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# PEER REVIEW REPORT ON THE PERFORMANCE OF STRESS TESTS BY DEPOSIT GUARANTEE SCHEMES

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EBA/REP/2025/11

APRIL 2025



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## List of abbreviations

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CAs	Competent Authorities
CMDI	Crisis management and deposit insurance
DGSDA	Deposit Guarantee Schemes Designated Authority
DGSD	Deposit Guarantee Schemes Directive 2014/49/EU
DGS	Deposit Guarantee Schemes
EBA	European Banking Authority
EFDI	European Forum of Deposit Insurers
EU	European Union
FTEs	Full-time equivalents
PIF	Payment Instructions File
PRC	Peer Review Committee
SAQ	Self Assessment Questionnaire
SCV	Single Customer View

# Executive summary

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This report presents the findings of the peer review conducted by the European Banking Authority (EBA) on the performance of stress tests by deposit guarantee schemes (DGSs) across the EU.

The review assessed how stress tests are performed by seven national DGSs against five benchmarks stemming from Article 4 of the Deposit Guarantee Schemes Directive and the Revised Guidelines on stress tests of deposit guarantee schemes. The assessment and the scores presented in this report are not a judgement on the ability of these DGSs to perform their interventions, but specifically on how they have performed their stress tests in the period under review. Overall, the stress tests have enabled DGSs to strengthen their resilience and preparedness for bank failures.

The peer review found that:

- all of the seven DGSs have effectively developed their stress testing programmes in line with the methodology outlined in the guidelines, with only minor shortcomings.
- five DGSs could fully or largely demonstrate that they have performed all the mandatory core stress tests, using realistic assumptions and conducting objective evaluations. One DGS was only partially compliant as it has not performed any end-to-end simulations, and one was not compliant due to a number of important shortcomings.
- all seven DGSs have demonstrated effective cooperation with relevant authorities, with robust stress testing of these arrangements. Among the DGSs assessed, four were fully compliant, and three were largely compliant.
- five DGSs could fully or largely demonstrate increased severity and complexity of their testing scenarios to adequately stress testing their ability to intervene. One could demonstrate this only partially, and one could not demonstrate increased severity and complexity of the test at all.
- five DGSs could fully or largely demonstrate that they have identified areas for improvement in their systems and have taken or have planned actions to address these areas. Two DGSs could only demonstrate this partially.

The report outlines a number of follow-up measures addressed to all the EU DGSs in the areas of: the prompt development of stress tests; the performance of stress test; cooperation; severity and complexity of stress tests; and, the identification of areas of improvement.

In addition to the detailed review of the seven DGSs, this report also presents an overview summary of the 194 stress tests conducted by all the DGSs in the EU, Norway and Liechtenstein in the 2021-2024 period, highlighting instances where DGSs have not conducted mandatory stress tests, what the results have been, and an overview of improvements identified in the course of the stress tests.

The EBA will conduct a follow-up peer review of the implementation of the measures included in the report in two years.

# 1. Introduction

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## 1.1 Role of peer reviews

1. One of the European Banking Authority (EBA)'s tasks is to conduct peer reviews of the activities of competent authorities (CAs), to further strengthen consistency and effectiveness in supervisory outcomes. In relation to deposit guarantee schemes (DGS), the public body which oversees a DGS is a CA (the DGS designated authority) – that body might be the DGS itself or a separate body. For simplicity, in this report we refer to DGS but formally the responsibility for implementing the findings of the report fall to the relevant CA.
2. Peer review reports set out the main findings of the peer reviews. They also identify follow-up measures for CAs that are considered appropriate, proportionate and necessary as a result of the peer review. Follow-up measures are of a general nature and are applicable to all CAs and DGS, including those that were not targets of this peer review, unless specified otherwise.
3. A follow-up report undertaken two years after this report will assess the adequacy and effectiveness of the actions undertaken by CAs in response to these follow-up measures. The follow-up report could cover also CAs that were not subject of this peer review, so all CAs should consider the findings of this peer report and any follow-up measures.
4. This chapter gives an overview of how this particular peer review was conducted, and of the supervisory activities reviewed.

## 1.2 Topic

5. The aim of this peer review is to assess the performance of stress tests by DGSs by examining how stress tests are performed against Article 4 of the Deposit Guarantee Schemes Directive and the Revised Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2016/04 ('Revised Guidelines on DGS stress tests'). Stress tests are an important part of the regulatory framework since financial stability in the banking sector rests on confidence that DGS are able to carry out their role in ensuring that depositors have swift and effective access to their money in the event of a bank failure.
6. The assessment examined the performance of the stress tests in relation to all of the interventions that DGS are legally mandated to perform, including their ability to effectively reimburse depositors. It paid particular attention to the new mandatory elements of the Revised Guidelines, in particular the performance of DGS stress tests of using DGS funds for failure prevention, contribution to resolution and transfer of a deposit book. As well as the extent to which effective cooperation arrangements are in place; severity and complexity of stress testing has been increased by the DGS over time and that areas of improvement as a

result of assessing their stress testing have been identified by the DGS. This peer review builds upon the findings of the previous EBA peer review of the resilience of DGS.

## 1.3 Methodology

7. The detailed methodology for peer reviews can be found on the EBA's website, this section provides a short summary.
8. This peer review presents an overview of stress testing of all DGSs. However, for the purposes of benchmarking and to examine the areas set out above it focuses on the practices of seven DGSs, namely: AT, BE, ES, FI, IT, LV and PL. For AT and IT, where there are multiple DGSs, the assessment relates to Einlagensicherung Austria GmbH (ESA), and Fondo Interbancario di Tutela dei Depositi (FITD).
9. These DGSs were chosen on the basis of criteria including: recent exposure to bank failures in their jurisdictions; institutional set up; the inclusion in the sample of public and private DGSs; other considerations such as the types of institutions included in the DGS; and, the size, geographical balance and participation in recent peer reviews.
10. The assessment has been conducted based on a number of supervisory benchmarks provided in more detail in section 1.4. To identify how the DGS perform their stress tests, the resilience of the DGS and the extent to which their activities met the benchmarks, the PRC required DGS to complete a self-assessment questionnaire (SAQ), for a reference period from 15 September 2021 until 16 June 2024. The PRC received follow ups through email correspondence with the DGS when seeking further clarifications. In addition, the PRC also conducted interviews with all seven DGSs, and where relevant, the DGS designated authorities.
11. The PRC subsequently assessed the DGS against the benchmarks formulating the key findings of the peer review. This report sets out those findings together with follow-up measures that are applicable to all CAs and DGSs in the EU, all of which are aimed at further strengthening consistency and effectiveness in outcomes across the EU. The report also identifies a number of best practices, the adoption of which might be of benefit for other DGSs. As noted above, the actions taken by DGSs in response to follow-up measures will be assessed in a follow up report, which will be considered as the finalisation of this peer review, after two years and that review can be conducted upon DGS that were not in scope of this review. Subsequent peer reviews on DGS will be conducted five years thereafter in accordance with Article 4 of the DGSD.
12. The conclusions of the peer review are set out in subsequent chapters of this report, focusing on the key findings and any resulting follow-up measures or good practices identified. The final chapter provides an overview of these findings and measures.

## 1.4 Benchmarking

13. For the purposes of this peer review, a number of supervisory benchmarks were identified which were considered to assess how the stress tests performed by the DGSs against Article 4 of the Deposit Guarantee Schemes Directive and the Revised Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2016/04 ('Revised Guidelines on DGS stress tests') in terms of the expectations on DGSs and their stress testing activities. The PRC identified criteria to underpin and assess these benchmarks.

14. The benchmarks are assessed on the following scale:

<b>Fully applied:</b> all assessment criteria are met without significant deficiencies	<b>FA</b>
<b>Largely applied:</b> some of the assessment criteria are met with some deficiencies, which do not raise any concerns about the overall effectiveness of the competent authority, and no material risks are left unaddressed	<b>LA</b>
<b>Partially applied:</b> some of the assessment criteria are met with deficiencies affecting the overall effectiveness of the competent authority, resulting in a situation where some material risks are left unaddressed	<b>PA</b>
<b>Not applied:</b> the assessment criteria are not met at all or to an important degree, resulting in a significant deficiency in the application of the provision	<b>NA</b>

15. The benchmarks and criteria are set out in Figure 1.

Figure 1 – Peer review benchmarks and criteria

	Benchmark	Criteria
1	The DGS has effectively developed an adequate plan of stress tests and executed them in line with the methodology outlined in GL 2	<ul style="list-style-type: none"> <li>The DGSDA can demonstrate that a stress testing programme was created with adequate detail on the timeline and content of the stress tests, including clear rationale for the timeline and the content.</li> <li>The DGSDA can demonstrate that relevant stakeholders have been involved in the development of the stress testing programme.</li> <li>The DGSDA can demonstrate that the stress testing programme has evolved over time, taking into account findings from the results of the stress tests.</li> <li>The DGSDA can demonstrate that real life development were used to refine the stress testing programme.</li> </ul>
2	The DGS can effectively perform all of the mandatory core stress tests, in accordance with GL 3 and can demonstrate results which allow comparability of the reporting results for all the required indicators	<ul style="list-style-type: none"> <li>The DGSDA can demonstrate that all relevant core stress tests were executed in line with the stress testing programme.</li> <li>The DGSDA can demonstrate that the DGS has used realistic assumptions for the development of the stress tests. The DGSDA can demonstrate that the stress tests have been conducted and evaluated objectively.</li> </ul>



		<ul style="list-style-type: none"> <li>The DGSDA can demonstrate that real life developments were taken into account when developing and conducting the stress tests.</li> </ul>
3	The DGS can demonstrate that they effectively cooperate with all relevant authorities and that these arrangements have been robustly stress tested in accordance with the GLs	<ul style="list-style-type: none"> <li>The DGSDA can demonstrate adequate engagement and planning arrangement are in place between all relevant stakeholders.</li> <li>The DGSDA can demonstrate that there are effective arrangements in place for sharing information between relevant stakeholders.</li> <li>The DGSDA can demonstrate relevant stakeholders are included in the execution of the stress tests.</li> <li>The DGSDA can demonstrate cooperation with relevant stakeholders was adequately reflected in the stress tests.</li> </ul>
4	The DGS can effectively demonstrate that they have increased the severity and complexity of their testing scenarios in accordance with GL 3	<ul style="list-style-type: none"> <li>The DGSDA can demonstrate that the rationale for deciding on the severity and complexity of the stress tests was determined.</li> <li>The DGSDA can demonstrate that the severity and complexity of the tests chosen adequately stress tests the DGSs ability to intervene.</li> <li>The DGSDA can demonstrate the impact of severe and complex cases on their DGS's resources.</li> </ul>
5	The DGS can demonstrate that they have effectively identified which areas of their DGS systems require improvements and that they can demonstrate that they have already improved or are planning to take action to improve these areas in comparison to previous tests in accordance with GLs 1 and 5	<ul style="list-style-type: none"> <li>The DGSDA can demonstrate that an evaluation of each core stress test identified areas that went well and areas that required improvement.</li> <li>The DGSDA can demonstrate follow-up measures to address the identified areas for improvement have been developed by the DGS.</li> <li>The DGSDA can demonstrate that actions on the areas of improvement have been taken by the DGS.</li> </ul>

16. Figure 2 summarises the PRC's assessment of the benchmarks.

Figure 2 – PRC's assessment of the peer review benchmarks

	AT	BE	ES	FI	IT	LV	PL
1. The DGS has effectively developed an adequate plan of stress tests and executed them in line with the methodology outlined in GL 2							
2. The DGS can effectively perform all of the mandatory core stress tests, in accordance with GL 3 and can demonstrate results which allow comparability of the reporting results for all the required indicators							
3. The DGS can demonstrate that they effectively cooperate with all relevant authorities and that these arrangements have been robustly stress tested in accordance with the GLs							
4. The DGS can effectively demonstrate that they have increased the severity and complexity of their testing scenarios in accordance with GL 3							
5. The DGS can demonstrate that they have effectively identified which areas of their DGS systems require improvements and that they can demonstrate that they have already improved or are planning to take							

	AT	BE	ES	FI	IT	LV	PL
action to improve these areas in comparison to previous tests in accordance with GLs 1 and 5							

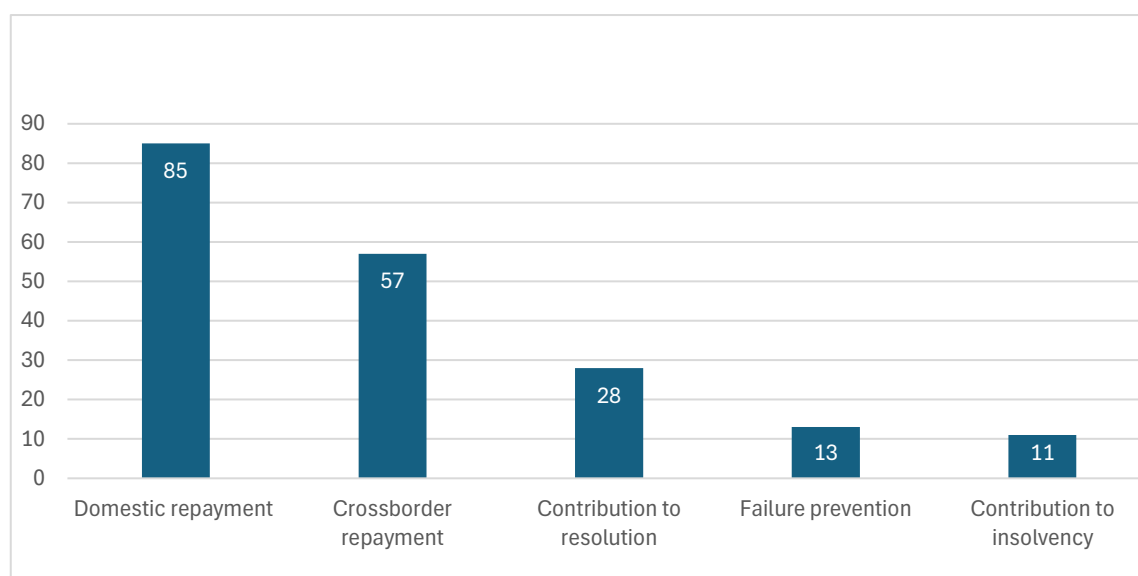
## 2. Background information & overall stress tests results

17. While the benchmarking exercise that forms the basis of this peer review were assessed upon seven DGSs, the PRC also examined the overall stress test results for all jurisdictions within the EU. The EBA Guidelines on the stress testing of deposit guarantee schemes required the DGSs to report the results of their stress tests to the EBA by 16 June 2024 with a view to this peer review. The submitted results were meant to cover a three-year stress testing cycle, from 2021 until 16 June 2024.

