Conseil de protection des déposants et des investisseurs

Luxembourg, le 6 avril 2016

A tous les établissements de crédit de droit luxembourgeois, aux succursales luxembourgeoises d'établissements de crédit ayant leur siège social dans un pays tiers et à l'Entreprise des Postes et Télécommunications

CIRCULAIRE CSSF-CPDI 16/01

Concerne: **Fonds de garantie des dépôts Luxembourg – Informations relatives à la collecte des contributions *ex-ante* en 2016 conformément à l'article 166, paragraphe 2, de la loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement**

Mesdames, Messieurs,

L'article 166 de la loi du 18 décembre 2015 relative à la défaillance des établissements de crédit et de certaines entreprises d'investissement (ci-après « la loi du 18 décembre 2015») prévoit que tous les établissements adhérents au **Fonds de garantie des dépôts Luxembourg** (ci-après « FGDL ») versent les contributions visées à l'article 179 de la loi du 18 décembre 2015 sur les comptes visés à l'article 155, paragraphe 2 de ladite loi.

En vertu des pouvoirs qui lui sont attribués par l'article 12-10, paragraphe 2, de la loi modifiée du 23 décembre 1998 portant création d'une commission de surveillance du secteur financier, le Conseil de protection des déposants et des investisseurs (ci-après « CPDI ») a arrêté (avec l'approbation de la CSSF en sa qualité d'autorité compétente conformément à l'article 182, paragraphe 3, de la loi du 18 décembre 2015) les modalités de calcul des contributions conformément à l'article 179 de la loi du 18 décembre 2015 et

conformément aux orientations de l'ABE[1]. Ces modalités de calcul se trouvent en annexe 1 de la présente circulaire (uniquement en anglais).

Le CPDI et le FGDL ont arrêté la facture-type de la contribution 2016 (voir l'annexe 2 de la présente circulaire (uniquement en anglais)) qui porte sur un tiers du niveau cible des moyens financiers dont le FGDL est censé disposer en 2018. Conformément à l'article 179 de la loi du 18 décembre 2015, le niveau cible est fixé à 0,8 pour cent du montant des dépôts garantis des établissements adhérents. La facture sera envoyée par le FGDL.

Pour toutes questions concernant la présente circulaire, nous vous prions de contacter M. Laurent GOERGEN (email : laurent.goergen@cssf.lu) ou le CPDI (email : cpdi@cssf.lu).

Veuillez recevoir, Mesdames, Messieurs, l'assurance de nos sentiments très distingués.

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER
Conseil de protection des déposants et des investisseurs

Pour le CPDI

Claude SIMON
Président du CPDI

Annexes: Annexe 1 : Méthodologie de calcul (6 pages)
Annexe 2 : Facture-type (2 pages)

[1] EBA Guidelines on methods for calculating contributions to deposit guarantee schemes (EBA/GL/2015/10)

Contributions to the Luxembourg Deposit Guarantee Scheme

I. Background

Deposit guarantee schemes ("DGS") should have adequate financial means to meet their potential liabilities. Directive 2014/49/EU ("DGSD") requires all European DGS to be ex-ante financed up to a minimum target level. To achieve this level of financing, DGS shall raise annual *risk-based* contributions from the deposit taking institutions. The consistency of these risk-based contributions across Member States is ensured through the common "EBA Guidelines" on methods for calculating contributions to deposit guarantee schemes (EBA/GL/2015/10).

The law of 18 December 2015 on the failure of credit institutions and of certain investment firms (« law ») foresees that the Luxembourg DGS:

- shall reach a target level of 0,8% of covered deposits by 31 December 2018 (law art.179(1));
- shall collect additional financial means representing 0,8% of covered deposits within 8 years after the initial 0,8% target level has been reached (law art.180);
- applies to all Luxembourg credit institutions (holding deposits), the Entreprise des postes et télécommunications – services financiers postaux; and Luxembourg branches of third country institutions (if there is no equivalent DGS[1]).

This annex presents the method for calculating the risk-based contributions to the Luxembourg DGS. The design of the method is guided by three overarching principles:

A. Compliance: the contributions should be fully aligned with the EBA Guidelines;
B. Simplicity: the determination of contributions should be as simple as possible, and hence as resource efficient as possible (in terms of reporting burden on institutions and implementation costs at the CSSF);
C. Risk sensitivity: contributions should adequately reflect institution specific and system-wide risks.

