Brussels, 7.03.2011
C/2011/1344

Dear President,

The European Commission takes note of the opinion of the Senate of the Czech Republic of 3 November 2010 concerning Commission proposal {COM(2010) 368} on Deposit Guarantee Schemes and is happy to reply to it in the framework of the political dialogue between the Commission and national Parliaments.

As regards the Senate's main concern, which is the risk of moral hazard in the context of the proposed mutual borrowing facility, the Commission would like to draw your attention to the fact that the proposal sets out several important safeguards against moral hazard. First, the conditions for activating the borrowing facility are strict and clearly defined. Second, a scheme still repaying its loan cannot borrow again in order to avoid that one single scheme drains liquidity from the others. Third, the loans have a maximum maturity of five years and a pre-defined interest rate applies.

The Commission also believes that it is necessary to allow – to a certain extent – the use of Deposit Guarantee Schemes' funds measures equivalent to a payout, such as the transfer of deposits to another bank. This is because in a number of Member States Deposit Guarantee Schemes are already tasked with funding the transfer of deposits from the failing bank. It should be noted that the proposal does not require Member States to assign such a broad mandate to their schemes but grants Member States the flexibility of a broad mandate, if they so wish.

As regards the exclusion of authorities' deposits from eligible assets, local authorities are currently included only in a few Member States. Such exclusion is justified because local authorities have much easier access to credit than citizens and even if municipalities are technically insolvent, there are means under national law to ensure that they can continue to fulfil their basic tasks towards citizens.

The Commission also proposes a model for calculating risk-based contributions. Risk-based contributions do not only reduce competitive distortions by aligning the contributions to the individual degree of risk of each bank but also provide an incentive for a sound and less risky business model for the benefit of financial stability. One of the four key risk classes proposed is indeed capital adequacy. The proposal provides additional flexibility for Member States since they can freely choose a supplementary indicator accounting for 25% of the calculation of risk-based contributions. Member States could thus further reinforce the weight of capital adequacy by using solely this criterion for the supplementary indicator.

Mr. Milan Štěch
President of the Senate
of the Parliament of the Czech Republic
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The investment limit with regard to a scheme's funds linked to the same entity is proposed in order to mitigate concentration risk in the interest of preserving the financial capacity of schemes. Foreign exchange risk may be less detrimental if it helps to diversify concentration risk since the latter could lead to the loss of all funds. In the same vein, the limitation of maturity of low-risk assets to 24 months ensures that there is less volatility of the asset price, avoiding that schemes would have to face a financing gap when assets are liquidated well before maturity.

On the payout delay, the Commission would like to note that in one Member State a payout delay of one week has already been introduced.

The Commission hopes that the above explanations are helpful and looks forward to continuing our dialogue on this and other European matters.

Yours faithfully

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/-/ Maroš Šefčovič