### Conducting stress tests

18. The EBA received results from all 32 DGS in the 27 EU Member States as well as results from the DGS of Norway and Liechtenstein. The results show that in the three-year period reported to the EBA, the DGSs have conducted 194 stress tests of different types (Figure 3). Among those, a small proportion were real life cases. The total figures of tests include real-life cases where DGSs tested their capability to perform an intervention. In that period, there have been 12 failures where depositors were reimbursed, four resolution cases and two contributions to insolvency proceedings. The majority of those real-life cases were reported on in the context of the stress testing.

Figure 3. Stress tests conducted by DGSs in the 27 EU Member States, Liechtenstein and Norway, (June 2021-June 2024)



19. According to the Guidelines, all DGSs are required to perform and report on stress tests of all the functions they are legally mandated to perform. All the DGSs in the EU are legally mandated to be able to repay depositors, and contribute to resolution, thus requiring all the

DGSs in the EU to perform such stress tests. Furthermore, all the DGSs are required to perform a cross-border repayment where they could be involved in cross-border compensation cases either as a home DGS or a host DGS for branches. Stress tests of failure prevention and contribution to insolvency is only required where the Member States has chosen to entrust the DGS with those legal mandates. All the DGSs are required to perform stress tests of Single Customer View (SCV) files produced by the members of each DGS.

20. Among the 34 DGSs for which the EBA received data, all performed the mandatory depositor repayment stress test. Among them, 16 DGSs performed one repayment stress test in the three-year period, and 18 DGSs performed multiple tests. In line with the Guidelines, a few DGSs reported the results of real-life cases experienced in the three-year period, instead of stress tests. For context, in the previous stress testing cycle, all DGSs with the exception of one had conducted an operational capability test in relation to the reimbursement of depositors.
21. Among the 34 DGSs, 27 performed a cross-border repayment stress test, and 7 did not. Three did not do so as they are specialised DGSs for a subset of institutions in a Member State which do not have branches abroad (AT Sparkassen-Haftungs, DE DSGV, IT FGDCC), and another DGS in that Member State is responsible for reimbursement of depositors in branches of credit institutions from other Member States. The remaining four (DK<sup>1</sup>, LI<sup>2</sup>, PT<sup>3</sup>, SI) should have performed such test given that in a real-life case they may be the home or the host DGS. Among the 27 DGSs that performed cross-border tests, 14 performed one test, and 13 performed multiple tests with partner DGSs across the EU. For context, in the previous stress testing cycle, 19 DGSs performed a cross-border test, which was not mandatory at the time.
22. Among the 34 DGSs for which the EBA received data, 29 performed the mandatory contribution to resolution stress tests, and 5 did not perform this mandatory test (BG<sup>4</sup>, HR<sup>5</sup>, NL<sup>6</sup>, SI, SK). Among the DGSs that performed the contribution to resolution only one performed more than one such test. For context, in the previous stress testing cycle, 8 DGSs performed a contribution to resolution stress test, which was not mandatory at the time.
23. Among the 34 DGSs for which the EBA received data, 13 reported having the legal mandate to contribute to prevent the failure of their member institution. Among them, 4 did not perform the required test (ES, FR, HR, PL). Furthermore, one DGS that did not have the mandate to prevent failure nevertheless conducted a stress test of this intervention (LV).

<sup>1</sup> The Danish DGS states that all Danish banks with cross-border branches have a resolution strategy. Therefore, the Danish DGS is of the view that it is only relevant to stress-test itself as a host DGS. The DGS has not performed this test yet, but it follows the same procedure as the national test that has been conducted.

<sup>2</sup> EAS Liechtenstein did not perform the test as it has only one cross-border relationship as a home DGS.

<sup>3</sup> PT DGS states that all indicators that may be evaluated without a partner DGS were tested and the PT DGS intends to evaluate the remaining indicators once it signs the necessary bilateral cooperation agreements.

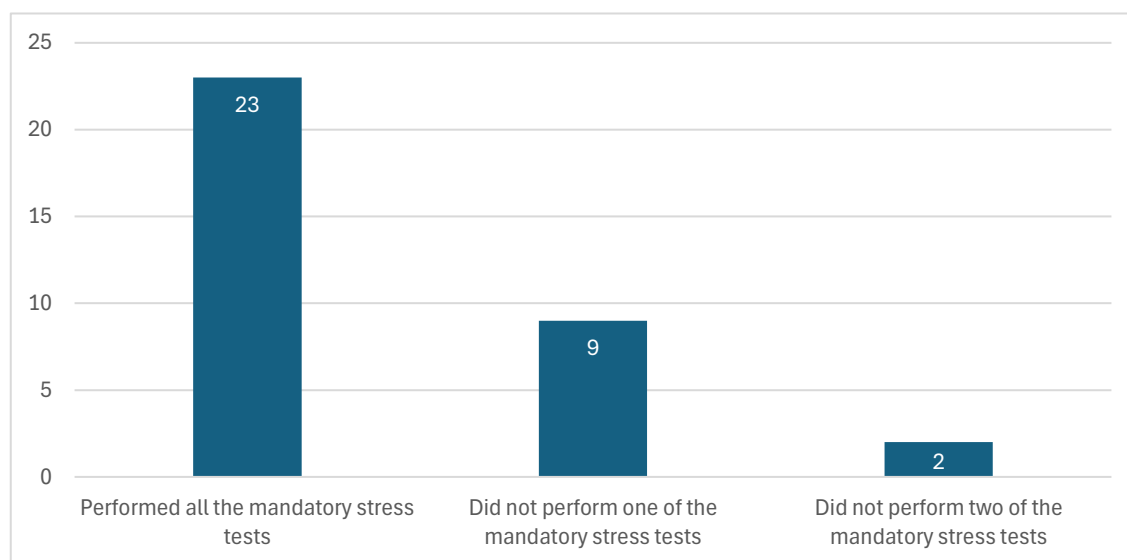
<sup>4</sup> The BG DGS performed the resolution scenario test shortly after the end of the stress testing cycle ended in June 2024.

<sup>5</sup> The HR authorities believe that there is no credit institution in HR where DGS funds could realistically be used in a resolution.

<sup>6</sup> For NL, the reasons for not performing a specific test of this function were twofold: the DGS is part of the NRA, which at the moment does not foresee this instrument in its resolution plans, and the DGS processes for this function are identical to the processes in a repayment function, so have been tested in other tests and in a real-life case.

24. Among the 34 DGSs for which the EBA received data, 10 reported having the legal mandate to contribute to insolvency proceedings. All performed the mandatory stress test. This is in contrast to the previous stress testing cycle, whereby one DGS had performed this test, which was not mandatory at the time.
25. All but one (HR<sup>7</sup>) of the 34 DGS for which the EBA received data conducted mandatory regular SCV tests. Among the 33 DGSs that have performed the SCV tests in the 2021-2024 cycle, three DGSs did not stress test the SCV files of all their members taking deposits in this stress testing cycle (CY, IE, PL). The manner in which DGSs performed the tests differed, with some performing tests as often as quarterly, and some conducting just one round of tests in the three-year period. Furthermore, the time required for the institutions to provide the authorities with the data ranged from 12h (DK) to 5 working days (IT FITD). Some DGSs only performed offsite assessments of the procedure and files received from the credit institutions, while others also performed onsite tests.
26. Thus, among all 34 DGSs for which the EBA received data, 23 have performed all the mandatory tests, and 11 have not performed all the mandatory tests (BG, DK, ES, FR, HR, LI, NL, PL, PT, SI, SK). Among those that have not performed all the mandatory tests, two DGSs have not performed two of the mandatory tests (HR, SI) (Figure 4).

Figure 4. Number of DGSs based on how many of the mandatory stress tests have not been performed



### Assessment of the stress tests and lessons learned

27. Where a DGS conducts a stress test, it is required to do a self-assessment as to whether it is sufficiently or insufficiently resilient. All DGSs assessed themselves to be sufficiently resilient on the stress tests of domestic repayment, contribution to resolution, failure prevention and

<sup>7</sup> The HR DGS stated that in this stress testing cycle, it stress tested the ability to generate SCV files in relation to two credit institutions in the context of reimbursement scenarios, but did not conduct stress tests of the vast majority of their DGS members.

contribution to insolvency. Two DGSs graded themselves as insufficiently resilient based on the results of the cross-border repayments. All the DGSs rated themselves as sufficiently resilient in relation to SCV tests.

28. Among the 34 DGSs for which the EBA received data, 24 DGSs identified multiple areas for improvement and 5 identified one area. Five DGSs (AT ESA, AT ORS, DE BVR, EE, NO) did not report any identified areas for improvement. The Guidelines specify that “it is expected and welcomed that a DGS identifies such areas for improvement when performing its stress-test exercises”. Thus, not identifying any areas for improvement is a shortcoming.

29. Overall, the DGSs identified more than a hundred different shortcomings, with close to half of them identified in relation to the repayment process, with the remaining shortcomings split roughly evenly between those identified in relation to the cross-border repayment, contribution to resolution and the SCV tests. Approximately 20% of the shortcomings were classified by the DGSs as having a high level of severity with the remaining 80% classified as low severity. Close to a third of all the identified shortcomings reported by the DGSs were already addressed at the time of reporting the results to the EBA in June 2024. Close to a third had not been addressed at the time of the reporting. For the remaining shortcomings the DGSs reported they were in the process of addressing the shortcoming at the time of reporting.

### 3. Application of the EBA Guidelines

30. This section presents an overview of how the seven DGSs (AT, BE, ES, FI, IT, LV, PL) in scope of this review have implemented the EBA GL on stress tests of deposit guarantee schemes.

#### DGS Implementation of the GL

AT	Integrated within legislation
BE	not require legislative changes
ES	Integrated within legislation and non-binding regulatory framework
FI	Integrated within legislation, non-binding regulatory framework and regular supervision by the supervisory authority.
IT	Integrated within a non-binding regulatory framework and, by the DGS, through a dedicated document as well as internal regulations and procedures
LV	Alternative forms of implementation. Latvijas Banka has integrated the Revised Guidelines on stress tests of Deposit Guarantee Schemes into their procedures and developed a Stress Test Programme for 2024-2026. The programme must be created every three years, and results are reviewed and approved by the Resolution Committee
PL	Guidelines on stress tests of deposit guarantee schemes have been integrated into the internal procedure and the stress test programme

#### Additional rules or policies in relation to the stress testing of deposit guarantee schemes

31. In addition to the EBA GL, ES also uses other rules and policies to test their DGS. They have a yearly Liquidity Contingency Plan that is tested annually to ensure their financial resources can meet payment obligations in various scenarios, including individual or multiple payment events, resolution, or preventive measures. This plan is prepared according to the rules set by the FGD (the ES DGS).

32. ES has also put in place a review process that consists of: (i) evaluating the quality of SCV files remotely every six months, and (ii) carrying out on-site inspections of all entities on a multi-year rotational basis. Furthermore, the FGD has approved two annual assessments to verify depositor account ownership.

#### Specific initiatives or tools to support the Guidelines

33. Five of the seven CAs (AT, BE, ES, FI and IT) have specific initiatives or tools to support the Guidelines. Most have information technology solutions in place to facilitate the application of SCV testing. In addition to that AT uses the FMA's "Incoming Platform", a platform normally serving as a communication tool for supervised entities to submit information relevant to the

CA, BE uses self-learning and internal team training sessions to support the implementation of the Guidelines and in ES, specific training is provided to staff.



## 4. Organisational set-up and resources

### 4.1 Introduction

35. This section examines the DGSs' internal organisation and their cooperation with other authorities. It also provides an overview of DGSs' resources involved in the stress testing of the resilience of deposit guarantee schemes as well as the DGSs set up of the adequacy of these resources.

### 4.2 Organisational set-up and resources

36. The organisational set up of the CAs under review differs significantly. The various set ups are summarised in the paragraphs below.

37. In AT the DGS and the DGSDA are separate. The DGSDA (FMA) supervises the DGS (ESA) in accordance with the Deposit Guarantee Schemes and Investor Compensation Act (Implementation of the DGSD into national law). The DGSDA has 4 employees involved in the stress tests, while the DGS has multiple staff across different departments, which were deployed in the following way previously: the use of 8 staff for Sberbank (real life case) and Andreas Hofer Bank and 5 total staff for Diamant Bank. The DGSDA collaborates with the Oesterreichische Nationalbank (OeNB) for analysis of the results of the stress tests and with the resolution authority for executing the stress tests. The full-time equivalents (FTEs) involved in these activities are 2.58 FTEs for DGSDA and 10 FTEs for DGS, which are described by the DGSDA as adequate. Interaction between DGSDA and DGS involves submitting stress test programs for review and reporting during annual meetings, although a formal interaction process is not established.

