

Deposit protection, use of deposit guarantee schemes funds, cross-border cooperation, and transparency

2023/0115(COD) - 18/04/2023 - Legislative proposal

PURPOSE: to ensure uniform protection of depositors in the Union.

PROPOSED ACT: Directive of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: deposit guarantee schemes (DGS) reimburse a limited amount to compensate depositors whose bank has failed. A fundamental principle underlying DGS is that they are funded entirely by banks, and that no taxpayer funds are used.

Under existing EU rules, deposit guarantee schemes protect depositors' savings by guaranteeing deposits of up to EUR 100 000 and help prevent the mass withdrawal of deposits in the case of bank failure, which can create financial instability.

In accordance with Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes, the Commission has reviewed the application and the scope of that Directive and concluded that the objective of protection of depositors in the Union through the establishment of deposit guarantee schemes has mostly been met. However, the Commission also concluded that there is a need to address the remaining **gaps in depositor protection** and to enhance the functioning of DGSs, while harmonising rules for DGSs interventions other than payout proceedings.

The proposed amendments to Directive 2014/49/EU (the Deposit Guarantee Schemes Directive or DGSD) are part of the crisis management and deposit insurance (CMDI) legislative package that includes also amendments to Directive 2014/59/EU (the Bank Recovery and Resolution Directive or BRRD) and Regulation (EU) No 806/2014 (the Single Resolution Mechanism Regulation or SRMR).

CONTENT: the aim of the proposed amendments is to build on and clarify the mandate of DGSs to better protect deposits in the context of the reimbursement of depositors.

More specifically, the proposal:

- clarifies the scope so that along with the establishment and functioning of the DGS, the **coverage and repayment of deposits, and the use of DGS funds** for measures to maintain the access of depositors to their deposits also fall within the scope of this Directive;
- harmonises the level of coverage of EUR 100 000 per depositor and bank, as set out in the Deposit Guarantee Scheme Directive and extends depositor protection to public entities (i.e. hospitals, schools, municipalities), as well as client money deposited in certain types of client funds (i.e. by investment companies, payment institutions, e-money institutions);
- includes measures to harmonise the protection of temporary high balances on bank accounts in excess of EUR 100 000 linked to specific life events (such as inheritance or insurance indemnities);

- consolidates the provisions on the **exchange of information** between credit institutions and DGS and reporting by authorities;
- harmonises the rules for the calculation of the repayable amount;
- allows the DGS to apply a longer period of up to **20 working days** in the case of repayment of beneficiary accounts, client funds, and temporary high balances;
- aims to ensure that depositors, above a **threshold of EUR 10 000**, are reimbursed via credit transfers in line with the AML/CFT objectives;
- seeks to harmonise to **five years** the period during which depositors can make a claim against the DGS;
- establishes a set of **safeguards** for preventive measures and allocate the responsibilities among authorities for assessing how preventive measures are applied. This aims at ensuring that the use of these measures is timely, cost-effective and applied consistently across Member States, as improvements to the current situation;
- establishes **requirements for the credit institutions which did not comply with their commitments or fail to repay financial support** granted with preventive measures. The EBA is mandated to develop guidelines on the content of the note with measures needed for the efficient implementation of a preventive measure and of the remediation plan;
- clarifies that the protection by DGSs also covers depositors located in Member States where their member credit institutions exercise the freedom to provide services;
- requires that branches of credit institutions established in **third countries** join a DGS in a Member State if they want to provide banking services and take eligible deposits in the EU. This enhances the protection of depositors as it eliminates the risk of having deposits in the EU whose protection by a non-EU DGS would not be up to the EU standards;
- seeks to **harmonise information** which banks have to provide to their clients annually on the protection of their deposits. It also enhances the information requirements for depositors in case of mergers or other major reorganisations of credit institutions, changes of DGS affiliation and unavailability of deposits due to the critical financial situation of banks;
- clarifies **rules on reporting and improving the exchange of information** from the credit institution to the DGSs and from the DGSs and the designated authorities to the EBA. It is also important that the EBA is appropriately informed of situations that occur and for which the DGS may intervene, to support the EBA in its tasks of overseeing the financial integrity, stability, and security of the European banking system.