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Contributions to the Deposit Insurance Fund of the Financial Market Guarantee System

Deposit insurance in the European Union and the determination of contributions to deposit guarantee schemes are governed by Directive 2014/49/EU (hereinafter referred to as "DGS II directive") on deposit guarantee schemes, as amended, transposed into Czech law through an amendment of the Act on Banks and the Act on Credit Unions (Act No. 375/2015 Coll.) with effect from 1 January 2016.

On 21 February 2023, the European Banking Authority (EBA) issued **revised guidelines on methods for calculating contributions to deposit guarantee schemes under DGS II directive**(EBA/GL/2023/02, external link, consolidated version, hereinafter also referred to as the "guidelines") repealing and replacing the guidelines on methods for calculating contributions to deposit guarantee schemes (EBA/GL/2015/10) with effect from 3 July 2024. In accordance with Article 16(3) of Regulation No. 1093/2010, the Czech National Bank has confirmed its will to follow these guidelines.

Even under the revised guidelines, the contribution of a credit institution (a bank or a credit union) and a branch of a bank from a non-Member State (hereinafter referred to as a "branch")[1] to the Deposit Insurance Fund (hereinafter referred to as the "DIF") continues to be based on the covered deposits held by the credit institution or the branch (as defined in Article 41ca(4) of the Act on Banks, hereinafter referred to as "covered deposits") and on its overall risk profile. Pursuant to DGS II directive, risk-based contributions are collected at least annually until the minimum required amount of funds in the DIF, equivalent to 0.8% of the covered deposits amount, is reached.[2] According to Article 41ca(4) of the Act on Banks, contributions are prescribed even after the minimum amount of funds in the DIF is reached. In addition to regular annual contributions, extraordinary one-off contributions can be demanded from credit institutions and branches where necessary.

The **CNB** will set the amount of annual contributions for credit institutions and branches by **31 May** (a non-zero contribution will be set for those credit institutions and branches which held covered

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[1] For the purposes of calculating the contributions, a branch means a branch of a bank from a non-Member State as defined in Article 1(6) of Act No. 21/1992 Coll., on Banks, as amended, i.e. a branch of a foreign bank having its registered office in a state which is not a member of the European Union and is not a contracting state of the Agreement on the European Economic Area.

[2] This amount was to be reached by 3 July 2024 at the latest. However, this procedure is relevant even after this date, as covered deposits may increase or, conversely, the level of funds in a deposit guarantee scheme may decrease below the target level.

deposits in the previous calendar year[3]). The contribution will be set in Czech koruna and rounded to the nearest whole number. The credit institution and the branch will pay the contribution into the Financial Market Guarantee System (FMGS) by **30 June** of the relevant year.

Where the funds in the DIF reach the minimum required level equivalent to 0.8% of the covered deposits of all credit institutions and branches, the CNB will set the contributions in such a way that their total amount in the relevant year is equal to 0.045% of the covered deposits of all credit institutions and branches. If the funds in the DIF do not reach the minimum required amount, the CNB will set the contribution in such a way that the required amount of funds in the DIF is reached in compliance with Article 41ca(5) of the Act on Banks by the procedure as stated below. If the funds in the DIF are insufficient for the payment of compensation laid down by law, the CNB will prescribe extraordinary contributions.

The amount of contributions to the DIF is set in the following way:

1. The **periodic target level (*PTL*)** of contributions is determined.

   a) If the current amount of funds in the DIF is lower than 0.8% of the covered deposits of all credit institutions and branches, the following formula is used:

$$PTL = \frac{0{,}008 \cdot \sum_{i=1}^{n} CD_i - QAFM}{TLY - t + 1} \cdot mae \ ;$$

where:

CD_i ... the arithmetic average of the covered deposits of credit institution or branch "*i*" as of 31 December for the two calendar years preceding the calendar year in which the contributions are set (in CZK),

$QAFM$ ... the amount of qualified available financial means in the DIF notified to the CNB pursuant to Article 41ca(1) of the Act on Banks,[4]

t ... the calendar year in which the PTL is set,

mae ... a coefficient factoring in the business cycle,[5]

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[3] In the case of new credit institutions and branches for which data are not available for the entire period relevant for the calculation of the contribution, data which are available, but for a period of no longer than until 31 December of the calendar year preceding the calendar year in which the contribution is set, are used.

