



## **OPINION OF THE EUROPEAN CENTRAL BANK**

**of 10 March 2009**

**at the request of the Central Bank of Cyprus and of the Cypriot Authority for the Supervision and Development of Cooperative Societies on certain draft regulations related to the Deposit Protection Scheme**

**(CON/2009/20)**

### **Introduction and legal basis**

On 13 February 2009 the European Central Bank (ECB) received a request from the Central Bank of Cyprus for an opinion on draft regulations amending the Establishment and Operation of a Deposit Protection Scheme Regulations of 2000 to 2006 and on 23 February 2009 the ECB received a request from the Cypriot Authority for the Supervision and Development of Cooperative Societies for an opinion on draft regulations amending the Establishment and Operation of the Deposit Protection Scheme Regulations of 2000 to 2004 (hereinafter the 'draft regulations').

The ECB's competence to deliver an opinion is based on Article 105(4) of the Treaty establishing the European Community and the third and sixth indents of Article 2(1) of Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions<sup>1</sup>, as the draft law relates to the Central Bank of Cyprus and to rules applicable to financial institutions insofar as they materially influence the stability of financial institutions and markets. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

### **1. Purpose of the draft regulations**

The draft regulations will amend the Establishment and Operation of a Deposit Protection Scheme Regulations of 2000 to 2006<sup>2</sup> and the Establishment and Operation of the Deposit Guarantee Scheme Regulations of 2000 to 2004<sup>3</sup>, establishing two separate schemes for the benefit of the clients of Cypriot banks and cooperative credit institutions (CCIs), respectively. As a result, in both cases, the deposit guarantee and deposit protection schemes will be amended so that: (i) statutory deposit protection coverage will be raised from EUR 20 000 to EUR 100 000; (ii) the payout delay will be reduced from

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<sup>1</sup> OJ L 189, 3.7.1998, p. 42.

<sup>2</sup> Reg. No 66/2000, Official Gazette of the Republic, 3.3.2000, Annex III (Part I), p. 241.

<sup>3</sup> Reg. No 40/2000, Official Government Gazette of the Republic, 25.2.2000, Annex III (Part I), p. 203.

three months to 20 working days; (iii) the co-insurance requirement resulting in depositors bearing 10 % of the loss up to the statutory deposit protection level will be eliminated; (iv) coverage will be expanded to include deposits denominated in all currencies; and (v) the deposit guarantee and deposit protection schemes will be reinforced through a progressive increase in its basic capital. The latter may be achieved by increasing the initial contribution from the banks and CCIs, by raising the maximum amount of required special and/or supplementary contributions, and/or by abolishing the maximum limit on the amount that the Management Committee may borrow.

## 2. ECB observations

- 2.1 In line with its previous opinions<sup>4</sup>, the ECB welcomes the proposed increase in the total amount of protected deposits in accordance with the conclusions of the Ecofin Council of 7 October 2008<sup>5</sup> and the Directive of the European Parliament and of the Council amending Directive 94/19/EC on Deposit Guarantee Schemes as regards the coverage level and the payout delay (hereinafter the ‘amending Directive’)<sup>6</sup>. The ECB also notes that the guaranteed amount under the two schemes is identical and that this will help to avoid distortions in the national financial system. The ECB takes this opportunity to reiterate that Member States, when implementing the above-mentioned amending Directive, should act in a coordinated manner to avoid significant differences in national implementation measures from having a counterproductive effect by creating distortions in global banking markets.
- 2.2 Reducing delays in payouts of guaranteed deposits can strengthen depositor confidence, which plays a key role in the effectiveness of deposit protection schemes<sup>7</sup>. At the same time, it is essential that a pragmatic approach be taken to introducing the necessary reduction in payout delays, thereby preserving credibility of the deposit guarantee schemes<sup>8</sup>. Finally, attention should be drawn to the importance of establishing efficient operational processes for verifying claims and reimbursing depositors, as well as ensuring that sufficient sources of funding are available.

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<sup>4</sup> See, e.g., paragraph 2.2 of ECB Opinion CON/2008/51 of 17 October 2008 at the request of the Greek Ministry of Economy and Finance on a draft law on, *inter alia*, the establishment of the ‘Depositors and Investors of Credit Institutions Compensation Fund’; paragraph 2.1 of ECB Opinion CON/2008/61 of 28 October 2008 at the request of the Belgian Minister for Finance on a draft royal decree implementing the Law of 15 October 2008 on measures promoting financial stability (title shortened); and paragraph 2.1 of ECB Opinion CON/2008/69 of 17 November 2008 at the request of the Irish Minister for Finance on a draft Financial Services (Deposit Guarantee Scheme) Bill 2008.

<sup>5</sup> The Ecofin Council agreed that ‘all Member States would, for an initial period of at least one year, provide deposit-guarantee protection for individuals for an amount of at least EUR 50 000, acknowledging that many Member States determine to raise their minimum protected amount to EUR 100 000’. See the Press Release for this meeting (13784/08), available on the Council’s website at [www.consilium.europa.eu](http://www.consilium.europa.eu).

<sup>6</sup> Not yet published in the Official Journal. For a summary of the salient points of this Directive see ‘The Council strengthens depositor protection’, Press Release, Brussels, 26 February 2009 No 6983/09, available on the Council’s website at [www.consilium.europa.eu](http://www.consilium.europa.eu).

<sup>7</sup> See, e.g., paragraph 2.2 of ECB Opinion CON/2008/70 of 18 November 2008 at the request of the Council of the European Union on a proposal for a Directive of the European Parliament and of the Council amending Directive 94/19/EC on Deposit-Guarantee Schemes as regards the coverage level and the payout delay.

<sup>8</sup> See Opinion CON/2008/70.

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 10 March 2009.

[signed]

*The President of the ECB*

Jean-Claude TRICHET