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EU DIRECTIVE ON DEPOSIT GUARANTEE SCHEMES, 2014/49 (DGS DIRECTIVE)

vs Ukrainian Deposit Guarantee Scheme (DGS)

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EXPERT DISCUSSION

FINANCIAL STABILITY AND DEPOSIT INSURANCE SYSTEM: KEY ISSUES

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I Introduction to DGS Directive

II Ukrainian DGS vs DGS Directive – identified key differences

III Which way to go, if going into EU direction

I Introduction to DGS Directive

DEVELOPMENT OF DEPOSIT GUARANTEE DIRECTIVE WITHIN EU

Directive 1994/19 – minimum harmonization



Directive 2009/14 – transitional solutions
(respond to the International financial crisis)



Directive 2014/49 – maximum harmonization
(to remove identified differences in 9 areas)

DGS DIRECTIVE



II Ukrainian DGS vs DGS Directive – identified key differences

Ukrainian DGS vs DGS Directive – identified key differences



- Definitions




- Coverage scope and coverage level



- Eligibility of deposits



- Repayment time-frame



- Financing DGS



- Use of funds

DIFFERENCES IN DEFINITIONS

Ukrainian DGS	DGS Directive
17 terms, out of which, <u>only 3 terms</u> correspond to terms from the DGS Directive.	18 terms
However, definitions of : “Deposit” “Depositor” “Deposit Guarantee Scheme” are not in compliance to same terms in DGS Directive	“Deposit” “Depositor” “Deposit Guarantee Scheme”
Whereas, some important definitions are missing, such as...	for e.g.: “unavailable deposit” “eligible deposit” “target level” “law risk assets”, etc.

DIFFERENCES IN COVERAGE SCOPE AND COVERAGE LEVEL

Ukrainian DGS	DGS Directive
Individuals and sole traders	Coverage scope is broader – depositor is a “holder of deposit”
Coverage level = 200,000 UAH which is app. 6,100 €	Coverage level = 100,000 €



ELIGIBILITY OF DEPOSITS

- DGS Directive explicitly prescribes list of excluded deposits and defines “eligible deposits” as deposits that are not excluded from protection.

Whereas

- Ukrainian DGS has longer / broader list of excluded deposits of individuals and sole traders, such as for e.g.:
 - De-minimis rule (deposits lower than 10 UAH)
 - Deposits of shareholders, related persons, auditors, appraisers
 - Deposits with “higher” interest rates
 - Deposits on accounts based on court decisions

REPAYMENT TIME FRAME, DGS DIRECTIVE SHORTENS PAYOUT:

- **DGS Directive:**



- Prescribed obligatory regular stress testing every 3 years
- Single Customer View (SCV) approach

Whereas

- DGF repayment is 20 business days i.e. 30 business days for banks with large number of accounts (above 500,000)

FINANCING DGS, WHERE DGS DIRECTIVE (ART.10) PRESCRIBES:

- *“Member States shall ensure that DGSs have in place adequate systems to determine their potential liabilities.*
- *The available financial means of DGSs shall be proportionate to those liabilities.”*
- Sources of funding:
 - Regular member contributions: ex-ante risk based with max 30 % payment commitments;
 - Extraordinary member contributions: max 0.5 % of covered deposits
 - Alternative funding arrangements: not prescribed, but assumed public and private arrangements

FINANCING DGS, WHERE DGS DIRECTIVE PRESCRIBES:

- Minimum target level at 0.8 % of covered deposits – by 3rd July 2024
- Target level also serves as “benchmark” for banks’ contribution, use of funds for financing bank resolution, use of funds for financing alternative measures, borrowing etc.
- Borrowing from:
 - the “resolution fund” up to minimum target level, when extraordinary premium are not possible, for deposit repayment, with consent from competent authority
 - other DGSs

USE OF DGS FUNDS, WHERE DGS DIRECTIVE (ART 11) PRESCRIBES:

Mandatory use of funds for:

- Payout of depositors in insolvency proceedings;
- Financing resolution of credit institutions, in accordance with Article 109 of the BRRD but:
 - if the amount is not greater than net losses in insolvency proceedings
 - only up to 50 % of its target level.

Voluntary use of funds:

- Under strict conditions, to finance alternative measures in order to prevent bank failure;
- In insolvency, to finance transfer of assets and liabilities (and deposit transfer), provided that the costs do not exceed the net amount of the covered deposit.

USE OF DGS FUNDS, WHERE DGS DIRECTIVE (ART 11) PRESCRIBES:

- When funds are used for alternative measures, the strict rules must apply, including State Aid rules – many argue it is mission impossible.
- *Alternative measures* – not defined, but assume: recapitalization, liquidity loans, guarantees and similar support to prevent failure of a bank, but if conditions for actions under Article 27(1) are not met and prior any action under Article 32 of Directive 2014/59.
- If the DGS needs financial resources for repayment of depositors and if funds fall below 25 % of target level, credit institution must repay funds;
- Borrowing between DGSs, under certain conditions.

INVESTMENT PRINCIPLES

- *The available financial means of DGSs shall be invested in a low-risk and sufficiently diversified manner.*
- *'low-risk assets' means items falling into the first or second category referred to in Table 1 of Article 336 of Regulation (EU) No 575/2013 or any assets which are considered to be similarly safe and liquid by the competent or designated authority;*

Whereas

- **DGF may invest into Ukrainian government bonds only.**

“LOW-RISK ASSETS” AS DEFINED BY REGULATION No 575/2013

Risk weights in %, Standardized approach	Exposures
0	ECB Central governments, central banks Regional and local governments Public sector entities Multilateral development banks International financial institutions
20 to 50	Rated institutions, credit assessment by a nominated ECAI is available

III Which way to go, if going into EU direction

STRATEGY FOR COMPLIANCE WITH DGS DIRECTIVE

Strategy shall be designed in line with defined political course.

1. If there is, based on signed Association Agreement, obligation to fully comply with EU DGS Directive within specified time-frame, then – no time for delay! As soon as possible:
 - i. Start with serious gap analysis of the Law on DGF and develop prioritized action plan.
 - ii. Don't wait for the last moment.
 - iii. Design negotiation tactics for gradual (postponed) full compliance.

2. If, there is no immediate obligation to fully comply with EU DGS Directive, strategically comply with it as much as possible to strengthen negotiation position.

QUESTIONS FOR DISCUSSION