Given these principles, the CPDI, with the approval of the CSSF in its capacity as competent authority, has developed a calculation method that is based primarily on the mandatory EBA core risk indicators (see below). Only one additional risk indicator, namely the ratio between a bank's covered deposits and the target level, has been implemented. The reason is that banks whose covered deposits exceed the target level shall make a higher contribution to the FGDL due to the additional cost for raising ex-post contributions in case of their failure. Based on 2015 year end data, there are 14 banks totaling 87% of all covered deposits that fall in this category. This risk related to the deposit-size within the Luxembourg banking sector is not adequately captured by the EBA core risk indicators alone.

[1] For the purpose of the contribution calculation in 2016, the CSSF treats the following countries as not equivalent for the purpose of DGS: Brazil, China, Switzerland, Turkey

II. Structure of contributions

Contributions to the DGS should depend on the amount of covered deposits and the risk level of the DGS member institutions in order to "provide incentives to operate under a less risky business model" (DGSD recital (36), art.13(1)). Paragraph 34 of the EBA Guidelines requires that the contribution of institution i to the DGS be given by formula [1]:

$$\textbf{(Covered Deposits)}_i \textbf{ * Target Level * ARW}_i \textbf{ * } \mu, \qquad [1]$$

where

- The target level of the Luxembourg DGS is set to 0,8% (of the amount of covered deposits); an additional buffer with a target level of 0,8% of covered deposits has to be established starting in 2019.[2]
- "ARW_i" is the "Aggregate Risk Weight" of institution i. It is obtained by scoring a set of risk indicators (EBA core risk indicators plus one additional deposit-size risk indicator) and translating them into the ARW_i (see section III);
- μ is the "adjustment coefficient" as defined hereunder.

The contribution of institution i is proportional to its covered deposits. The factor of proportionality depends on the target level and the institution's risk profile, as measured through ARW_i. For low (high) risk institutions, "ARW_i"<1 (>1) so that the contribution of institution i to the DGS is lower (higher) than the targeted 0,8% of its covered deposits.

To make sure that the sum of the contributions meets the overall target level, an adjustment coefficient $\boldsymbol{\mu}$ is introduced[3].

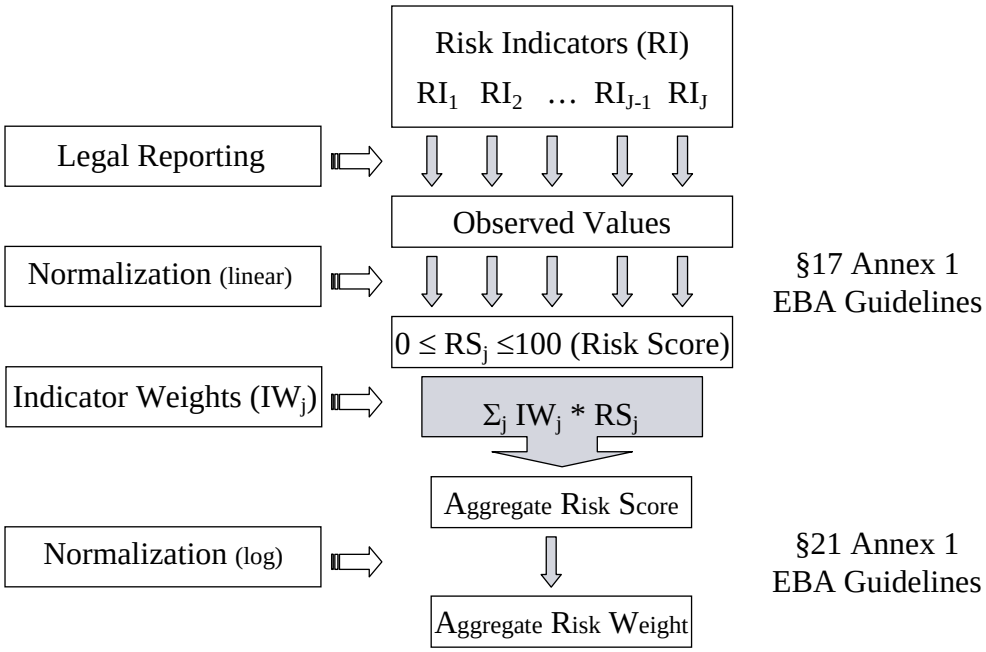
Formula [1] gives the **overall contribution** of institution i. According to the law, this overall contribution is spread over time. During the initial build up period, that will end on 31 December 2018, contributions amounting to 0,8% of covered deposits shall be paid to the DGS in three tranches. During a second build up period, starting in 2019 and stretching until 31 December 2026 (assuming no depletion of the DGS in the meantime and no stretching of that second build up period[4]), additional contributions representing 0,8% of covered deposits shall be collected.