[4] Qualified available financial means as defined in point 10 of the EBA Guidelines on the delineation and reporting of available financial means of Deposit Guarantee Schemes (EBA/GL/2021/17).

[5] The coefficient is set pursuant to Article 41ca(5) of the Act on Banks, which transposed, among other provisions, subparagraph 4 of Article 10(2) of DGS II directive, and in accordance with points 18–21 of the guidelines. For example, 0.750 is equal to a decrease in the PTL set in accordance with the guidelines by 25% and 1.250 to an increase by 25%. The value of the coefficient is set in the same way as when setting contributions to the Resolution Fund. It is calculated as the sum of the unadjusted value of "*mae*" (excluding the contribution of the cycle), which always equals 1, and the contributions of the business and financial cycles. The contribution of the business cycle is based on the average value of the output gap (OG) in the last four known quarters and the next four quarters according to the CNB forecast as published in the Inflation Report. OG is the average of the output gap values calculated using the Cobb-Douglas production function and the Kalman filter. The contribution of the financial cycle is based on the average value of the Financial

TLY   … the calendar year in which the amount of funds in the DIF should reach the level equivalent to at least 0.8% of covered deposits, determined pursuant to Article 41ca(5) of the Act on Banks[6], i.e. in such a way that the denominator in the PTL formula in the year when QAFM decreased below 0.8% of covered deposits equals[7]

       i)   a whole number within the interval from 1 to 6, where QAFM equals at least 2/3 of 0.8% of the covered deposits amount;

       ii)   the number 7, where QAFM is lower than 2/3 of 0.8% of the covered deposits amount.

Where the DIF has an outstanding liability, the periodic target level of contributions is determined in a forward-looking manner so that the resulting levels of QAFM and other available financial means[8] are sufficient for servicing the outstanding liabilities as soon as these liabilities are due, while QAFM reaches the target level equivalent to 0.8% of the covered deposits of all credit institutions and branches in the year required above (TLY) at the latest.

b)   Where the current amount of funds in the DIF is higher than or equal to 0.8% of the covered deposits of all credit institutions and branches, the following formula is used:

$$PTL = \ 0{,}0045 \cdot \textstyle\sum_{i=1}^{n} CD_i \,;$$

where: *CD$_i$*   … the arithmetic average of the covered deposits of credit institution or branch "*i*" as of 31 December for the two calendar years preceding the calendar year in which the contributions are set (in CZK).

Cycle Indicator (IFC) for the last four known quarters. The IFC value is published in the Financial Stability Report. The final value of coefficient "*mae*" is rounded to five decimal places and is published by the CNB on its website. In accordance with points 18–21 of the guidelines, the cyclical adjustment may also take into account the expected evolution of covered deposits.

[6] Article 41ca(5): "If the amount of funds in the DIF decreases below 0.8% of the covered deposits amount, the CNB will set the annual contribution rate and the coefficient adjusting the total amount of annual contributions in such a way that the amount of funds in the DIF equivalent to 0.8% of covered deposits is reached within a reasonable period of time and within five years from the end of the calendar year in which the decrease occurred, depending on the amount of funds missing in the DIF. If the amount of funds in the DIF decreases below two-thirds of 0.8% of the covered deposits amount, the CNB will set the annual contribution rate and the coefficient adjusting the total amount of annual contributions in such a way that the amount of funds in the DIF equivalent to 0.8% of the covered deposits amount is reached within six years from the end of the calendar year in which the decrease occurred."

[7] TLY is determined in the first year when QAFM decreased below the target level of 0.8% of the covered deposits amount; this TLY is then used in the subsequent years, unless there is another QAFM decrease justifying adjustment of the calculation, or QAFM equals to at least 0.8% of the covered deposits amount.

