceedings varies significantly between Member States, and on occasion can be quite drawn out. Further precision is advisable in Article 41q to enable the Board to exercise certain

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<sup>14</sup> See Article 1(5) of the proposed regulation amending, inter alia, Article 4(3) of Regulation (EU) No 806/2014.

<sup>15</sup> Article 109 of Directive 2014/59/EU.

<sup>16</sup> See in particular recital 40 of the proposed regulation.

<sup>17</sup> Article 258 of the Treaty establishes a procedure that the Commission must follow if it considers that a Member State has failed to fulfil an obligation under the Treaties: it must deliver a reasoned opinion on the matter after giving the Member State concerned the opportunity to submit its observations. If the Member State concerned does not comply with the opinion within the period laid down by the Commission, the Commission may bring the matter before the Court of Justice of the European Union.

<sup>18</sup> Article 10(2) of Directive 2014/49/EU states that the available financial means of a DGS shall reach a target level of at least 0.8% of the amount of covered deposits of its members by 3 July 2024.



rights in relation to national insolvency proceedings, thus ensuring that the Board's legal position is recognised by the courts. The effective exercise of such rights may also require the allocation of significant resources to the Board for the performance of this task.

#### 2.11 *Backstop arrangements*

The proposed regulation does not provide for a fiscally neutral public European backstop to the EDIS in the event of one or several pay-out events exceeding the EDIS's available financial resources, and ex post contributions or alternative financing are not able to be tapped quickly enough to ensure a timely depositor pay-out or the timely involvement of the EDIS in a resolution case. This implies that any payment obligation in relation to depositors in excess of the resources provided by the EDIS reverts in principle to the relevant DGS by virtue of Article 10(9) of Directive 2014/49/EU, which requires that Member States must ensure that DGS have in place adequate alternative funding arrangements to enable them to obtain short-term funding to meet claims against those DGSs. Therefore, the efficiency of the whole system ultimately rests on the credibility of national backstops.

The ECB is of the view that a fiscally neutral common public backstop for the EDIS at the latest as of the full insurance stage is necessary to ensure a uniformly high level of confidence in deposit protection under all circumstances and to effectively weaken the bank/sovereign link at the national level. Ultimately, relying on national backstops defeats the purpose of the proposed regulation of reinforcing the Banking Union by reducing the bank/sovereign links in individual Member States<sup>19</sup>. The establishment of the EDIS significantly strengthens the Banking Union by offering a considerably higher degree of protection against large local shocks due to DGSs having access to pooled EDIS resources. However, in the absence of a common backstop, the EDIS would fail to eliminate a factor that could have a negative impact on depositor confidence as a result of doubts regarding the credibility of purely national backstops. Thus, a fiscally neutral common public backstop is an important element in ensuring the credibility of the EDIS, and should be phased in according to the progressive mutualisation of deposit protection. A solid common backstop would not only give reassurance to depositors in Member States with a less favourable fiscal position, but would lead to a stronger overall EDIS. Any such backstop for the DIF must respect the principle of fiscal neutrality, ensuring that any public funds are recouped from the financial sector via ex post contributions. The use of the European Stability Mechanism appears to be a possible option for the establishment of a fiscally neutral common public backstop.

#### 2.12 *Automatic access for Member States joining the SSM*

Recital 14 of the proposed regulation seems to envisage automatic access to the EDIS by all DGSs officially recognised in a Member State joining the SSM. While there should definitely be an obligation to join all pillars of the Banking Union simultaneously, transitional measures should be put in place to ensure a smooth phasing-in of any DGSs that join at a later date. This will ensure that any such accession does not unduly burden the EDIS's financing arrangements. For example, if a Member State joined during the late stage of the co-insurance or during the full insurance

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<sup>19</sup> See recital 17 of the proposed regulation.

stage, it might be warranted to provide for a transfer of funds accumulated by the DGS from the moment of entry into force of the proposed regulation (or a predefined part of such funds) in line with the funding path envisaged in Article 41j from the DGSs to the EDIS.

#### 2.13 *Exchange of information*

The proposed regulation recognises the importance of the efficient exchange of information between the authorities involved in ensuring the smooth functioning of the EDIS, i.e., the Board, the designated authorities, the competent authorities, including the ECB, and the resolution authorities by advocating the conclusion, where necessary, of memoranda of understanding<sup>20</sup>. Given the importance of this matter, and in order to avoid any potential obstacles to such an exchange of information, it appears necessary to amend Article 34 of Regulation (EU) No 806/2014 in order to expressly include the DGSs and the designated authorities among the bodies and authorities that are entitled to exchange information and to conclude memoranda of understanding in accordance with that Article. This could be achieved by inserting a new provision in the proposed regulation.