[2] When referring to the target level, we mean in the following a target level of 0,8%.
[3] $\mu = (\Sigma_i \text{ Covered Deposits}_i)/(\Sigma_i \text{ Covered Deposits}_i \text{ ARW}_i)$
[4] As provided for in art. 180(1) of the law

III. The aggregate risk weight (ARW)

Overview

The following figure shows how the ARW_i is obtained as a weighted sum of risk scores.



Risk Indicators and Indicator Weights

The risk level of an institution is measured using the standard set of core risk indicators in paragraph 51 of the EBA Guidelines. The CSSF chose to add "deposit-size risk" as an additional risk indicator. These risk indicators are grouped into overarching risk categories (see table 1 below)[5].

A global score per institution is derived by adding the weighted scores per risk indicator. Paragraph 56 of the EBA Guidelines imposes the "minimum weights" shown in Table 1 hereafter for the different risk categories (weights are evenly broken down across the risk indicators in each category). These minimum weights add up to 75% thus leaving Member States the flexibility to allocate the remaining 25% to additional indicators. The CSSF chose to give the additional risk indicator (for deposit-size risk) a 15% weight (in line with the weights per core risk category) and to distribute the remaining weight (10%) evenly across core indicators, in line with paragraph 58 of the EBA Guidelines.

[5] For a definition and rationale of the core indicators, please refer to Table 1 and Annex 2 of the EBA guidelines. The additional (deposit-size) risk score is binary: institutions with deposits exceeding the target level of 0,8% of aggregate covered deposits are deemed relevant for this risk indicator (and will receive a score of 100; see hereafter). All other, non relevant institutions receive a 0 score.

The final weights applied by the CSSF are shown in the third and last columns of table 1.

Risk Category	Minimum weights	Final weights	Risk Indicator	Final weights
1. Capital	18%	20%	Leverage ratio	10%
			Capital coverage ratio	10%
2. Liquidity and funding	18%	20%	Liquidity coverage ratio (LCR)	20%[6]
			Net stable funding ratio (NSFR)	./.
3. Asset quality	13%	15%	Non-performing loans ratio (NPL ratio)	15%
4. Business model and management	13%	15%	RWA vs. Total assets ratio	7,5%
			Return on assets (ROA)	7,5%
		15%	Deposit-size Risk*	15%
5. Potential losses for the DGS	13%	15%	Unencumbered assets versus Covered deposits	15%
Sum of weights	75%	100%		100%

Table 1: Risk categories, risk indicators and their weights. Additional risk indicators are starred (*).

For each member institution the values of the risk indicators will be calculated on a solo basis, including own branches (EBA Guidelines §63). A score of 100 (worst score) is attributed to indicators that cannot be scored due to data unavailability (e.g. due to late/incomplete reporting). If data is not available due to waivers, the CSSF will ask the mother company at consolidated level for the respective indicators and apply them to the respective Luxembourg institution.[7]

Risk Scores

The EBA Guidelines comprise two methods for the mapping of the observed values of the risk indicators into a risk score normalized on [0,100]. These are the "bucket method" and the "sliding scale method".

Under the "sliding scale method", the observed values of the risk indicator are linearly mapped into a risk score between 0 and 100. The linearity (and hence continuity) of

[6] Due to its current unavailability, the NSFR is not scored. Its weight is added on top of the LCR weight as suggested in scenario 2 of box 3 of the EBA Guidelines.
[7] Compliant to Art. 65 of EBA Guidelines EBA/GL/2015/10

the mapping function avoids the discontinuous cliff effects of a bucket approach. Under the sliding scale method, small differences in risk indicator values translate into small differences in risk scores. This method is applied to all the risk indicators except the (binary) deposit-size risk indicator. Institutions with covered deposits exceeding (below) 0,8% of aggregate covered deposits are scored 100 (0).