[8] As defined in point 10 in the EBA guidelines on the delineation and reporting of available financial means of Deposit Guarantee Schemes (EBA/GL/2021/17).

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c) Where an extraordinary contribution is prescribed, the PTL is set taking account of the amount of funds missing in the DIF and the current circumstances in accordance with Article 41cc of the Act on Banks in such a way that the total amount of the prescribed extraordinary contribution does not exceed 0.5% of the covered deposits amount in a calendar year.[9] The Czech National Bank will publish the PTL for extraordinary contributions in a manner allowing remote access.

2. The annual **contribution rate (*CR*)**, which determines the necessary contribution per unit of covered deposits, is calculated according to the formula:

$$CR = \frac{PTL}{\sum_{i=1}^{n} CD_i} \; ;$$

where: *PTL* … the periodic target level of contributions (in the case of the extraordinary contribution, the total amount of contributions to be collected is used),

  CD_i … the arithmetic average of the covered deposits of credit institution or branch "*i*" as of 31 December for the two calendar years preceding the calendar year in which the contributions are set (in CZK; in the case of extraordinary contributions, the same values as when setting the last periodic contributions are used).

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[9] A higher rate may be set for the extraordinary contribution under exceptional circumstances. The annual target level of the contributions may thus be higher or, conversely, lower than the target level calculated according to the formula contained in the EBA guidelines. However, this is in line with the guidelines, which allow for this in points 18–21:

"18. The DGS may set the periodic target level higher than the minimum required under paragraph 16, for example, to reflect the expected evolution of the aggregate covered deposits of the member institutions.

19. Taking into account paragraphs 16, 17 and 18, the DGS should set the periodic target level to spread out periodic contributions as evenly as possible across time to meet the target level of the DGS.

20. The competent authority in cooperation with the designated authority may allow the DGS to set a lower periodic target level than the minimum required under paragraph 16 where it concludes that levying a lower periodic target level meets the conditions set out in Article 10(2) subparagraph 4 of the DGSD, and does not lead the DGS to violate the requirement to meet the minimum target level at the deadline set out in Article 10(2) of the DGSD. When allowing the DGS to set a lower periodic target level, the competent authority in cooperation with the designated authority may take into consideration the expected evolution of the aggregate covered deposits of the member institutions.

21. The competent authority in cooperation with the designated authority may advise the DGS to set a higher periodic target level than the minimum required under paragraph 16 where it concludes that levying a higher periodic target level meets the conditions set out in Article 10(2) subparagraph 4 of the DGSD, and reflecting the expected evolution of the aggregate covered deposits of the member institutions when it sets a higher periodic target level."

The law also permits individual reductions in the contributions for selected entities where the extraordinary contribution could jeopardise liquidity or solvency, or an extension of the date of maturity from the usual three working days since delivery of the decision to six months, which may also be done repeatedly (Article 41cc(5) and (6) of the Act on Banks).

Coefficient "*mae*" is not set in the case of extraordinary contributions.

The CR value is rounded to seven decimal places and is published by the CNB on its website (expressed as a percentage, i.e. to five decimal places).

3. A set of **risk indicators** and their values are set for individual credit institutions and branches. The risk indicators are listed in Annex 2 of the Official Information. This step is not relevant in the case of the extraordinary contribution.

4. **Individual risk scores (IRS)** are set for individual indicators in accordance with Annex 1 of the Official Information. For the purpose of further calculation, the final value is rounded to five decimal places. This step is not relevant in the case of the extraordinary contribution.

5. **Aggregate risk scores (ARS)** are set for individual credit institutions and branches in accordance with Annex 1 of the Official Information. For the purpose of further calculation, the final value is rounded to five decimal places. This step is not relevant in the case of the extraordinary contribution.