38. In BE, the DGS is also the DGSDA. The testing of the resilience of the DGS involves a coordinated effort from various authorities. Within the DGS, 11 staff are involved in the stress tests from the operational, legal, accountancy, and communication teams. Additionally, external authorities such as the resolution authority and the Belgian Debt Agency contribute to the process. The DGS is a department within the General Administration of the Treasury and interacts directly with the Administrator General of the Treasury for monitoring compliance with applicable law. The DGS is part of the Public Federal Service Finances. No other body or authority in the jurisdiction is designated to perform or supervise the stress testing of DGS. However, the DGS collaborates with supervisory and resolution authorities to ensure that all relevant aspects are considered during the testing, aligning with their potential real-world duties. Staff involved are broken down into different categories, including operational staff (4 FTE), legal support (3 FTE), and other departments (4 FTE). External authorities contribute as needed, making the total number of staff involved range from 12 to 14, not all of whom are full-time equivalents (FTEs). The total resources allocated to conducting these stress tests are considered mostly adequate, according to the DGS, though there is a recognition that more elaborate tests in the future will require additional time and resources.

39. In ES the DGS is also the DGSDA. However, the responsibility for conducting stress tests of the DGS (FGD) lies with the BdE. The Stress Test Division within BdE handles these assessments, with periodic tests carried out by the FGD team, whose results are reported to the internal Management Committee. As a result of the assessments, BdE sends recommendations to the ES DGS. There is an intention to amend current regulations to make the FGD the entity responsible for these stress tests, but a definite timeline for this change has not been established. Stress test results are presented to the FGD Management Committee, which includes members appointed by the BdE and representatives from the Ministries of Economy and Finance. The FGD's governance structure, featuring significant BdE representation, provides for the exchange of information and cooperation with the FROB which is the executive resolution authority. This setup has been developed in an effort to deliver coordinated responses to any issues detected in credit institutions.
40. In FI the FFSA is both the DGS and the DGSDA, as well as the resolution authority (NRA). The DGS is responsible for the DGS stress testing in FI, and it is supported by various authorities including the Finnish Supervisory Authority (FIN-FSA) and the Bank of Finland (BoF). In recent stress testing, all three units of the FFSA were involved, with a total of 25 staff members participating. The FIN-FSA and BoF also contributed staff as observers and simulated depositors. The FFSA collaborates closely with the FIN-FSA, which supervises credit institutions' compliance with deposit guarantee regulations. This cooperation includes regular information exchange and shared activities during stress tests, guided by a MoU. Regarding the allocation of resources, the FFSA reported that 1.27 FTE were from the operational units of the DGSDA/NRA, with additional 0.13 FTE of contributions received from staff from other areas within the DGSDA/NRA and 0.05 FTE from other authorities, totalling 1.45 FTE years for the current testing cycle, which is described by them as adequate.
41. In IT the DGS and the DGSDA are separate. The DGSDA (Banca d'Italia) supervises the DGS (FITD). The process of testing the resilience of DGS involves various teams and units. The stress test steering team is composed of four DGS staff members. Approximately six additional DGS staff members from different units are involved in the Stress Test Running Team (STRT). The internal audit function is outsourced to an external company. The DGSDA's Resolution and Crisis Management Unit (Liquidation Division) is also involved, contributing three staff members in total. Regarding the interaction between the DGS and the DGSDA, the latter participates in the steering team meetings as an external observer and receives the minutes of these meetings. Bilateral meetings and dedicated reports are also conducted to share information and assess the stress tests. There is no other authority designated to perform or supervise the stress testing of DGSs in the jurisdiction. The DGSDA does not engage with other authorities for the purposes of assessing the stress testing. The number of staff involved in the stress testing, expressed in FTEs, is 0.21 for the DGSDA and 0.65 for the DGS. The DGSDA is of the view that the allocation of resources is considered adequate.
42. In LV, Latvijas Banka is both the DGS and the DGSDA since the merger with the FCMC in 2023. Prior to the mergers, the FCMC was both the DGS and the DGSDA, as well as the competent authority (NCA) and the resolution authority (NRA). The testing of the resilience of DGS at Latvijas Banka involves several internal teams. For regular SCV tests, 2 experts from the

Resolution and Protection Schemes Department (RPSD) and 2 IT specialists participate. During repayment tests, the team expands to include 5 RPSD experts, 2 IT specialists, 3 accounting specialists from the Finance Department (FD), 3 supervisors from the Market Participants Audit Department (MPAD), and 2 AML supervisors from the Anti-money Laundering Department (AMLD). The contribution to resolution tests involves 4 RPSD experts, including one DGS expert. The failure prevention test includes 3 resolution experts, 2 lawyers from RPSD, 1 accounting specialist from FD, 3 auditors from the On-site Inspections Department, 1 IT specialist, and 1 supervisor each from MPAD and AMLD. Similarly, the contribution to insolvency tests includes 3 resolution experts, 2 lawyers from RPSD, 1 accounting specialist from FD, 3 auditors from the On-site Inspections Department, 1 IT specialist, and 1 supervisor each from MPAD and AMLD. The number of staff involved in the stress testing, expressed in FTEs, is 1.2. Although Latvijas Banka cooperates with the Ministry of Finance for fund processes but not the stress tests *per se*. The DGS is of the view that, the total number of resources allocated to these processes is adequate.

43. In PL, Bank Guarantee Fund is both the DGS and the DGSDA. It is also the resolution authority. The resilience of DGS in PL is tested by various units within the Bank Guarantee Fund. Ten employees from different departments participated in these tests: 20 from the Deposit Guarantee Department, 2 from the Accounting Department, 1 from the Department of Treasury, 2 from the Department of Compulsory Restructuring, and 1 from the Internal Audit Bureau. Furthermore, there is no other body designated to perform or supervise the stress testing of DGSs in PL. The Fund did not collaborate with other domestic authorities during the stress tests. In total, 26 FTEs from the operational areas of the DGSDA are dedicated to the resilience testing of deposit guarantee schemes, which is considered an adequate allocation of resources.

**Figure 5: Number of staff (FTEs) reported to be involved in conducting DGS stress testing.**

CA	Staff from the operational areas within your DGSDA	Legal support staff within your DGSDA	Staff from other areas within your DGSDA	Staff from other Authorities (other public / non-public bodies, consumer associations)	Total number of staff involved in the resilience of DGS (total of the figures provided under items 1 to 4 above)
AT	0,25 (DGSDA) 6 (DGS Audit department, Secretariat, IT-Department)	0 (DGSDA) 1 (DGS)	0 (DGSDA) 1 (DGS)	DGSDA: Resolution Authority 0,7 OeNB (BAKA) 0,43 OeNB (FinMA) 0,32 FMA (I/2) 0,78 FMA (I/5) 0,1 DGS: 2 (External provider for physical delivery of ESA online compensation access codes; FTEs vary by bank size) (External call centre agents, up to 50 for the first two weeks, then reduced to about 10. After	DGSDA: 2,58 DGS: 10

				six weeks, ESA takes over the call centre)	
BE	4 (All in the DGS team)	3 (All in the DGS team)	4 from other departments of the DGSA: 2 from accounting + 2 from communication)	At least one State banking agent. Depending on the stress test: three from the Resolution Authority (resolution contribution); one from the Belgian Debt Agency (repayment test); two from other DGS for cross-border testing.	12 to 14, not all at the same time and not all FTE.
ES	10 (DGSDA - FGD) 1.5 (DGSDA - BdE)	1.5 (DGSDA – FGD)	4 (DGSDA - FGD)		17
FI	Deposit Guarantee and Emergency Supply Unit and Administrative Services and Financial Stability Fund Unit, combined total: 1,27 FTE years for this testing cycle.	The FFSA does not have a separate legal team. Legal professionals are integrated in operational teams and therefore, their participation is included in the FTE measure for operational areas.	Resolution Unit: 0, 13 FTE years for this testing cycle.	Combined: FIN-FSA participants, FIN-FSA observers, BoF observers, simulation depositors (FIN-FSA, BoF, MoF, Ministry for Health and Social Affairs): 0,05 FTE years for this testing cycle.	1,45 FTE years for this testing cycle
IT	0.14 FTE (DGSDA), corresponding to 2 staff members.  0.51 FTE (DGS), corresponding to 5 staff members.	0 FTE (DGSDA)  0.04 FTE (DGS), corresponding to 1 staff member.	0.07 FTE (DGSDA), corresponding to 1 staff member.  0.1 FTE (DGS), corresponding to 4 staff members.	0	0.21 FTE (DGSDA), corresponding to 3 staff members.  0.65 FTE (DGS), corresponding to 10 staff members.
LV	0.5 FTEs (2 experts in compensation schemes from Resolution and Protection Schemes Department, 1 Head of Resolution and Protection Schemes Department, 1 IT expert, 1 accountant from Finance Department)	0.5 FTEs (2 legal experts from Resolution and Protection Schemes Department)	0.2 FTEs (10 experts from different departments within Latvijas Banka: Legal Department (2), Communications and Financial Literacy Department (1), Capital Market Supervision Department (2), Credit Institutions Supervision Department (5) was involved in stress testing “time-to-time”)	0	1.2 FTEs (Total number of staff/experts 17)
PL	7				7

44. All but one CAs reported their resources considered to be ‘adequate’. BE is describing themselves as ‘mostly adequate’.

## 5. Peer review findings and benchmarking

### 5.1 General information

45. This chapter presents the main findings of the peer review. Each section sets out the main findings in relation to each DGS for each supervisory benchmark in turn. This is followed by the PRC's assessment of the DGSs, and any follow-up measures and good practices identified.

### 5.2 Stress testing and planning

#### Introduction

46. The PRC established a benchmark to check whether the DGS had effectively developed an adequate plan of stress tests and executed them in line with the methodology outlined in Guideline two. This was assessed against the following criteria:

- The DGSDA can demonstrate that a stress testing programme was created with adequate detail on the timeline and content of the stress tests, including clear rationale for the timeline and the content.
- The DGSDA can demonstrate that relevant stakeholders have been involved in the development of the stress testing programme.
- The DGSDA can demonstrate that the stress testing programme has evolved over time, taking into account findings from the results of the stress tests.
- The DGSDA can demonstrate that real life developments were used to refine the stress testing programme.

#### Assessment of Benchmark 1

47. The PRC found that the criteria were fully applied by five DGS (AT, BE, FI, IT, LV), and largely applied by two DGSs (ES, PL). The rationale for these scores is discussed in the sections and figure 6 below.

Figure 6 Benchmark 1

	AT	BE	ES	FI	IT	LV	PL
<b>Criterion 1</b>							
<b>Criterion 2</b>							
<b>Criterion 3</b>							

<b>Criterion 4</b>							
<b>Overall score</b>							

### Criterion 1 – Creation and content of the stress test programme

48. All DGS (AT, BE, ES, FI, IT, LV, PL) developed stress test programmes with sufficient details regarding the timing and the content of the stress tests. One DGS (AT) developed the stress test programme only after some of its functions were already tested in real life cases. One DGS (ES) did not include a failure prevention test in their stress testing programme that it is legally mandated to perform, because, in their view, in practice it would not be applicable (see paragraph 52). Moreover, that DGS (ES) did not develop a stress test plan programmed over a medium-term perspective as prescribed in GL 2 but opted to develop annual stress test plans instead.
49. AT could largely demonstrate that a stress testing programme was created with adequate detail. The DGS has been performing stress tests from the beginning of the stress testing cycle but has only formalised the stress test programme for the 2021-2024 period in 2023, after it had experienced a number of real-life interventions. The need to perform real-life interventions in 2021-2022 were the primary reason for not developing the stress testing programme earlier. Once AT developed the stress test programme, it reflected those real-life cases. Thus, the sequencing of the stress tests in the programme were mainly driven by real-life cases experienced before the adoption of the plan.
50. BE could largely demonstrate that a stress testing programme was created with adequate detail. BE developed a multi-year stress testing programme as prescribed in EBA Guidelines on DGS stress testing. However, legislative amendments relating to the way the DGS can access its available financial means caused delays in the performance of particular stress tests and therefore timelines were not strictly adhered to in some instances. The stress tests focussed on particular aspects of the DGS's operational and financial capabilities, but did not include any end-to-end tests, as discussed in more detail in the assessment of benchmark 2. The sequence of stress tests was influenced by the foreseen publication of the new legislation. Therefore, the funding test followed the operational repayment test.
51. ES could partially demonstrate that a stress testing programme was created with adequate detail. The DGS did not develop a stress testing programme covering the whole stress testing cycle (multi-year programme) as prescribed in the EBA Guidelines on DGS stress testing. Instead, each year ES developed annual test programmes that included the stress tests to be performed in that year. While the lack of multi-year programme did not appear to have any negative influence on the quality of the stress tests having such a programme is a fundamental part of the GL. In line with the FGD's regulations and its stress testing framework, the frequency of testing and the action plan were defined with the aim of conducting an annual review of operational and funding capabilities in which the FGD is involved. The programmes

developed during the current cycle did not contain the testing of the failure prevention test function (Article 11(3) of the DGSD) despite the DGS being legally obliged to perform such a function. That is because the DGS and BdE believe that in practice it would not be possible for the DGS to perform failure prevention functions as it would trigger the failing or likely to fail assessment, and thus the potential use of failure prevention intervention would in fact lead to the failure of the institution. Moreover, despite the ES legislation providing that the BdE is responsible for stress testing in ES, the programme was developed by the ES DGS (FGD) and approved by the Management Committee of the FGD. Since BdE is part of this Management Committee, it was aware of the programme.

