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Dear President,

The Commission would like to thank the Senat for its Opinion of 7 March 2016 on the Commission Communication of 24 November 2016 "Towards the completion of the Banking Union" {COM(2015) 587 final}, in particular with regard to the introduction of a European Deposit Insurance Scheme (EDIS). Some of the issues raised by the Senat have already been addressed by the Commission in its response to the Senat's Opinion on the proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme (EDIS) {COM(2015) 586 final} from 15 February 2016, to which the Commission would like to refer.

Firstly, the Commission welcomes the Senat's broad support for the Banking Union. As stated in the Five Presidents' Report in June 2015, completing the Banking Union is a fundamental step to breaking the link between Member States´ banks and the taxpayers and to making the Economic and Monetary Union more effective. EDIS will be the third pillar of a fully-fledged Banking Union, alongside the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). It will provide a higher level of protection than any single national scheme, as it will be financed by all banks across the eurozone. EDIS will also support financial stability by further reducing the link between banks and their national sovereigns. As set out in the Commission's Communication, the EDIS proposal forms part of a wider package including a number of risk reduction measures designed to complete the Banking Union. These measures will include a legislative proposal on Total Loss Absorbing Capacity (TLAC) to ensure that banks have sufficient loss absorption and recapitalisation capacity. Both the risk reduction and risk sharing measures, including EDIS, will be promoted in parallel.

The Commission appreciates the opportunity to provide further clarification on the EDIS proposal in response to the Senat´s concerns. The Commission has noted the Senat's recommendations, in particular with regard to possible moral hazard, the refund of contributions in case of termination of membership, the mandatory funding path under EDIS and the need for an impact assessment.

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The Senat is right to note that there is a risk of moral hazard given the differences between national banking sectors in the eurozone. Therefore, the EDIS proposal contains a number of safeguards designed to avoid creating the wrong incentives. Among other things, Member States must comply with the Deposit Guarantee Scheme Directive (DGSD). In particular, national Deposit Guarantee Schemes (DGSs) must reach the required target funding levels. In addition, the risk reduction measures to be promoted in parallel to the EDIS proposal will further reduce the risks posed by banks to Member States, and vice versa.

As regards the possible termination of a future close cooperation of a Member State whose currency is not the euro (according to Article 4 (3) of the proposal) and the subsequent eventual refund of contributions to the national DGS, we would like to point out that the cap in Article 4 (3) subparagraph 5 relates to the (mandatory) 0,8% target level of the existing Deposit Guarantee Scheme Directive (Article 10 (2) subparagraph 1 DGSD), not the actual funding level, which is 3,78% in the case of the Romanian Deposit Guarantee Fund.

Therefore, the Romanian DGS could hypothetically benefit from a refund, but such a refund must not exceed two-thirds of the target level under the DGSD. The DGSD cap aims to protect the financial capacity of the European Deposit Insurance Fund as well as to ensure an appropriate refund to the national DGS. In the Commission's view, this is a balanced approach taking into account the interests of both EDIS and the Member State concerned.

In order to address the difference in levels of accumulated resources in the participating Member States, the EDIS proposal sets out a mandatory funding path to ensure that funds are built up at the same pace everywhere under EDIS. This mandatory funding path also serves as a means to reduce possible moral hazard.

The idea of having a common European deposit protection system, rather than isolated national schemes, is not new as it was covered by the impact assessment accompanying the 2009 proposal on Deposit Guarantee Schemes and by a report accompanying it[1]*. This impact assessment included many elements that are also relevant for EDIS, such as the 0.8% target funding level. However, the Commission will provide further targeted analyses on specific points to support the ongoing discussion in the Council working party.*

The points made above are based on the proposal presented by the Commission which is currently in the legislative process involving both the European Parliament and the Council in which the Romanian government is represented.

[1] COM(2010) 368 final, COM(2010) 369 final, SEC(2010) 834/2 final, SEC(2010) 835 final.

The Commission hopes that the clarifications provided in this reply address the issues raised by the Senat and looks forward to continuing the political dialogue in the future.

Yours faithfully,

Frans Timmermans	*Lord Hill*
First Vice-President	*Member of the Commission*