6. The **aggregate risk weight (ARW)** is calculated in accordance with Annex 1 of the Official Information. The boundaries of the ARW 50% and 150% are based on the risk weights set in Regulation No. 575/2013 (CRR) of the European Parliament and of the Council for exposures to credit institutions with an external credit assessment, where the risk weights range between 20% and 150%, and boundaries with respect to points 62 and 63 of the guidelines. To determine extraordinary contributions, the risk weights set for the purposes of calculating the last periodic contributions are used.[10] The ARW value calculated in accordance with the Official Information in per cent is rounded to three decimal places. For the purposes of further calculation, this ARW value is converted from a percentage to a decimal number (not further rounded, i.e. a figure with five decimal places, e.g. 0.12345 for ARW = 12.345%, is used).

7. An **adjustment coefficient (μ),** which is identical for all credit institutions and branches in the given year and increases or reduces the calculated amounts of the individual contributions so that the target level of contributions for the given year is reached, is calculated. Its value is published by the CNB on its website. It is calculated using the following formula:

$$\mu = \frac{\sum_{i=1}^{n} CD_i}{\sum_{i=1}^{n} ARW_i \cdot CD_i}$$

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[10] If no risk weight was set, the average risk weight of credit institutions and branches for which a risk weight was set is used, unless it is more appropriate to set the ARW using some other method (for example to use the ARW of the legal predecessor in the case of the conversion of an entity after the amount of periodic contributions was set or to use the average ARW of the merged entities weighted by the amount of covered deposits in the case of a merger).

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where: CD_i … the arithmetic average of the covered deposits of credit institution or branch "*i*" as of 31 December for the two calendar years preceding the calendar year in which the contributions are set (in CZK; in the case of extraordinary contributions, the same values as when setting the last periodic contributions are used),

ARW_i … the aggregate risk weight of credit institution or branch "*i*" (a decimal figure is used).

The value of adjustment coefficient μ is rounded to five decimal places and is published by the CNB on its website (the value expressed as a percentage is published; for the purposes of further calculation, this figure is converted from a percentage to a decimal number and is not further rounded, i.e. a number with five decimal places, e.g. 0.12345 for μ = 12.345%, is used).

8. The **periodic adjusted risk-based contribution** of a credit institution or a branch (C_i) is calculated according to the formula:

$$C_i = CR \cdot ARW_i \cdot CD_i \cdot \mu \ ;$$

where:

CR … the annual contribution rate (value expressed as a decimal number is used),

CD_i … the arithmetic average of the covered deposits of credit institution or branch "*i*" as of 31 December for the two calendar years preceding the calendar year in which the contributions are set (in CZK; in the case of extraordinary contributions, the same values as when setting the last periodic contributions are used),

μ … the adjustment coefficient (value expressed as a decimal number is used).

9. A zero contribution to the DIF is set for a credit institution or a branch which holds no covered deposits as defined in Article 41ca(4) of the Act on Banks.

10. In the event of a demerger of a credit institution, the resulting amount of contributions for the existing entities participating in the conversion is set as shares in the amount of the annual adjusted risk-based contribution calculated using the above method in proportion to their average covered deposits for the quarters for which data are available. If data is unavailable, data on the current covered deposits available at the time of the calculation of the contribution will be used. Where data is not reported, the value requested by the supervisory authority will be used.

Unless specified otherwise above, a figure rounded to whole Czech koruna is used.

The CDi value is set similarly as for the purposes of Annex 2 of the Official Information as the arithmetic average of the values as of 31 December for the two calendar years preceding the calendar year in which the contributions are set, accurate to five decimal places. If data for only a

shorter period are available for a credit institution or a branch, the average of the data as of 31 December and the start of the period for which data are available is used, unless it is more appropriate to use some other method.[11]

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[11] For example to use the data of the legal predecessor, etc. If a credit institution merged or demerged in the previous calendar year (or later before the amount of the contribution was set), the value of CD_i is set based on the sum of values for all entities participating in the conversion (i.e. dissolved, further existing and newly-established credit institutions and branches). If the data is not available at all because it is a new institution for which no covered deposits have yet been reported to the CNB, the amount of covered deposits is supposed to be zero for the purposes of the calculation.