52. FI could fully demonstrate that a stress testing programme was created with adequate detail. The DGS developed a stress test programme that contained all core stress tests as per the EBA GLs. The programme included details about the timing and the content of the stress tests. It defined what core tests were performed in each test, the steering groups for each test and a general timetable for each test. The sequencing of stress tests was influenced by a transformation project of the FI DGS's (FFSA) compensation software system. The timing of this project resulted in the Repayment and Repayment with Cross-Border Cooperation tests being performed at the end of the cycle.
53. IT could fully demonstrate that a stress testing programme was created with adequate detail. The DGS developed a three-year stress test programme that included all core tests provided for in the GLs, including failure prevention intervention and contribution to insolvency, which the IT FITD is legally mandated to perform. The programme developed by the steering team was duly approved by the Management Committee of the FITD and included sufficient details regarding the timelines and the content of the stress tests. It was firstly presented during a meeting of the steering team (with the participation of the observer from the DGSDA) and subsequently, in accordance with the GLs, the programme was submitted to the DGSDA. In the PRC's view, the lack of involvement of the DGSDA when drafting the programme did not appear to have any negative consequence on the quality of the stress testing programme itself.
54. LV could fully demonstrate that a stress testing programme was created with adequate detail. The DGS developed a three-year stress test programme consisting of seven stages and covering all the functions that the DGS is mandated to perform. The stress tests were designed to cover a wide range of potential operational and funding risks as prescribed in the EBA Guidelines. The programme included stress testing of a failure prevention intervention, even though this function is not transposed into national legislation, in anticipation of legal amendments that would grant the DGS such powers. The stress test programme was duly approved by the Board of Financial and Capital Markets Commission and included sufficient details regarding the timelines and the content of the stress tests.
55. PL could largely demonstrate that a stress testing programme was created with adequate detail. It developed a three-year stress test programme consisting of all the functions the DGS is mandated to perform in accordance with the national legislation, including failure prevention measures (Article 11(3) DGSD), which the PRC notes that despite this the test was not performed. The stress test programme did not include any end-to-end tests. It was



approved by the Management Board of the PL DGS and included sufficient details about the timelines and the content of the stress tests.

## **Criterion 2 – stakeholder involvement and the development of the stress testing programme**

56. The Guidelines require the DGSDA to provide their input concerning the stress testing programme but do not explicitly require the involvement of other stakeholders. Nevertheless, the involvement of other relevant stakeholders in the development of the stress test programme varied among the DGSs. In all jurisdictions, the DGSs were in charge of developing the stress test programmes (AT, BE, ES, FI, IT, LV, PL). Some of them involved the supervisory authority (AT, ES, FI, IT, LV), the resolution authority (AT, BE, FI, LV, PL) and DGSs of other member states (ES, FI, IT, LV, PL) relating to the testing of cross-border payouts. In AT and IT where the DGSs are private, and supervised by a public DGSDA, the DGS developed the plan and submitted it to the DGSDA. In one private DGS (AT) the plan was approved by the DGSDA and in the other one it was not (IT). The Ministry of Finance was involved in the development of the programme in FI. This was also the case for BE, where the DGS is part of the Ministry of Finance.
57. AT could fully demonstrate that relevant stakeholders have been involved in the development of the stress testing programme. The programme was developed by the AT DGS. The DGS submitted the programme to the FMA, which in turn discussed it with the OeNB (which has the legal expert role), with the FMA giving the final approval of the programme. Moreover, the initiative for the stress test relating to DGS's contribution to resolution came from the Resolution Authority and was discussed in advance with the DGS. The stress test plan relating to the cross-border test was agreed in advance with the DGS acting as Host DGS.
58. BE could fully demonstrate that relevant stakeholders have been involved in the development of the stress testing programme. BE DGS is part of the Ministry of Finance. The stress test programme was developed by the DGS, and other departments of the Ministry of Finance were also involved in the process. Moreover, the Resolution Authority was consulted during the development of the programme on the steps involved in the contribution to resolution test and the validity of assumptions and the DGS from another Member State was involved in the development of the programme in relation to the cross-border cooperation test.
59. ES could fully demonstrate that relevant stakeholders have been involved in the development of the stress testing programme. ES DGS (FGD) developed the stress test programme even though the BdE is legally responsible for DGS stress tests in ES. ES DGS reported that the ES legislators are in the process of changing the law to assign this role to the ES DGS. In the stress test cycle under review, FGD developed the stress test programme that was reviewed and eventually approved by the Management Committee which includes representatives of different authorities (BdE included). The ES DGS did not deem it necessary to involve other stakeholders in the development of the stress test programme such as the Resolution Authority.
60. FI could fully demonstrate that relevant stakeholders have been involved in the development of the stress testing programme. FI DGS (FFSA) has developed the stress test programme



independently according to its strategic priorities. FFSA is also the Resolution Authority as well as the DGS designated authority. Moreover, the FFSA via its Advisory Board acquired feedback to its stress test programme from other financial market authorities including the Finnish Financial Supervisory Authority (FIN-FSA), the Central Bank of Finland and the Ministry of Finance as these authorities perform key activities alongside the FFSA in a DGS intervention. As far as the tests with cross-border element is concerned, specific features of the tests such as the planning of the general timeline were developed in cooperation with the DGS of the relevant Member States.

61. IT could largely demonstrate that relevant stakeholders have been involved in the development of the stress testing programme. The stress test programme was developed by the IT DGS (FITD). The steering team in its internal composition (i.e. without the external observer) took the lead to develop the programme and internal stakeholders (other FITD internal units, e.g. legal, IT, intervention) contributed where needed to finalise it. Bdl as the DGSDA has a distinct role in the development of the stress test programme as it performs an oversight of the activity and checks the results of the analysis. Even though Bdl does not formally approve the programme, it receives it formally and comments on the minutes of the steering committee meetings, is consulted as to which entity(ies) will be stress tested and participates in FITD's steering team, thus providing input on the programme and its implementation through the stress test cycle. The IT DGS did not deem it necessary to involve other stakeholders in the development of the stress test programme such as DGSs of other Member States.
62. LV could fully demonstrate that relevant stakeholders have been involved in the development of the stress testing programme. LV DGS developed the stress test programme involving stakeholders from within Latvijas Banka such as the Credit Institutions' Supervision Department, as well as the IT, Communications, Finance, and AML departments, since all these stakeholders could be involved in real life cases. Moreover, regarding the tests with cross-border element, the DGS of the relevant member state was involved in developing the stress test programme based on their role in the repayment test with cross-border cooperation and agreeing on deadlines.
63. PL could largely demonstrate that relevant stakeholders have been involved in the development of the stress testing programme. PL DGS (BFG) developed the stress test programme without engaging with other stakeholders other than BFG employees from the resolution department. Given that the BFG is both the DGS and the Resolution Authority, the PRC acknowledges that other stakeholders play a minimal role in this area and engaging them in the development of the programme was not necessary.

### **Criterion 3 – evolution of the stress test programme**

64. Most DGSs have evaluated the need to update the stress test programme, taking into account the results of stress tests already conducted (e.g. results that would highlight a need for a deeper assessment), actual DGS interventions or regulatory developments (e.g. a shortening in repayment deadlines).

- 65.AT could fully demonstrate that the stress testing programme has evolved over time. AT experienced real-life cases just before and during the stress testing cycle under review, which affected the development of the stress test programme. Such cases covered a wide range of the compensation processes, using its online payout platform and cooperation with external service providers (postal mail service, call centre). Real life interventions preceded the formal approval and adoption of the programme. The results of the real-life intervention were reported in lieu of the results of the corresponding stress test. Moreover, the outcome of real-life cases experienced highlighted areas to be tested such as the overflow mechanism (see criterion two of Benchmark 2), and the testing of particular aspects of a repayment that proved problematic in real life cases, such as the DGS engagement with the post office.
- 66.BE could fully demonstrate that the stress testing programme has evolved over time. The timeline of the BE DGS stress test programme was affected by legislative amendments relating to the DGS funding and SCV file requirements. The structure and order of the stress test programme remained unchanged but the funding test and the SCV file tests were postponed to adequately reflect the new funding mechanism and SCV file requirements outlined in the amended legislation.
- 67.ES could fully demonstrate that the stress testing programme has evolved over time. As mentioned in Criterion 1, ES reviews its DGS stress test programme on an annual basis. Therefore, new developments stemming, for example, from amendments in the legislative framework or the findings of the stress test results of the previous year(s) are taken into consideration when developing the year's stress test programme. The results of FGD's annual internal tests have made it possible to modify forthcoming tests based on the results observed and the weaknesses identified. In particular, the scenarios foreseen in the ES DGS's liquidity contingency plan have been modified, the tests for reviewing the SCV files have been adapted, and the cross-border tests with other DGSs have been extended.
- 68.FI could fully demonstrate that the stress testing programme has evolved over time. Information garnered during the stress testing cycle was evaluated and used to develop and/or refine the specific stress test plans developed for each test. In the course of this stress testing cycle, the DGS developed a scale for measuring the development of DGS activities and will use it to direct future testing towards most impactful areas. Real life interventions in other jurisdictions that occurred during the stress test cycle (no real-life interventions occurred in FI) did not lead to changes of the programme but have influenced test specific plans.
- 69.IT could fully demonstrate that the stress testing programme has evolved over time. IT DGS (FITD) updated its stress test programme during the cycle following requests from three DGSs of other member states to perform cross-border tests and modified its programme accordingly. The original sequencing of stress tests was refined by adding the three additional cross-border stress tests.
- 70.LV could largely demonstrate that the stress testing programme has evolved over time. In light of the merger of the DGS with the central bank in 2023, the Integration Project Committee with representatives from both the DGS and the central bank concluded that no changes to

the stress testing programme nor any stress tests were needed. This raised some concerns among the PRC given that the LV DGS could not produce formal documents confirming this assessment. In the PRC's view, such a significant change should have had some effect on the programme and the aspects to be tested. Moreover, the programme also did not evolve as a result of the real-life payout case experienced during the cycle. The LV DGS explained that the reason was that the real-life intervention happened for an institution that according to the programme was meant to be used for the repayment test scenario. The case highlighted the importance of SCV tests, because the failed institution was unable to provide the SCV file in time and only submitted it to the DGS on the 9<sup>th</sup> working day which delayed the repayment process. In light of the issues identified in the course of the payout, in particular in relation to the SCV file testing, the PRC are of the view that it should have led to a reassessment of the stress testing programme.

71.PL could largely demonstrate that the stress testing programme has evolved over time. The stress test programme developed by the PL DGS evolved over time and was executed in a different way than planned. It was explained that the deviations from the original programme occurred due to the DGS taking into account the limited resources to cope with tests included in the programme, the experience gained in this area from real life interventions before the initiation of the current stress test cycle, as well as the decreasing number of credit unions in PL during the cycle. This led to the failure prevention test (a discretion as per Article 11(3) of the DGSD that was transposed in PL law), not being conducted. The PRC note that not testing a DGS function provided in DGSD and transposed into national legislation is non-compliant with the EBA GLs. Moreover, the DGS also amended the timelines of particular tests as the cross-border test and the test relating to contribution to resolution were postponed.

#### **Criterion 4 – use of real-life cases**

72.All DGS under review could demonstrate that real life developments were used to refine the stress testing programme. Real life payout cases experienced by two DGSs (AT, LV) during the stress testing cycle enabled the DGSs to assess its resilience related to some of the core tests. This resulted in the DGSs using these interventions to assess their resilience related to the repayment functions during this stress testing cycle.

73.AT experienced a number of real-life cases just before and during the stress testing cycle under review that, as previously mentioned, preceded the development of the stress test programme. The AT DGS considered whether conclusions driven from DGS related cases happening in the US were relevant for the purposes of the stress testing cases. It was decided that no changes to the programme of 2023 were necessary as the US cases were not relevant.

74.BE DGS did not experience any real-life interventions during the stress test cycle and as such the stress test programme was not modified in this regard. Moreover, it did not update the programme in view of events taking place in other countries.

75.ES DGS did not experience any events during the stress test cycle relating to DGS interventions and as such the stress test programme was not modified in this regard. The ES DGS examined the need to update the programme in terms of lessons learnt from the US banking crisis of

2023. The DGS decided that since the ES banking sector in operation in the market and the business model differs from that of the US there was no need to update the programme.

76.FI DGS did not experience any real-life interventions during the stress test cycle and as such the stress test programme was not modified in this regard. The FI DGS has evaluated events taking place in the rest of the world, both financial and geopolitical, and introduced targeted amendments to specific test plans, but did not see a need to amend the programme itself.

77.IT DGS (FITD) used past experiences gained from real life cases relating to national insolvency proceedings and failure prevention also in the years preceding the current stress test cycle to develop the stress test programme and the relevant scenarios to be tested. During the stress test cycle, one real life case of preventive intervention was carried out by the FITD. This case replaced the initially planned test and influenced the test specific plan in this area. However, the test focussed on the reporting phase, in accordance with the relevant EBA GLs. FITD reported the intervention details, including its characteristics.

78.LV DGS incorporated the real-life payout of one credit institution into its stress testing programme and under the repayment function because the activation of the DGS for that credit institution coincided with the programme. The DGS did not consider it necessary to amend the programme as the credit institution's case fulfilled the general assumptions and criteria of the credit institution to be tested as per the programme. Moreover, the DGS deemed it unnecessary to update the programme in view of events taking place in other countries.

79.The PL DGS's stress test programme was updated in view of an actual real life intervention regarding contribution to resolution in 2022. PL DGS also considered experiences gained in the years preceding the current cycle when developing the programme. Focus was given to test areas and/or institutions considered as high risk.

## Conclusions

80. The PRC considers that the stress test programmes developed in most DGSs fulfilled the criteria set in the EBA GLs in terms of timeline and content of the stress tests. The programmes developed by most DGSs were also evaluated and, where necessary, updated, in view of the findings and results of the stress testing and/or real-life interventions. Moreover, in most cases relevant stakeholders, mainly the supervisory and the resolution authority, were involved in the development of the stress test programmes. The PRC did not find evidence of lack of involvement of some authorities leading to any significant shortcomings. Thus, five DGSs (AT, BE, FI, IT, LV), were deemed to have fully demonstrated that they had effectively developed an adequate plan of stress tests and executed them in line with the methodology outlined in Guideline two. Two DGSs did not fully meet the requirements of the EBA GLs with regard to some of the criteria under consideration (ES, PL).

81.In AT, real-life cases occurred just before the cycle under review, and at the beginning of that cycle, which resulted in the DGS developing their stress test programme with a significant

delay. However, once the plan was formalised it met the criteria considered in this peer review, resulting with an overall score of “fully applied” for benchmark 1.