#### 2.14 *Technical observations and drafting proposals*

Where the ECB recommends that the proposed regulation is amended, specific drafting proposals are set out in a separate technical working document accompanied by an explanatory text to this effect. This also includes the ECB's proposed wording for an amendment to Directive 2014/49/EU. The technical working document is available in English on the ECB's website.

Done at Frankfurt am Main, 20 April 2016.

[signed]

*The President of the ECB*

Mario DRAGHI

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<sup>20</sup> See recital 39 of the proposed regulation.





EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Technical working document

produced in connection with ECB Opinion CON/2016/26<sup>1</sup>

Drafting proposals

Text proposed by the European Commission	Amendments proposed by the ECB <sup>2</sup>
Amendment 1 Recital 14	
<p>'(14) In order to ensure parallelism with the SSM and the SRM, EDIS should apply to participating Member States. Banks established in the Member States not participating in the SSM should not be subject to EDIS. As long as supervision in a Member State remains outside the SSM, that Member State should remain responsible for ensuring the protection of depositors against the consequences of the insolvency of a credit institution. As Member States join the SSM, they should also automatically become subject to the EDIS. Ultimately, the EDIS could potentially extend to the entire internal market.'□</p>	<p>'(14) In order to ensure parallelism with the SSM and the SRM, EDIS should apply to participating Member States. Banks established in the Member States not participating in the SSM should not be subject to EDIS. As long as supervision in a Member State remains outside the SSM, that Member State should remain responsible for ensuring the protection of depositors against the consequences of <del>the insolvency of a credit institution</del> <b>deposits becoming unavailable</b>. As Member States join the SSM, they should also <del>automatically</del> become subject to the EDIS. Ultimately, the EDIS could potentially extend to the entire internal market.'□</p>
<p><u>Explanation</u></p> <p><i>The proposed change aims to ensure that depositor protection is understood in a broader sense than in the context of a formally recognised insolvency of the credit institution and to align the scope of protection with Directive 2014/49/EU. That Directive includes, among the conditions for establishing when deposits are unavailable, a determination by the relevant administrative authority that, in its view, the credit institution concerned appears to be unable to repay deposits, for reasons which are directly related to its financial circumstances. Furthermore, certain arrangements may be needed to ensure a smooth phasing-in of DGS joining the European Deposit Insurance Scheme (EDIS) at later stages (see</i></p>	

<sup>1</sup> This technical working document is produced in English only and communicated to the consulting Union institution(s) after adoption of the opinion. It is also published in the Legal framework section of the ECB's website alongside the opinion itself.

<sup>2</sup> Bold in the body of the text indicates where the ECB proposes inserting new text. Strikethrough in the body of the text indicates where the ECB proposes deleting text.

Text proposed by the European Commission	Amendments proposed by the ECB <sup>2</sup>
<p><i>paragraph 2.12 of the Opinion). This may require the introduction of transitional provisions within the proposed regulation, or, alternatively, bilateral arrangements between the Member State joining the Banking Union and the EDIS.</i></p>	
<p style="text-align: center;">Amendment 2 Recital 15</p>	
<p>‘(15) In order to ensure a level playing field within the internal market as a whole, this Regulation is consistent with Directive 2014/49/EU. It complements the rules and principles of that Directive to ensure the proper functioning of EDIS and that appropriate funding is available to the latter. The material law on deposit guarantee to be applied within the EDIS framework will therefore be consistent with the one applicable by the national DGSs or designated authorities of the non-participating Member States, harmonised through the Directive 2014/49/EU.’□</p>	<p>‘(15) In order to ensure a level playing field within the internal market as a whole, this Regulation is consistent with Directive 2014/49/EU. It complements the rules and principles of that Directive to ensure the proper functioning of EDIS and that appropriate funding is available to the latter. <b>The key objective of the EDIS is to enhance the effective deposit guarantee framework with a view to protecting depositors against the consequences of deposits becoming unavailable. At the full insurance stage, the objective is to provide an equal level of protection to all depositors of credit institutions affiliated to the participating DGSs.</b> The material law on deposit guarantee to be applied within the EDIS framework will therefore be consistent with the one applicable by the national DGSs or designated authorities of the non-participating Member States, harmonised through <del>the</del> Directive 2014/49/EU.’□</p>
<p style="text-align: center;"><u>Explanation</u></p> <p><i>While recital 15 recognises that the proposed amending regulation is consistent with Directive 2014/49/EU and complements its rules and principles, the overarching importance of depositor protection should be clearly enshrined in the EDIS legal framework, to ensure that any decisions taken within this framework have the protection of depositors as their key objective (see paragraph 2.1 of the Opinion).</i></p>	
<p style="text-align: center;">Amendment 3 Point (6) of Article 1</p>	
<p>‘6. in Article 5(2), the first subparagraph is replaced</p>	<p>‘6. <del>in Article 5(2)</del>, <b>is amended as follows:</b></p>