The sliding scale for each indicator is defined by specifying a lower and an upper boundary between which the indicator is mapped linearly to a score between 0 and 100. Values of the risk indicator that fall at or outside the boundaries are mapped onto 0 or 100. The mapping may be decreasing or increasing. The following table shows the lower and upper boundaries that the CSSF has put forth. They are calibrated in a way to ensure the "sufficient and meaningful differentiation" required under §15 of Annex 1 of the EBA Guidelines. For the Leverage ratio, the Capital coverage ratio, the Liquidity coverage ratio and the Unencumbered assets v. covered deposits ratio, higher values of the risk indicator indicate lower risk (decreasing sliding scale). The mapping for the Return on assets is decreasing between 0% and 2% and increasing between 2% and 10% (V-shaped). The remaining sliding scales are increasing.

Risk Indicator	Boundaries
Leverage ratio	upper bound: 9% lower bound: 3%
Capital coverage ratio	upper bound: 200% lower bound: 100%
Liquidity coverage ratio (LCR)	upper bound: 120% lower bound: 60%
Non-performing loans ratio (NPL ratio)	upper bound: 3% lower bound: 0%
RWA vs. Total assets ratio	upper bound: 100% lower bound: 0%
Return on assets (ROA)	upper bound: 2%; 10% lower bound: 0%, 2%
Deposit-size risk	
Unencumbered assets v. Covered deposits ratio	upper bound: 200% lower bound: 0%

Table 2: Boundaries and corresponding risk score information.

Please note that these boundaries as well as the choice of the risk weights indicated in Table 1 may be amended, as regulatory requirements (e.g. LCR) or the banking landscape itself and its risk structure change. An annual review of the methodology will thus be made and communicated.

Aggregate risk weights (ARW)

The final ARW_i that is used in the contribution formula [1] is obtained by inserting the Aggregated Risk Score in the following formula, cf. paragraph 21 of Annex 1 of the EBA Guidelines.

$$ARW_i = 75\% + 75\% * \left(1 - \log_{10}(10 - 9\,ARS)\right)$$

This yields an ARW_i between 75% and 150%. This function is recommended by EBA as it increases the risk weight for the most risky institutions.

fgdl
Fonds de garantie des dépôts Luxembourg

Bank name and address
jj/04/2016

Invoice

Reference

For any questions concerning this invoice, please contact:
Fonds de garantie des dépôts Luxembourg (FGDL) (Email: info@fgdl.lu), or
Laurent GOERGEN (Email: laurent.goergen@cssf.lu, Tel : +352 26251 2949)

As announced in Circular CSSF-CPDI 16/01 and based on Articles 179 and 182 of the law of 18 December 2015 on the failure of credit institutions and of certain investment firms, the CPDI has (with the approval of the CSSF in its capacity as competent authority) determined your contribution to the "Fonds de garantie des dépôts Luxembourg" (FGDL) for 2016.

You are invited to pay within two weeks the amount of EUR 0. This amount is based on the determinants reported in the appendix to this invoice and is exempt from value added tax (VAT).

Payment instructions:

Bank name:	Banque centrale du Luxembourg
SWIFT (BIC) code:	BCLXLULLXXX
Beneficiary:	Fonds de garantie des dépôts Luxembourg
IBAN account number:	**LU33 9990 0001 2000 300E**
Reference:	…
Indication of the reference number in the communication of the money transfer is mandatory and the transfer must be without charge for the beneficiary.	

Isabelle GOUBIN
Membre du comité de direction

Claude SIMON
Président du comité de direction

fgdl
Fonds de garantie des dépôts Luxembourg

Appendix to the invoice for the collection of the first tranche of the contributions to the FGDL

Bank name

Pursuant to the methodology presented in Annex 1 to the Circular CSSF-CPDI 16/01, the first tranche of your contribution to the FGDL amounts to EUR 0. In line with formula [1] in the aforementioned annex, this amount is determined as follows:

$$\text{Covered deposits} * 0.8\% * \text{ARW} * \mu * 1/3,$$

The values of the above factors as at 31/12/2015 have been determined as follows:

Covered deposits	
ARW	
μ	1.140797

The value for the covered deposits is based on the data reported under the inquiry mandated by Circular 15/630. The Risk indicators are based on the prudential reporting as at 31/12/2015 in its non-consolidated[1] version including own branches (COREP, FINREP and LCR inquiry). In order to ensure the quality and consistency of the Risk indicators, manual adjustments may have been made to reported figures. In case of questions on the determination of the invoiced amount, please contact Mr. Laurent GOERGEN (email: laurent.goergen@cssf.lu, Tel. : +352 26251 2949).

[1] Exceptions apply in the case of branches of third country institutions, see Methodology, page 4 therein.