82. In ES the stress test programme was developed and reviewed on an annual basis, which is not fully in line with the GL 2 which requires stress tests to be programmed over a medium-term perspective. However, the ES DGS has demonstrated that the development of annual plans did not influence negatively the quality of the tests and the outcome of the exercises. However, the programmes developed did not include a failure prevention test that FGD is legally obliged to perform, because in practice, in their view, it would not be applicable as discussed in more detail in the following section of the peer review. Finally, the programmes were developed by FGD despite national law assigning the responsibility for such programme to the BdE.
83. The PRC considers that all but one of the criteria under this benchmark were fully met by LV. The latter developed a stress test programme with adequate details on the timeline and content of the stress tests taking into account events taking place domestically and abroad and involving enough stakeholders. The criterion relating to the involvement of the stress testing programme was largely applied mainly because LV used generic assumption in its programme which made amendments to the programme unnecessary even after the experience of a real-life intervention.
84. PL stress test programme was developed by the DGS. The programme did not envisage any end-to-end tests. The development of the programme included some involvement of internal stakeholders and no involvement of additional stakeholders such as the CA or the DGSs of other MS. The PRC considers that BFG could benefit from involving additional stakeholders in the development of the programme.

### Follow up measures

85. Stress test programmes should be developed promptly at the start of the stress testing cycle, and reflect lessons learned and needs for improvement identified in the previous stress testing cycle.
86. Stress test programmes should cover the full stress testing cycle even where a DGS chooses to run stress tests on an annual basis. In such cases, the programme can simply specify that all tests will be done each year.
87. Stress test programmes should be reviewed to take into consideration any significant operational cases or institutional changes occurring in the course of the stress testing cycle. That does not mean that the stress test programme will always need to change, but a reflection and the ability to demonstrate that such a reflection on potential impacts on the stress testing programmes was conducted is necessary.

### Best practices

88. Stress test programmes should be dynamic and evolve in light of real-life cases, test results, and regulatory developments, for example as was the case in ES.

89. Involving other safety net participants in the development of the stress test programme and specific tests, as was the case in FI, increases the possibility of better organization and cooperation among participants leading to better chances of successful tests with meaningful results. This is mainly driven by the specific knowledge and expertise of some stakeholders.

90. Stress test programmes should include to the extent possible holistic stress tests (i.e. end-to-end tests for each core test) as this allows DGSs to fully test a DGS function, identify deficiencies and take corrective actions, for example as was the case in FI or IT.

## 5.3 Mandatory core stress tests

### Introduction















91. The PRC established a benchmark to check whether the DGS can effectively perform all of the mandatory core stress tests, in accordance with GL 3 and can demonstrate results which allow comparability of the reporting results for all the required indicators.

- The DGSDA can demonstrate that all relevant core stress tests were executed in line with the stress testing programme.
- The DGSDA can demonstrate that the DGS has used realistic assumptions for the development of the stress tests.
- The DGSDA can demonstrate that the stress tests have been conducted and evaluated objectively.
- The DGSDA can demonstrate that real life developments were taken into account when developing and conducting the stress tests.

### Assessment of Benchmark 2

92. The PRC found that the criteria were fully applied by one DGSDAs (FI), largely applied by four DGSDAs (AT, ES, IT, LV), partially applied by one DGSDAs (BE), and not applied by one DGSDA (PL) (see figure 7). The rationale for these scores is discussed in the sections below. Criterion 1, on the execution of all the mandatory core tests, serves as the basis for the overall assessment, since meeting the other criteria depends on the DGS executing the tests. Thus, the extent to which criterion 1 is met has a large impact on the overall score of each DGS.

Figure 7 Benchmark 2

	AT	BE	ES	FI	IT	LV	PL
Criterion 1							
Criterion 2							

<b>Criterion 3</b>							
<b>Criterion 4</b>							
<b>Overall score</b>							

### Criterion 1 – execution of stress tests

93. The DGSs adopted different measures and approaches with regard to the execution of the stress test programmes, with varying levels of focus and effort.

94. Six out of seven DGSs conducted all the stress tests envisaged in their stress testing programme (AT, BE, ES, FI, IT, LV). Among those six, one DGS (BE) did not conduct all the tests in line with the deadlines outlined in the original programme, but more importantly, did not plan any end-to-end tests to fully assess their resilience. One DGS did not execute all the tests outlined in their programme (PL). For the purposes of this criterion the PRC took into account if DGSs planned and executed any end-to-end tests understood as simulations of all aspects of an intervention, without penalising the DGSs if some of their tests were robust but took the form other than end-to-end simulations. However, the PRC did consider as non-compliant the DGSs which have not planned and not executed any end-to-end simulations.

95. AT could fully demonstrate that all relevant core stress tests were executed in line with the stress testing programme. AT DGS experienced a number of real-life cases in the stress testing cycle under review and used outcomes of the real-life cases to reflect on their resilience and operational and financial capabilities to perform a repayment. AT has also conducted all the other core stress tests according to their stress testing programme. The combination of real-life experiences, and planned stress tests, tested the DGSs ability to perform all the interventions it is legally mandated to perform. The DGS has assessed itself to be sufficiently resilient in all the stress tests.

96. BE could partially demonstrate that all relevant core stress tests were executed in line with the stress testing programme. BE has performed all the stress tests envisaged in their stress testing programme. However, the stress tests have not been conducted according to the timeline envisaged in the programme. That was due to changes in the law which had impacts on the way the DGS can access its available financial means. The stress tests conducted by the DGS only partially tested the DGS's resilience and ability to perform all the interventions it is legally mandated to perform. None of the tests were end-to-end simulations of the whole process of an intervention. Instead, the stress tests focussed on each particular aspect of the DGS's operational and financial capabilities. Due to the absence of end-to-end simulations, it is not possible for the PRC to fully assess the robustness of the tests performed by the BE DGS. This is particularly relevant given that the BE DGS has encountered only one real-life case in the



past years (in 2016), limiting its practical intervention experience. BE DGS has informed the PRC of its plans to incorporate more detailed and more frequent scenarios, including end-to-end simulations, in upcoming cycles. In addition, the BE DGS performed the fewest SCV stress tests among the DGSs under the peer review, with each institution tested once in the three-year cycle. the DGS explained that more frequent tests required a change of legislation which has occurred in the course of the stress testing cycle prompting plans for more regular testing in the future.

97.ES could partially demonstrate that all relevant core stress tests were executed in line with the stress testing programme. ES DGS has performed all the stress tests envisaged in their annual plans, in line with the envisaged deadlines. The stress test of the contribution to resolution scenario consisted of an assessment of the governance and funding needed in such a scenario, without conducting a simulation or desk-based step-by-step assessment of the potential intervention. ES DGS reported to the PRC the plans to include a more detailed stress test in the upcoming cycle which the PRC welcomes. The DGS has assessed itself to be sufficiently resilient in all the stress tests. The DGS did not perform a failure prevention test despite the DGS's mandate including such interventions.

98.FI could fully demonstrate that all relevant core stress tests were executed in line with the stress testing programme. FI has performed all the stress tests envisaged in their stress testing programme. All the tests have been performed in line with the deadlines stipulated in the stress testing programme. The stress testing programme included stress testing of all the functions the DGS is mandated to perform. The DGS has assessed itself to be sufficiently resilient in all the stress tests.

99.IT could fully demonstrate that all relevant core stress tests were executed in line with the stress testing programme. IT has performed all the stress tests envisaged in their stress testing programme. Furthermore, it has conducted a number of additional cross-border tests upon request from other DGSs. All the tests have been performed in line with the deadlines stipulated in the stress testing programme. The stress testing programme included stress testing of all the functions the DGS is mandated to perform. The DGS has assessed itself to be sufficiently resilient in all the stress tests.

100.LV could fully demonstrate that all relevant core stress tests were executed in line with the stress testing programme. LV performed all the stress tests envisaged in their stress testing programme. All the tests have been performed in line with the deadlines stipulated in the stress testing programme which included stress testing of all the functions the DGS is mandated to perform. Furthermore, the DGS also conducted a stress test of failure prevention intervention in anticipation of changes in the law to grant the DGS the power to conduct such interventions. The DGS has assessed itself to be sufficiently resilient in all the stress tests. The DGS planned a repayment scenario test with an institution, which subsequently failed before the test could take place.

101.PL could not demonstrate that all relevant core stress tests were executed in line with the stress testing programme. The DGS did not conduct a failure prevention test, which was



envisaged in their stress testing programme, legally mandated and such a test had never been conducted in any previous real-life case. PL did not conduct any end-to-end stress tests. The DGS explained to the PRC that in the course of the stress testing cycle, it had to prepare for a few potential interventions, which was a useful experience. PL DGS also did not stress test the SCV of all their member institutions in the most recent (2021-2024) stress testing cycle. The DGS has assessed itself to be sufficiently resilient in all the stress tests, including the SCV files stress tests.

## **Criterion 2 – use of assumptions**

102. The DGSs adopted different measures and approaches to develop realistic assumptions for their stress tests.

103. AT could fully demonstrate that the DGS has used realistic assumptions for the development of the stress tests. AT experienced two real-life repayment interventions in this stress testing cycle, which by definition do not require the development of assumptions in a plan. However, AT could demonstrate how lessons learned from those real-life cases have informed the development of realistic assumptions for the cross-border stress test, as well as the test of the overflow funding mechanism specific to AT.

104. BE could largely demonstrate that the DGS has used realistic assumptions for the development of the stress tests, including steps to develop realistic assumptions using previous real-life case as a benchmark, and engaging with relevant stakeholders for other assumptions. However, it is worth noting that in the PRC's view, developing a scenario where two of the largest credit institutions in the country fail at the same time may be on the one hand ambitious, but on the other hand, highly unlikely, and a test of a less complex case, but in an end-to-end scenario, may have yielded more relevant lessons for the DGS.

105. ES could fully demonstrate that the DGS has used realistic assumptions for the development of the stress tests including using previous real-life case as a benchmark and considering market conditions for the payout.

106. FI could fully demonstrate that they have taken steps to develop realistic assumptions for their stress tests, including using research papers and reports from real life cases developed by DGSs from other Member States.

107. IT could largely demonstrate that they have taken steps to develop realistic assumptions for their stress tests, including using previous real-life cases as benchmarks. However, it is worth noting that the DGS allows credit institutions 5 working days to provide the SCV, which could potentially delay the payout process given the deadline of 7 working days to make funds available to depositors and significantly reduces the time available to the DGS to process SCV files. The DGS informed the PRC that this is in line with their internal procedures and would not jeopardise the reimbursement within 7 working days. However, as mentioned in paragraph 24 in Chapter 2 of this report, it appears to be the longest time to prepare the SCV among all the EEA DGSs. In consequence, it could potentially lead to issues especially in cross-border failures, where another DGS would rely on receiving the information sooner.

108.LV could fully demonstrate that they have taken steps to develop realistic assumptions for their stress tests, including using previous real-life cases as a benchmark, and considering AML risks, in the development of their scenarios.

109.PL could largely demonstrate that they have taken steps to develop realistic assumptions for their stress test, including using previous real-life cases as benchmarks for the steps needed to engage with agent banks, and choosing the partner DGS for a cross-border test. However, lack of end-to-end tests meant that, in the PRC's view, the DGS did not need to develop as detailed assumptions as are needed for an end-to-end test and thus was not in a position to clearly demonstrate steps to develop detailed and realistic assumptions.

### **Criterion 3 – evaluation of stress tests**

110.The DGS adopted different measures and approaches to ensure objectivity in conducting and evaluating the results of the stress tests.

111.AT could largely demonstrate that the stress tests have been conducted and evaluated objectively. AT DGS did not report any lessons learned from the stress tests conducted in this stress testing cycle. The Austrian central bank is in charge of producing a report with an evaluation of the stress tests and has done so after the end of the 2021-2024 stress testing cycle. The assessment has identified one minor shortcoming.

112.BE could largely demonstrate that the stress tests have been conducted and evaluated in an objective way. The results of the stress tests included the acknowledgement that the DGS was found to be insufficiently resilient in their cross-border test. The DGS has also reported a number of shortcomings and lessons learned highlighting an objective reflection of the results. However, the results of the stress tests have not been assessed by any stakeholder other than the DGS itself and thus did not benefit from an independent perspective.

113.ES could fully demonstrate that the stress tests have been conducted and evaluated in an objective way. A number of shortcomings and lessons learned were identified and reported to the EBA. The results of the stress tests were submitted to the DGS Management Committee which includes representatives from other safety net participants, but the Committee did not appear to make any suggestions about lessons learned from the stress tests. In December 2024, BdE Executive Commission issued recommendations to the FGD, including in relation to their stress test results.

114.FI could fully demonstrate that the stress tests have been conducted and evaluated in an objective and thorough way. The DGS identified and reported a number of shortcomings and lessons learned reported to the EBA. Moreover, prudential supervisors were invited to observe the stress test and produce an independent and detailed assessment of the stress tests, in addition to the report produced by the DGS itself.

115.IT could fully demonstrate that the stress tests haven been conducted and evaluated in an objective way. A number of shortcomings and lessons learned were reported to the EBA. The IT DGS presented the results of the internal audit focused on the ICT side with an assessment

of the relevant procedures applied. In addition, at the time of publishing the report the DGSDA was in the process of preparing an internal report assessing the results of the stress tests.

116.LV could fully demonstrate that the stress tests have been conducted and evaluated in an objective way. A number of shortcomings and lessons learned were reported to the EBA. In addition, two reports were produced by the DGS itself, and by the internal auditors who separately assessed the reports and provided recommendations.

117.PL could largely demonstrate that the stress tests have been conducted in an objective way. The reported a number of shortcomings and lessons learned to the EBA. However, it should be noted that the internal auditor conducting the assessment is also involved in coordinating the stress tests and thus cannot be considered by the PRC as an independent evaluator.