Text proposed by the European Commission	Amendments proposed by the ECB <sup>2</sup>
<p>by the following:</p> <p>“The Board, the Council and the Commission and, where relevant, the national resolution authorities and participating DGS, shall take decisions subject to and in compliance with the relevant Union law and in particular any legislative and non-legislative acts, including those referred to in Articles 290 and 291 of the Treaty on the Functioning of the European Union.”;</p>	<p><b>(a) the heading is replaced by the following:</b></p> <p>“Relation to Directives 2014/49/EU and 2014/59/EU and applicable national law”;</p> <p><b>(b) paragraph 1 is replaced by the following:</b></p> <p><b>“1. Where, pursuant to this Regulation, the Board decides to exercise the recovery rights, which, pursuant to Directive 2014/49/EU are exercised by the DGS, the Board shall, for the application of this Regulation and of Directive 2014/49/EU, be considered to be the relevant DGS in national insolvency proceedings.</b></p> <p>Where, pursuant to this Regulation, the Board performs tasks and exercises powers, which, pursuant to Directive 2014/59/EU are to be performed or exercised by the national resolution authority, the Board shall, for the application of this Regulation and of Directive 2014/59/EU, be considered to be the relevant national resolution authority or, in the event of cross-border group resolution, the relevant group-level resolution authority.”;</p> <p><b>(c) in paragraph 2, the first subparagraph is replaced by the following:</b></p> <p>“The Board, the Council and the Commission and, where relevant, the national resolution authorities and participating DGS, shall take decisions subject to and in compliance with the relevant Union law and in particular any legislative and non-legislative acts, including those referred to in Articles 290 and 291 of the Treaty <del>on the Functioning of the European Union.</del>”;</p>
<p style="text-align: center;"><u>Explanation</u></p> <p><i>A Board decision under Article 41q of Regulation (EU) No 806/2014 will not suffice to ensure that the Board can exercise the subrogation rights that DGSs have been granted or enjoy under national laws since national insolvency and civil procedural laws may not recognise such a substitution of the holder of the original rights of covered depositors by means of a decision of a Union agency. For this reason, a</i></p>	

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<i>new initial subparagraph is proposed for Article 5(1).</i>	
<p style="text-align: center;">Amendment 4 New point (9a) of Article 1</p>	
No text.	<p><b>'9a. in Article 34, paragraph 5 is replaced by the following:</b></p> <p>“5. The Board, the ECB, the national competent authorities, <del>and</del> the national resolution authorities <b>and the national designated authorities</b> may draw up memoranda of understanding with a procedure concerning the exchange of information. The exchange of information between the Board, the ECB, the national competent authorities, <del>and</del> the national resolution authorities <b>and the national designated authorities</b> shall not be deemed to infringe the requirements of professional secrecy.”;</p>
<p style="text-align: center;"><u>Explanation</u></p> <p><i>It is proposed to expressly amend Article 34 of Regulation (EU) No 806/2014 in order to include the national designated authorities under Directive 2014/49/EU among the authorities expressly authorised to draw up memoranda of understanding concerning the exchange of information to ensure that any such exchange of information has a proper legal basis and cannot be considered an infringement of professional secrecy requirements.</i></p>	
<p style="text-align: center;">Amendment 5 New point (9b) of Article 1</p>	
No text.	<p><b>'9b. in Article 38(2), the following point (d) is added:</b></p> <p>“(d) where they intentionally or negligently fail to comply with decisions of the DGS to which they are affiliated, including a failure associated with the invoices on contributions, in accordance with Article 74e.”;</p>

