



EUROPEAN COMMISSION
IMPACT ASSESSMENT BOARD

Brussels, 26 MARS 2010
D(2010)

Opinion

Title **DG MARKT - Impact Assessment on: Amendments to the Directives on Deposit Guarantee Schemes**

(draft version of 26 February 2010)

(A) Context

Directive 94/19/EC on Deposit Guarantee Schemes (DGS) envisaged reimbursement of depositors in EU Member States up to a minimum ceiling of € 20,000 in the case of a bank failure. National systems, however, were allowed to differ in other respects, including coverage level above the minimum, eligibility and financing. During the financial crisis, several Member States increased the coverage level of their national DGS to buttress depositors' confidence. Directive 2009/14/EC therefore raised the minimum EU ceiling to € 50,000 and mandated a fully harmonized level of € 100,000 by end-2010 as long as the Commission found this level to be appropriate and financial viable for all Member States. The Directive also called upon the Commission review more broadly the existing framework and to propose any change deemed appropriate.

(B) Overall assessment

While the Board finds that the report presents a large amount of analysis in a clear manner, it believes the evidence base could be further strengthened given the scale of the suggested policy changes and the cost implications. In particular, it should provide a more extensive analysis of the problems with the current level of harmonisation. This would allow it to assess in greater depth the subsidiarity and proportionality of the suggested increase in harmonisation and the phasing-out of national DGS features offering higher coverage. The report should also provide a stronger justification for specific parameters, notably the nominal coverage level, the preference for a single payout within a short delay, the split between ex ante and ex post financing and the target level for funds at DGS disposal. While quantitative estimates are provided for most impacts, the report should indicate clearly where these will be particularly relevant for certain Member States or stakeholders. Finally, the results of the public consultation should be more visibly and transparently integrated into the analysis.

(C) Main recommendations for improvements

(1) Strengthen the evidence and the arguments underpinning the problems with the current level of harmonisation. The report should provide a more extensive discussion of the goals of DGS, clarifying their role when faced with a systemic crisis rather than an individual bank failure and assessing the issues that DGS may raise in terms of moral hazard and adverse selection. Against this background, the report should better substantiate the problems with the current level of harmonisation and assess their relative importance. For instance, are differences in depositor and product eligibility relevant because they create competitive distortions or because they affect the speed with which DGS are able to make a payout? Are differences in contributions to DGS more relevant for their effect on banks' competitiveness or on consumer's confidence and banks' behaviour? For these problems, the report should identify more precisely the evidence. When this is not available because of the limited experience with DGS payouts, the report should indicate more clearly the theoretical nature of its argumentation and clearly list the underlying hypotheses (for instance, increased consumer knowledge of differences in DGS protection leading to competitive distortions).

(2) Provide a stronger justification for the preferred options. The report should discuss in greater depth the subsidiarity and proportionality of the suggested increase in harmonisation in a number of new areas. Taking into account the relative magnitude of the problems identified and those cases where the extent of protection granted at the national level would be reduced as a result of EU harmonisation (for instance, the case of coverage of temporarily high balances), the report should more convincingly argue the necessity for increasing harmonisation of all these issues as opposed to a more limited sub-set. It should also discuss more extensively the relative cost effectiveness and, more broadly, advantages and disadvantages of ex ante and ex post financing relative to likely needs. Finally, the report should provide a stronger justification for the specific parameters proposed, notably, the nominal coverage level, the preference for a single payout within a short delay, the split between ex ante and ex post financing and the target level for funds at DGS disposal. In the two latter cases, a sensitivity analysis should be performed to allow a better assessment of the trade-off between costs and benefits.

(3) Assess the size of the most relevant impacts and the possibility of mitigating measures for individual stakeholders. In the broader context of the discussions on exit strategies, financial sector recovery and credit facilitation, the report should clarify the importance of the proposed initiative in relation to the impact expected from other initiatives strengthening financial regulation. It should also justify the chosen phase in period. The report should also present more clearly the cases where impacts would be particularly relevant for specific national systems. The opportunity of mitigating measures should be discussed accordingly.

(4) More transparently integrate the results of the public consultation. The summary results of the public consultation report should be annexed and stakeholder views more frequently referred to throughout the report, especially when these differ from the preferred option or among themselves (for instance, the diverging opinions of ex-post and ex-ante systems stakeholders on the issue of optimal financing structure)

Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report.

(D) Procedure and presentation

The report largely respects the standards set out in the IA guidelines and presents complex issues in understandable language. It should, however, be shortened to the extent possible including by reconsidering the value added of the full list of annexes (or the distribution of the analysis between the main text and the annexes). The report would also benefit from increased clarity on how individual impacts add up to the estimated aggregate impact and on the methodology underpinning the annex 3-24 (particularly with respect to the treatment of missing data). A summary of the public consultation results should be added along with a glossary.

(E) IAB scrutiny process

Reference number	2009/MARKT/048 and 2009/MARKT/074
External expertise used	No
Date of Board Meeting	24 March 2010