#### **Criterion 4 – use of real-life developments**

118.The DGS adopted different measures and approaches with regard to the use of real-life developments to inform the stress tests.

119.AT could fully demonstrate that real life developments were considered when developing and conducting the stress tests as evidenced by, for example, by the choice of stress testing the overflow mechanism which has not been activated in real life cases in 2022.

120.BE could largely demonstrate that real life developments were considered when developing and conducting the stress tests as evidenced by, for example, the use of a previous case as a benchmark, and the adaption of the dates of the stress tests to test the new funding mechanism introduced in Belgian law.

121.ES could fully demonstrate that real life developments were considered when developing and conducting the stress tests as evidenced by, for example, the use of prevailing market conditions in the assumptions of the stress test.

122.FI could fully demonstrate that real life developments were considered when developing and conducting the stress tests as evidenced by, for example, the consideration of real-life experience of other DGSs (e.g. the AT DGS in the Sberbank case), and reflecting it in their scenario, as well as intensifying SCV testing following the banking turmoil from March 2023.

123.IT could fully demonstrate that real life developments were considered when developing and conducting the stress tests as evidenced by, for example, reflecting on the DGS's real-life case interventions of contributing to insolvency.

124.LV could partially demonstrate that real life developments were considered when developing and conducting the stress tests as evidence by, for example, the considering of the importance of AML checks. However, the repayment and the cross-border repayment tests were planned to be conducted before the institutional merger of the DGS with Latvijas Banka, and neither the domestic nor the cross-border repayment has been retested after the merger. After the merger, the DGS performed the contribution to resolution and failure prevention tests, as

desktop exercises. Thus, instead of ensuring that cooperation and procedures are fully operational after the merger, by means of conducting a stress test of those aspects, the DGS chose to stress test failure prevention instead, even though it does not have the legal mandate to perform such an intervention. In the view of the PRC, it shows that important and planned institutional changes have not been fully reflected in the planning and execution of the stress tests. Furthermore, as mentioned earlier in the report, significant issues with an SCV file in a real-life case did not seem to have an impact on the execution of SCV file stress tests.

125.PL could partially demonstrate that real life developments were considered when developing and conducting the stress tests as evidenced by, for example, the decision not to perform the failure prevention test due to changes to the market structure in Poland. However, in this case, the impact of reflecting on real life developments led to the non-performance of a mandatory test and thus had a negative impact on the execution of DGS's stress testing programme.

## Conclusions

126.The PRC found that the DGS performed differently with regards to ensuring the DGS can effectively perform all of the mandatory core stress tests, in accordance with GL 3 and can demonstrate results which allow comparability of the reporting results for all the required indicators. Overall, the PRC considers that one DGS under review fully met the criteria under this benchmark (FI). Four DGSs largely met the benchmark, with some deficiencies, which do not raise concerns about the overall effectiveness of the DGS, and no material risks left unaddressed (AT, ES, IT, LV). One DGS met the benchmark only partially, due to the absence of end-to-end simulations (BE). One DGS has not met the benchmark (PL).

127.More specifically, in the case of BE, the lack of experience in end-to-end tests limited the ability to identify potential deficiencies affecting the overall effectiveness of the DGS, which results in a situation where some material risks could be left unnoticed and therefore unaddressed.

128.In the case of PL, it appears that the experiences of effective DGS interventions in the past have led the DGS to believe that stress tests are not a useful tool beyond SCV file tests. This led to the DGS not conducting a stress test that it is legally mandated to perform, and not performing end-to-end tests in this stress testing cycle. Previous experiences of successful interventions appear to have also led the DGS to miss the opportunity to adequately prepare for plausible scenarios that the DGS has not experienced in the past, such as multiple failures at the same time, or a cross-border failure.

## Follow up measures

129.As per the GLs, DGSs should conduct at least one end-to-end test of each of their core tests in a given stress testing cycle. For guidance on what constitutes an end-to-end test, the DGSs should refer to the Guidelines, as well as the feedback table in the Annex to the GLs.

130.As per the GLs, DGSs should perform stress tests of all the interventions they are legally mandated to perform. Where a test of a particular intervention is not performed, the DGS

should clearly document the rationale for this, outlining on what basis a particular test has not been performed. This will help to avoid the impression that the rationale for not conducting a test has been developed post-factum.

131.DGSs should ensure sufficient resources to be able to stress test the ability of all their members to provide SCV files at least once in a stress testing cycle.

132.As per the GLs, real life interventions can be used in lieu of simulations. However, DGSs should take note that this is only the case when the real-life case has happened in the same stress testing cycle, as when the stress test was meant to occur. Real life cases predating current stress testing cycle should not be used in lieu of a stress test.

133.All DGSs should ensure the objective evaluation of the results of the stress tests, with particular focus on identifying shortcomings and lessons learned. DGSs should note that it is highly unlikely that a robust and objective assessment of a stress tests finds no areas for improvement.

## Best practices

134.As per the practice of FI, it is useful to involve other safety net participants in the execution of the stress tests, not only as participants to play the part they would play in real life cases, but also as independent evaluators of the process and the results. It maximises the possibility for lessons learned from an outside partner, as they can provide useful input on the process of conducting the stress test, on the content of the stress test, and on the results.

135.A number of DGSs highlighted the high value of onsite SCV file tests in finding errors that otherwise may go unnoticed in the course of automated offsite checks. DGSs also reported it offers an opportunity to engage with the credit institutions and help them to improve their systems, which ultimately results in higher quality SCV files.

136. As per the practice of BE, publishing a summary of the results of the stress tests ensures transparency and promotes public confidence in DGS, but also accountability for the DGS, as well as clarity for the market in relation to SCV file tests as institutions can understand how they perform in comparison to their peers.

## 5.4 Cooperation arrangements

### Introduction

137.The PRC established a benchmark to assess whether the DGS can demonstrate that they effectively cooperate with all relevant authorities and that these arrangements have been robustly stress tested in accordance with the GLs. This was assessed against the four following criteria.

- The DGSDA can demonstrate that adequate engagement and planning arrangements are in place between all relevant stakeholders.

- The DGSDA can demonstrate that there are effective arrangements in place for sharing information between relevant stakeholders.
- The DGSDA can demonstrate relevant stakeholders are included in the execution of the stress tests.
- The DGSDA can demonstrate cooperation with relevant stakeholders was adequately reflected in the stress tests.

### Assessment of Benchmark 3

138. The PRC found that the criteria were fully applied by four DGS (AT, FI, IT, LV), and largely applied by three DGS (BE, ES, PL) (see Figure 8). The rationale for these scores is discussed in the sections below.

**Figure 8 Benchmark 3**

	AT	BE	ES	FI	IT	LV	PL
<b>Criterion 1</b>							
<b>Criterion 2</b>							
<b>Criterion 3</b>							
<b>Criterion 4</b>							
<b>Overall score</b>							

### Criterion 1 – Stakeholder engagement and planning arrangement

139. AT could largely demonstrate that it has adequate engagement and planning arrangements in place between all relevant stakeholders. The FMA, which is the DGSDA, could demonstrate engagement with the DGS. The FMA was involved in real-life cases and in the stress tests in their capacity as the DGSDA and as the resolution authority. The two other Austrian DGSs were also informed about the test of the overflow so they could provide resources and information. AT DGS concluded cross-border agreements/ cooperation agreements with nine DGSs where ESA act as home DGS.

140. BE could largely demonstrate that adequate engagement and planning arrangements are in place between all relevant stakeholders. The DGS has a manual of procedures which sets out the processes and tasks, including interactions with internal stakeholders within the Ministry of Finance, and the Belgian Debt Agency. The legislation covers the cooperation with the resolution authority. The PRC are of the view that the cooperation with internal stakeholders such as IT department in the Ministry of Finance could benefit from improvements to ensure critical IT issues identified by the DGS are addressed in time. BE informed the PRC that they are planning to develop a step-by-step programme to facilitate cooperation and the improvement of its internal processes. The BE DGS is part of the EFDI's Cooperation Agreement and has in addition signed two bilateral cooperation agreements with DE and NL DGSs.
141. The ES DGS could fully demonstrate that adequate engagement and planning arrangements are in place between all relevant stakeholders. A clear framework is in place to ensure the exchange of information and cooperation between the DGS, the national supervisory and resolution authority in the event of problems being detected in a credit institution. The Spanish DGS is party to the EFDI's Cooperation Agreement and has in addition signed two bilateral cooperation agreements with two DGS.
142. The FI DGS could fully demonstrate that adequate engagement and planning arrangements are in place between all relevant stakeholders. The cooperation between the FFSA (DGSDA and NRA), the Finnish Supervisory Authority (FIN-FSA) and the Bank of Finland (BoF) is governed by law and additional MoU. The FI DGS is party of the EFDI's Cooperation Agreement. It has in addition signed four bilateral cooperation agreements with four DGS and is negotiating an agreement with two other DGS.
143. The IT DGS and DGSDA could fully demonstrate that adequate engagement and planning arrangements are in place between all relevant stakeholders. The DGSDA can demonstrate that it effectively and timely engages with the DGS, though they do not have an MoU in place. The DGS involved an external auditor in the assessment of the stress tests. The units of Bdl in charge for the tasks related to resolution and liquidation were involved in stress test planning. IT DGS is a party of the EFDI's Cooperation Agreement and has bilateral cooperation agreements in place with four DGSs.
144. The LV DGS could fully demonstrate that adequate engagement and planning arrangements are in place between all relevant stakeholders. The central bank includes CA/RA/DGS/DGSDA and interaction between them covered by procedures for resolving the institution's crisis situation. Latvia is a party of the EFDI's Cooperation Agreement and has bilateral cooperation agreements with two other DGS.
145. The PL DGS could largely demonstrate adequate cooperation between all relevant stakeholders. The President of BFG is a member of the Polish Financial Supervision Authority. The President of KNF is the Vice-Chairman of the BFG Council, which guarantees the proper flow of information on credit institutions. The BFG Council also includes representatives of the National Bank of Poland and the Ministry of Finance. PL has in place arrangements with key

domestic stakeholders. They are also a party of the EFDI's Cooperation Agreement and have cross-border agreements with two DGSs and are currently working on another one.

## **Criterion 2 – Information sharing with stakeholders**

146. The DGS adopted different measures and approaches with regard to the creation and content of the stress testing programme.

147. AT could fully demonstrate that there are effective arrangements in place for sharing information between relevant stakeholders even though the DGS does not have formal MoU in place with the DGSDA. That is evidenced by the requirement to keep the DGSDA informed about stress test planning and execution. The DGS could demonstrate that in real-life cases they did not experience any issues with communication between stakeholders. In the previous pay-out events (two during the stress test cycle) the information was provided on time.

148. BE could fully demonstrate that there are effective arrangements in place for sharing information between relevant stakeholders, as evidenced by effective legislative arrangements with key domestic stakeholders.

149. In ES, the DGSDA could fully demonstrate that there are effective arrangements in place for sharing information between relevant stakeholders, as evidenced by the governance structure of the FGD, and a clear framework in place to ensure the exchange of information and cooperation between the FGD, the national supervisory and preventive resolution authority (BdE) and the national executive resolution authority (FROB) in the event of problems being detected in a credit institution. ES has incorporated into their internal procedures the communication to FGD of all notifications received and all authorizations granted that may have an impact in the functions of the FGD in relation to institutions over which BdE is the direct supervisor.

150. FI could fully demonstrate that there are effective arrangements in place for sharing information between relevant stakeholders. The collaboration is close with all relevant stakeholders, e.g. the cooperation with the FIN-FSA includes regular information exchange and shared activities during stress tests, guided by an MoU.

151. IT could fully demonstrate that there are effective arrangements in place for sharing information between relevant stakeholders. Cooperation in relation to information sharing is close, regular and ongoing as evidenced by periodic meetings between the DGS, FITD and the competent authority/DGSDA, Banca d'Italia in order to share information on the condition of the riskiest member banks. The mechanisms in place allow for a timely necessary exchange of information with the authorities in cases of crises involving member banks. An effective exchange of information between FITD and Banca d'Italia is ensured on a regular basis, also with reference to the risk-based contributions as Banca d'Italia provides data for the relevant risk indicators of member banks.

152. In LV, the DGSDA could fully demonstrate that there are effective arrangements in place for sharing information between relevant stakeholders. In the course of the stress testing cycle



under review, the LV DGS was integrated into the central bank which facilitated information sharing, including data processing, enhanced access to IT systems, payment systems, and information exchange channels, as well as fostered access of macroeconomic and financial sector analyses.

153.PL DGS could fully demonstrate that there are effective arrangements in place for sharing information between relevant stakeholders. The DGS, which is also the resolution authority, has access to a joint database together with the CA, and thus can access detailed information about their members, such as their SREP scores, without having to request the information from the CA. PL DGS demonstrated that in real-life cases they did not experience any issues with communication between stakeholders.

### **Criterion 3 – Inclusion of stakeholders in the stress tests**

154.The DGS adopted different measures and approaches with regard to the inclusion of stakeholders in the stress tests.

155.AT could fully demonstrate relevant stakeholders are included in the execution of the stress tests. During the stress testing cycle, the AT DGS experienced real-life cases which required the involvement of many relevant stakeholders, including the supervisors. Thus, during further stress tests, there was limited need to test cooperation of additional stakeholders as it has already been tested in those real-life cases. In conducting the resolution contribution stress test, and financing test, the DGS involved the resolution authority and the other AT DGSs. The OeNB was involved in the final assessment of the results of the stress tests. AT DGS as Home DGS were involved in one cross-border test with an Italian DGS as Host.

156.BE could partially demonstrate relevant stakeholders are included in the execution of the stress tests. As the DGS did not execute any end-to-end tests, it limited the number of authorities it had to involve. BE DGS did not stress test the arrangements in place for the exchange of information from prudential supervisors with regard to problems detected at a credit institution that are likely to give rise to the intervention of a DGS. The resolution authority was involved in the resolution stress tests by receiving informing about the assumptions made and structure of the test. The BE DGS involved the NL DGS in the cross-border stress test.