Text proposed by the European Commission	Amendments proposed by the ECB <sup>2</sup>
<p style="text-align: center;"><u>Explanation</u></p> <p><i>Article 74e may not suffice to ensure that the Board has a clear power to impose fines on intentionally or negligently non-compliant credit institutions in the context of decisions addressed to them by the DGS. In order to respect the legal structure of Regulation (EU) No 806/2014, a corresponding amendment to Article 38(2) appears necessary.</i></p>	
<p style="text-align: center;">Amendment 6 Point (10) of Article 1 concerning Article 41j(2) of Regulation (EU) No 806/2014</p>	
<p>'2. The Commission, after consulting the Board, may approve a derogation from the requirements set out in paragraph 1 for duly justified reasons linked to the business cycle in the respective Member State, the impact pro-cyclical contributions may have, or to a payout event which occurred at national level. Those derogations must be temporary and may be subject to the fulfilment of certain conditions.'□</p>	<p>'2. The Commission, after consulting the Board, may approve a derogation from the requirements set out in paragraph 1 for duly justified reasons linked to the business cycle in the respective Member State, the impact pro-cyclical contributions may have, or to a payout event <b>or resolution action financing</b> which occurred at national level. Those derogations must be temporary and may be subject to the fulfilment of certain conditions.'</p>
<p style="text-align: center;"><u>Explanation</u></p> <p><i>Contributions to resolution action in certain cases specified in Article 109 of Directive 2014/59/EU are mandatory for a DGS under Article 79 of Regulation (EU) No 806/2014. This implies that a DGS's financial resources can be significantly depleted not only upon the occurrence of a payout event, but also in cases of mandatory contributions to financing resolution actions.</i></p>	
<p style="text-align: center;">Amendment 7 Point (36) of Article 1 concerning Article 75(2) and (3) of Regulation (EU) No 806/2014</p>	
<p>'2. The amounts received from an institution under resolution or a bridge institution, the interests and other earnings on investments and any other earnings shall benefit only the SRF and the DIF. 3. The Board shall have a prudent and safe investment strategy that is provided for in the delegated acts adopted pursuant to paragraph 4 of</p>	<p>'2. The amounts received from an institution under resolution or a bridge institution, the interests and other earnings on investments and any other earnings shall benefit only the SRF and the DIF, <b>as appropriate.</b> 3. The Board shall have a prudent and safe investment strategy that is provided for in the</p>



Text proposed by the European Commission	Amendments proposed by the ECB <sup>2</sup>
<p>this Article, and shall invest the amounts held in the SRF and the DIF in obligations of the Member States or intergovernmental organisations, or in highly liquid assets of high creditworthiness, taking into account the delegated act referred to in Article 460 of Regulation (EU) No 575/2013 as well as other relevant provisions of that Regulation. Investments shall be sufficiently sectorally, geographically and proportionally diversified. The return on those investments shall benefit the SRF and the DIF respectively.'</p>	<p>delegated acts adopted pursuant to paragraph 4 of this Article, and shall invest the amounts held in the SRF and the DIF in obligations of the Member States or intergovernmental organisations, or in highly liquid assets of high creditworthiness, taking into account the delegated act referred to in Article 460 of Regulation (EU) No 575/2013 as well as other relevant provisions of that Regulation. Investments shall be sufficiently sectorally, geographically and proportionally diversified. The return on those investments shall benefit the SRF and the DIF respectively, <b>in strict proportion to the monies invested on behalf of each of those funds.</b>'</p>
<p style="text-align: center;"><u>Explanation</u></p> <p><i>It should be ensured that monies recovered and proceeds from investments are always allocated strictly in accordance with the original source of funding – the SRF or the DIF – and are clearly earmarked for their respective purposes, specifically avoiding the risk that resources for deposit protection might be commingled and potentially ‘consumed’ for resolution purposes.</i></p>	
<p style="text-align: center;">Amendment 8 Point (41) of Article 1</p>	
<p>'41. throughout Regulation (EU) No 806/2014, the word "the Fund" is replaced with "the SRF".'</p>	<p>'41. throughout Regulation (EU) No 806/2014, the word "the Fund" is replaced with "the SRF" <b>except in Article 41(4) where the word “the Fund” is replaced by “the SRF and the DIF, as appropriate”.</b>'</p>
<p style="text-align: center;"><u>Explanation</u></p> <p><i>Article 41(4) of Regulation (EU) No 806/2014 provides that the amounts of the fines and periodic penalty payments shall be allocated to the Fund. It should be ensured that fines collected from intentionally or negligently non-compliant credit institutions in the context of decisions addressed to them by the DGSS are not allocated to the SRF.</i></p>	