157.In ES, the DGSDA can largely demonstrate that relevant stakeholders were included in the execution of the stress tests. The stress test involved several stakeholders, including a partner bank and a postal provider. However, since the scope of the resolution contributions test was limited, it appears that it did not involve the resolution authority. ES DGS was involved in three cross-border tests, participating as both home and host DGS

158.FI could fully demonstrate that relevant stakeholders are included in the execution of the stress tests. The DGS/DGSDA, members of the FI's internal Resolution Unit (FFSA is the DGS/DGSDA and also the NRA), FIN-FSA as the supervisory authority, BoF, MoF, and FI's IT subcontractors were included in the repayment test. BoF was also involved as an observer in

a cross-border cooperation test. The FI DGS participated in three cross-border tests, as both a home and a host DGS.

159.IT could largely demonstrate that relevant stakeholders were included in the execution of the stress tests. The DGS did not involve the DGSDA in the execution of the tests, beyond one person being an observer in planning and execution of the tests. While the resolution scenario involved the resolution authority, the scenarios did not include the supervisors. The DGS participated in four cross-border tests in which IT was the host DGS twice. The other two cross-border tests took place with the Spanish DGS, which tested both DGS capabilities as home and host DGS.

160.LV DGS could fully demonstrate relevant stakeholders are included in the execution of the stress tests. For the repayment scenario, the DGS used a real-life case which by definition requires the involvement of all the necessary stakeholders. The DGS clearly demonstrated involvement of staff from different parts of the central bank.

161.PL could partially demonstrate that relevant stakeholders are included in the execution of the stress tests. The DGS has not conducted any end-to-end tests in this stress testing cycle, and thus could only demonstrate involvement of some of the stakeholders, such as the agent bank and the partner DGS in a cross-border scenario. It did not demonstrate any engagement with the CA, nor the central bank, which it listed as key stakeholders in real life cases.

#### **Criterion 4 – Cooperation with stakeholders was reflected in the stress tests**

162.AT could fully demonstrate that cooperation with some of the relevant stakeholders was adequately reflected in the stress tests, such as other DGSs, the resolution authority and the central bank. For others, such as the supervisors or the central bank, the DGS could not demonstrate such cooperation in a stress test but instead could demonstrate adequate cooperation in a real-life case. The real-life cross-border case provided an opportunity for the DGS to exhibit effective cooperation with another DGS.

163.BE could partially demonstrate that cooperation with relevant stakeholders was adequately reflected in the stress tests. While there was contact with other departments of the Ministry of Finance, the central bank, and the agent bank—key stakeholders in real-life cases—this did not extend to a full simulation or active engagement within the stress test programme. BE thus could only demonstrate the involvement of some of the stakeholders, such as the partner DGS in a cross-border scenario.

164.ES could partially demonstrate that cooperation with relevant stakeholders was adequately reflected in the stress tests. Not all relevant stakeholders were included in the execution of the stress tests. In particular, it appears that the resolution authority was not involved in the execution of the resolution scenario test, ES reported that according to the governance structure of the FGD, the contribution to a resolution process in terms of operational capacity and financial resources would be made through cooperation between the FGD, the national supervisory and preventive resolution authority (BdE) and the national resolution authority

(FROB). ES DGS reported to the PRC the plans to include a more detailed stress test in the upcoming cycle and the PRC welcomes the DGS's plans to perform more thorough tests.

165.FI could fully demonstrate that cooperation with relevant stakeholders was adequately reflected in the stress tests. This is evidenced by the DGS involving various stakeholders in end-to-end tests, including testing cooperation with CA in the repayment scenario, and with the members of the FI's internal Resolution Unit (FFSA is also the NRA) in the resolution scenario.

166.IT could fully demonstrate that cooperation with relevant stakeholders was adequately reflected in the stress tests. IT DGS tested engagement with member banks, FITD agent bank, FITD internal participants (mainly IT department) as well as the resolution authority in the resolution scenario. Additionally, IT DGS conducted four cross-border stress tests. IT did not stress test engagement with the supervisors, but instead could demonstrate cooperation in a real-life case, which was a preventive intervention carried out by the FITD.

167.LV could largely demonstrate that cooperation with relevant stakeholders was adequately reflected in the stress tests, as well as demonstrating adequate engagement with the relevant authorities in a real-life case. The cross-border stress test resulted in lessons learned and planned changes to the cooperation agreement with LT DGS, clearly showing this aspect was adequately stress tested, too. However, as pointed out elsewhere in the report, the DGS has not retested cooperation under the significantly changed institutional setup after the merger of the DGS and the central bank.

168.PL could largely demonstrate that cooperation with relevant stakeholders was adequately reflected in the stress test. The DGS tested its cooperation with the agent bank and the partner DGS in a cross-border scenario. Additionally, the DGS could demonstrate engagement with the resolution authority in one real life resolution case. The DGS could not demonstrate testing cooperation with the supervisors.

## Conclusions

169.The PRC found that four DGS (AT, FI, IT, LV) could fully demonstrate that they effectively cooperate with all relevant authorities and that these arrangements have been robustly stress tested in accordance with the GLs. Three DGs could largely demonstrate this (BE, ES, PL).

170.In general, there were few shortcomings in relation to cooperation. The lower score of BE and PL was heavily influenced by the fact that they have not organised end-to-end stress tests which would require the involvement of all the relevant stakeholders. Without such tests, or real-life reimbursements, the DGSs could not show that the cooperation with all the relevant stakeholders has been robustly stress tested in the last stress testing cycle.

171.The PRC found that especially where the DGS are private entities (IT and AT) or where the institutional set up in a MS requires the involvement of many different authorities (like ES and BE), it could be useful to have a MoU in place between the DGS and the key stakeholders. Even where cooperation appears to be good, formalising it may help to ensure it remains so in the future, even if there are personal changes in the relevant authorities.

### **Follow up measures**

172.DGS should ensure that stress tests should involve all the relevant stakeholders. All DGSs should conduct end to end tests to ensure that cooperation with all stakeholders is robustly stress tested.

### **Best practices**

173.Involving all stakeholders in the stress tests would increase the possibility for improving cooperation between them by lessons learned through the tests.

174.DGSs would benefit from having in place MoUs with key stakeholders to ensure strong cooperation is embedded in their procedures. While the assessment shows strong cooperation does not require MoU, it can only strengthen cooperation and ensure it remains strong, even if there are personnel changes in the future.

## 5.5 Severity and complexity of testing scenarios

### Introduction

175. The PRC established a benchmark to assess whether the DGS can effectively demonstrate that they have increased the severity and complexity of their testing scenarios in accordance with GL 3. This was assessed against the following three criteria.

- The DGSDA can demonstrate the rationale for deciding on the severity and complexity of the stress tests.
- The DGSDA can demonstrate that the severity and complexity of the tests chosen adequately stress tests the DGSs ability to intervene.
- The DGSDA can demonstrate the impact of severe and complex cases on their DGS's resources.

176. The PRC found that the criteria were fully applied by three DGSs (ES, FI, IT), largely applied by two DGSs (AT, LV), partially applied by one DGSs (BE) and not applied by one DGS (PL) (see Figure 9). The rationale for these scores is discussed in the sections below.

**Figure 9 Benchmark 4**

	AT	BE	ES	FI	IT	LV	PL
<b>Criterion 1</b>	Yellow	Red	Green	Green	Green	Yellow	Red
<b>Criterion 2</b>	Light Green	Yellow	Green	Green	Green	Light Green	Red
<b>Criterion 3</b>	Green	Yellow	Green	Green	Light Green	Yellow	Red
<b>Overall score</b>	Light Green	Yellow	Green	Green	Green	Light Green	Red

### Criterion 1 – Rationale for the severity and complexity of stress tests

177. The rationale for the level of severity and complexity was found in the scope, scenarios including stress factors and their characteristics as well as varying degrees of severity in relation to the delimitation of severity and complexity.

178. AT could partially demonstrate the rationale for deciding on the severity and complexity of the stress tests. A rationale for the chosen severity and complexity of the scenarios was not explicitly laid down in the planning. However, real payout cases were found to support the rationale for severity and complexity, of at least some of the tests, such as the overflow mechanism funding scenario which the DGS considered to be “extremely” severe and complex.

179. Overall, BE could not demonstrate the rationale for deciding on the severity and complexity of the stress tests. While the DGS could partially demonstrate that the tests operationalised severity and complexity, BE DGS is still in the early stages of developing severity and complexity in its testing framework with the previous cycle based on a real-life case. This approach fell short, as the primary focus was only on procedures and data quality. The rationale behind each test scenario requires further refinement to ensure greater adequacy and alignment with testing objectives.
180. ES could fully demonstrate the rationale for deciding on the severity and complexity of the stress tests. ES DGS applied a “severe” and an “extremely severe” scenario when testing financial capabilities. Key assumptions of test scenarios were considered to be developed in sufficient depth and to serve as a proxy for a definition. In order to operationalise the severity and complexity, operational capabilities were tested by means of a member institution being resolved rather than one being liquidated. The rationale for a cross-border test was evidenced by including in the scenario branches in several EU countries requiring simultaneous intervention by the home DGS and several host DGSs. The coincidence in times of extraordinary events in institutions in more than one country had an impact on branches in ES as well as two other EU countries.
181. FI could fully demonstrate the rationale for deciding on the severity and complexity of the stress tests. FI had a focus on realistic scenarios based on actual data from member institutions for planning and performing tests. With one scenario for each core test, no specific added value was recognised in determining a scale of severity and complexity for an individual test. However, the rationale for all tests were clearly laid out and the repayment test was designed in such a way that the DGS had to repay an amount equal to that of all guaranteed deposits of member institutions that would be liquidated at once, which was the most severe expected scenario. Choosing this approach, the PRC was informed that the severity and complexity can be operationalised in a target-oriented manner with realistic stress scenarios, nevertheless without providing an explicit definition.
182. IT could fully demonstrate the rationale for deciding on the severity and complexity of the stress tests. IT could demonstrate both the rationale and the increase of the severity and complexity of tests over time. By way of example, IT performed a simultaneous repayment test with two member institutions. The highest level of severity and complexity consisted of the activation of the business continuity plan as part of the disaster recovery plan, which temporarily prevented access to the DGS’s information systems.
183. LV could partially demonstrate the rationale for deciding on the severity and complexity of the stress tests. The real payout case in 2022 appeared to be challenging for the DGS in comparison to the previous stress tests. However, even assessing the real-life case and the contribution to resolution in combination, the PRC was not able to see how LV determined what case would be severe and complex for the DGS.
184. PL could not demonstrate the rationale for deciding on the severity and complexity of the stress tests. The DGS did not define the severity and complexity of the scenarios for core tests as

previous experience gained during real payouts and resolution cases was considered sufficient. The DGS did not design scenarios to test its capabilities that were not part of real-life cases - such as a test with multiple failures at the same time or a cross-border end-to-end test.

## **Criterion 2 – Tests stress tested DGSs’ ability to intervene**

185. The use of core tests excluding real life cases allowed the PRC to assess the DGSs’ ability to intervene. Among the DGSs (AT, IT, LV, PL) that reported real-life events as a stress tests, the level of severity and complexity demonstrated their capabilities in an appropriate manner but was not found to challenge their abilities fundamentally.
186. AT could largely demonstrate that the severity and complexity of the tests chosen adequately stress tests the DGSs ability to intervene. AT experienced a real-life cross-border payout case during the Covid-19 Pandemic which it considered challenging due to the number of depositors reimbursed and increased communication needs with the host DGS. Tests were structured in a way that individual parts of the payout system were tested first while the severity and complexity level was increased as part of overall tests later. The highest level of severity and complexity concerned the overflow mechanism of the DGSs into the two other Austrian guarantee schemes. Scenarios from the years 2008-2012 were not tested.
187. BE could partially demonstrate that the severity and complexity of the tests chosen adequately stress tests the DGSs ability to intervene. The primary focus was on desk-based testing with an emphasis on procedures and data and, in the PRC’s view, it did not challenge the DGS’s preparedness. For the purposes of SCV file tests, the DGS imposed tightened deadlines on member institutions for the collection of files. For funding, a scenario was tested which envisaged the simultaneous failure of the largest and second-largest LSI, while this could be cushioned by assessing the availability of the required extraordinary contributions. However, a holistic end-to-end repayment test was not performed during the cycle while reference was made to a real-life payout case in 2016.
188. ES could fully demonstrate that the severity and complexity of the tests chosen adequately stress tests the DGSs ability to intervene. The routine funding tests included the sale of the public debt portfolio with haircuts in line with market conditions observed during the 2011/12 financial crisis. The ability to intervene was not affected even after further adjustments were added following the introduction of a worst-case scenario in which neither the existing credit facility nor extraordinary contributions were available. In addition, the severity of the scenario was demonstrated by the fact that the DGS would not recover repayments in the context of the hypothetical failure. The DGS has also increased the severity and complexity of the cross-border tests, including involving multiple DGS, and increasing the number of depositors.
189. FI could fully demonstrate that the severity and complexity of the tests chosen adequately stress tests the DGSs ability to intervene. A repayment test constituted the most severe and complex scenario simulating the repayment of a fictitious bank, going into which represented as the totality of the national deposit banks combined, going into liquidation. The test allowed

for the use of all the different forms of funding and the performance of all dedicated activities envisaged for the repayment function thus demonstrating the DGS's ability to intervene.

190.IT could fully demonstrate that the severity and complexity of the tests chosen adequately stress tests the DGSs ability to intervene. IT experienced a real-life contribution to insolvency matching a level of severity and complexity foreseen in the plan. With less experience in repayment as compared to failure prevention or contribution to insolvency, the DGS focused on testing its reimbursement capabilities. The highest severity and complexity level tested was the activation of the Business Continuity Plan, which concerned the unavailability of the information system during an SCV file test assessing the payment channels. The test included the receipt of SCV files within five working days, the simulation and activation of the DGS's Disaster Recovery Plan including the verification of data, services and tools deployed in the secondary data centre. Scenarios of the 2008-2012 crisis period were not considered for tests.

191.LV could largely demonstrate that the severity and complexity of the tests chosen adequately stress tests the DGSs ability to intervene. The DGS considered the real-life case in 2022 sufficiently sophisticated and severe to demonstrate its ability to intervene. A scenario referring to the crisis period 2008-2012 or worst-case scenario were not considered and it remains unanswered what the impact on the DGS's ability to intervene would have been.

192.PL could not demonstrate that the severity and complexity of the tests chosen adequately stress tests the DGSs ability to intervene. In 2022, the DGS had to intervene in a contribution to resolution which was a complex case. The PRC was informed that given the low number of areas for improvements, the ability of the DGS to perform its tasks was seemingly demonstrated. Against the backdrop of past experience, PL did not develop severe and complex scenarios including scenarios of the 2008-2012 crisis period nor an end-to-end cross-border case, even though the DGS explained to the PRC that managing cumulative payouts across multiple banks, or a cross-border payout, could be particularly difficult and complex.

### **Criterion 3 – Impact of severe and complex case on resources**

193.The impact of severity and complexity on DGSs was demonstrated by core tests, and by real life cases. All DGSs indicated that they saw no need to change their resources because of real life cases in the cycle.

194.AT could fully demonstrate the impact of severe and complex cases on their DGS's resources. AT indicated that no changes in resources were necessary because of severe and complex tests including real-life cases. The real-life cases showed that the DGS was able to quickly respond to exceptional circumstances such as the deployment of additional staff at the failed bank or increased needs for communication. It was established that the continuously developed operational infrastructure is robust and suitable for coping with stress of increased severity and complexity.

195.BE could partially demonstrate the impact of severe and complex cases on their DGS's resources. The DGS could demonstrate reflection concerning staff shortages particularly in light of some experienced staff members leaving the DGS, as well as gaps in access to IT



resources to correct critical issues in their systems. However, given that the DGS did not perform any end-to-end tests, it did not have a possibility to empirically assess what level of staffing would be needed. The question of staffing underlying this criterion had to be further analysed by the DGS at the time of reporting.

- 196.ES could fully demonstrate the impact of severe and complex cases on their DGS's resources. The DGS did not indicate to the PRC that changes on resources were necessary because of severe and complex cases. The resilience of resources was assessed as part of core tests in order to explore their capacity limits, which included SCV files tests, for which the DGS reported that the scope and significance were a driving factor for development of information technology systems.
- 197.FI could fully demonstrate the impact of severe and complex cases on their DGS's resources. The DGS also effected changes to the operational infrastructure as a result of severe and complex tests. Furthermore, the DGS introduced during this stress test cycle a new methodology for organising and modelling the crisis management process. The method served as a tool to map all activities within the framework of a DGS intervention. Although neither weaknesses nor deficiencies were revealed by tests, the PRC was informed that the DGS intended to overhaul its capacity for communication and press enquiries. The impact of severity and complexity on resources was clearly corroborated by the approach and evidence provided.
- 198.IT could largely demonstrate the impact of severe and complex cases on their DGS's resources. Compared to the previous cycle, improvements were made to the communication tools applicable to both payout scenarios, cross-border cooperation tests, controls and the introduction of an information track on larger data sets regarding the software for managing SCV files. However, these improvements did not inform severe or complex cases and their impact on the entire organisation, including the activation of the disaster recovery plan involving multiple internal and external stakeholders.
- 199.LV could partially demonstrate the impact of severe and complex cases on their DGS's resources. While the resources were deemed to be adequate for the real-life case, afterwards the DGS underwent significant structural and organisational changes because of the merger with the central bank. After the merger, the focus was on the realignment of internal processes including further development of the payment system and additional resources. Given that the operational infrastructure is under development, the PRC was unable to clearly determine the impact of severe and complex cases on the DGS in the current organisational set up.
- 200.PL could not demonstrate the impact of severe and complex cases on their DGS's resources. The DGS did not see the need to improve the DGS's operational infrastructure to facilitate a stress test with increased severity and the complexity of core and other tests performed, despite explaining that one of the stress tests has not been performed at least partially because of the need to prioritise where to assign their human resources. Furthermore, not all the SCV tests were performed suggesting potential resourcing issues as well. Thus, it appears that the DGS did not consider the impact of the outcome of all tests on their resources and in consequence did not appear to have sufficient resources to perform all the tests the DGS is legally obliged to perform.

## Conclusions

201. Three DGSs (ES, FI, IT) could fully demonstrate that they have increased the severity and complexity of their testing scenarios in accordance with GL 3. Two DGS could largely demonstrate meeting this benchmark (AT, LV), one could demonstrate partially meeting it (BE) and one could not demonstrate meeting this benchmark (PL).
202. While core tests performed demonstrated the DGSs' ability to intervene, it should be noted that intervention cases of a type and intensity experienced in the past, in particular during the 2008-2012 crisis period, were neither developed nor tested. In practice, this would have required DGSs to develop scenarios examining the taxonomy of such crises and its effects on the operations of the DGS and member banks in more detail. The PRC noted that the degree of differentiation and heterogeneity of the stress tests was high, which may suggest room for harmonisation of tests and scenarios in the future.
203. On the basis of the tests, the PRC also noted that the stringency of highly severe and complex scenarios was only found in isolated cases. Overall, the evaluation suggests that there is still room to develop and implement highly severe and complex scenarios that could detect shortcomings in the ability to intervene or reveal areas for improvement. Finally, the real payout cases showed strains in certain areas of the operational capabilities of the DGSs and revealed issues that needed to be improved ad hoc and were also resolved.

## Follow up measures

204. At the beginning of the stress testing cycle DGSs should clearly set out the rationale for choosing a particular level of severity and complexity of each stress test and relate it to the level of severity and complexity of previous stress tests, and/or real-life interventions.
205. While there is merit in conducting a standard scenario that simply retests and reconfirms the DGS's readiness, real life interventions show that most cases present some sort of unexpected challenges. Thus, DGSs should ensure that the design of the scenarios provide a challenge for them including the sort of unexpected challenges that arise in real life interventions.
206. DGSs should thoroughly assess the impact of the results of the stress test on their resources – both human, IT and others – and ensure it informs their resource planning.

## Best practices

207. The simulation of a business recovery plan as part of the disaster recovery plan and its activation by the DGS (IT), including the testing of data, services and tools provided in a secondary data centre, is good practice to test whether these are available and operational in the event of an emergency. As part of a worst-case scenario, this form of worthwhile testing should be formalised and developed by DGSs in more detail and tested at least once in a cycle.
208. One DGS (FI) developed a new method for organising and modelling its crisis management process during this stress test cycle. This method was tested in the cycle and served as a tool for the steering groups of all core tests to map all activities, including the newly developed

ones, in a DGS intervention that need to be tested in order for the stress tests to be as comprehensive as possible. Such a tool can facilitate a common comprehension within and outside the DGS, as it becomes clear to whom which tasks have been delegated in the event of a crisis, including monitoring the bank's situation, communications, supervisory authority responsibility, etc.

## 5.6 Improvements to DGS systems

### Introduction

209. The PRC established a benchmark to assess whether the DGS can demonstrate that they have effectively identified which areas of their DGS systems require improvements and that they can demonstrate that they have already improved or are planning to take action to improve these areas in comparison to previous tests in accordance with GLs 1 and 5. This was assessed against the following three criteria:

- The DGSDA can demonstrate that an evaluation of each core stress test identified areas that went well, and areas that required improvement.
- The DGSDA can demonstrate that follow-up measures to address the identified areas for improvement have been developed by the DGS.
- The DGSDA can demonstrate that actions on the areas of improvement have been taken by the DGS.

### Assessment of Benchmark 5

210. The PRC found that the criteria were fully applied by four DGSs (ES, FI, IT, LV), largely applied by one DGS (PL), and partially applied by two DGSs (AT, BE) (see Figure 10). The three DGSs that did not fully apply the benchmark either found very few areas for improvement and/or did not take sufficient follow-up actions on the few areas that were identified. This can largely be explained by the fact that those DGSs did not perform any end-to-end tests of repayment or cross-border repayment. These were the areas where in general most shortcomings had been identified among the DGSs. As such, a natural consequence of less detailed tests is finding fewer shortcomings and lessons learned. The rationale for individual scores is discussed in the sections below.

**Figure 10 Benchmark 5**

	AT	BE	ES	FI	IT	LV	PL
<i>Criterion 1</i>							
<i>Criterion 2</i>							
<i>Criterion 3</i>							
<i>Overall score</i>							

### Criterion 1 – Evaluation of core tests

211. The DGSs adopted different measures and approaches with regard to the evaluation of each core stress test and the identification of areas that went well and areas that required improvement. Six out of seven DGSs reported areas for improvement and follow up measures based on the stress tests performed (BE, ES, FI, IT, LV, PL). One DGS did not report any areas for improvement since the DGS reported that minor issues were resolved during the real-life payout interventions that the DGS experienced during the stress testing cycle (AT).
212. AT could only partially demonstrate that an evaluation of each core stress test identified areas that went well and areas that required improvement, as they have not reported any lessons learned from the stress tests conducted in this stress testing cycle. The DGS reported that all tested areas went well, but did not report any specific good practices. The DGS considers its processes as sufficient and effective since the goal to start compensation within 7 working days was achieved during the stress tests and during the 4 real-life payout cases that the DGS experienced since its creation in 2020. The DGS did not identify areas for improvement for the core stress tests, apart from minor improvements that were made directly during the real-life payout cases. However, only two of the 4 real-life cases have (partially) taken place during the relevant stress testing cycle. The Austrian central bank is in charge of producing a report with an evaluation and has done so after the 2021-2024 stress testing cycle. It has identified one minor improvement.
213. BE could fully demonstrate that the conducted stress tests were evaluated by means of the EBA template and own reporting documents, in which lessons learned and shortcomings were identified. The areas of improvement with the high severity were related to the core test repayment with cross-border cooperation. On this core test, the DGS graded itself as insufficiently resilient. The DGS considers it is underperforming in this regard, because the application used by the DGS requires modifications to create the Payment Instructions File (PIF) that will be sent to the Host DGS to reimburse host depositors. Other areas of improvement were classified with a low severity and varied among the other core tests.
214. ES could fully demonstrate that the conducted stress tests were evaluated and lessons learned and shortcomings were identified. The areas of improvement DGS reported by the DGS were all classified with a low severity. They were related to operational aspects of the DGS repayment and contribution to resolution function, albeit in an exercise that did not test all the aspects of contribution to resolution intervention. The regular SCV tests were evaluated in more detail than the other tests since there is a legal requirement to report the results to the BdE and send recommendation letters to banks.
215. FI could fully demonstrate that the conducted stress tests were evaluated and lessons learned and shortcomings were identified. The reported areas for improvement were described in detail and were all related to the DGS's operational capabilities. Most of them were related to the internal processes and communication of the DGS's crisis management organisation.
216. IT could fully demonstrate that the conducted stress tests were evaluated and lessons learned and shortcomings were identified. The areas of improvement were all of low severity and included the need for the enhancement of tools to communicate with depositors and in the

area of SCV file testing the need to explore increasing the test frequency and testing with non-anonymised data.

217.LV could fully demonstrate that the conducted stress tests were evaluated, and lessons learned and shortcomings were identified. In addition to the report in the EBA template, the DGS also produced two separate reports that were assessed by internal auditors. The DGS reported areas of improvement for each type of core test, all with low severity and related to the operational capabilities of the DGS. For both contribution to insolvency and to resolution, the DGS reported that the internal regulatory framework needed improvement.

218.PL could fully demonstrate that the conducted stress tests were evaluated, and lessons learned and shortcomings were identified. The reported areas of improvement were related to the IT systems used for repayment and repayment with cross-border cooperation, both of high severity. In light of the fact that the PL DGS did not conduct any end-to-end tests, it limited the possibility to find shortcomings and lessons learned.

## **Criterion 2 – Follow up measures developed by the DGS**

219.The DGSs adopted different measures and approaches regarding the development of follow-up measures to address the identified areas for improvement. The number and level of detail of the identified follow-up measures is correlated with the areas of improvement that were identified on the basis of the stress tests. Which in turn is linked to the number and severity of tests that have been performed during the stress testing cycle.

220.The PRC could not effectively assess if the AT DGS has developed measures to address areas for improvement, because the DGS did not identify any such areas. Thus, the grade for this criterion reflects the grade assigned for criterion 1.

221.BE could fully demonstrate that follow-up measures were identified to address the areas of improvement. For repayment with cross-border cooperation, for which the DGS graded itself as ‘insufficiently resilient’, the DGS reported the need to adjust the DGS’s repayment system and the generation of PIFs.

222.ES could fully demonstrate that follow-up measures were identified to address the areas of improvement. This included operational improvements to the FGD payment application and conducting contribution to resolution tests together with the NCA and NRA. In the area of repayment with cross-border cooperation, the DGS indicated that it aims to formalise cooperation agreements with more partner DGSs.

223.FI could fully demonstrate that follow-up measures were identified to address the areas of improvement. This included among others the need to stress-test further the use of external, outsourced media communications partners, the continuous improvement of the crisis management organisation's processes and exploring the possibility to conduct on-site inspections as part of SCV files tests.

224.IT could fully demonstrate that follow-up measures were identified to address the areas of improvement. These actions are described under criterion 1 above.

225.LV could fully demonstrate that follow-up measures were identified to address the areas of improvement. The DGS has identified an extensive and detailed list of follow up actions, which included many actions in the area of SCV testing.

226.PL could fully demonstrate that follow-up measures were identified to address the areas of improvement. These points are described under criterion 1 above.

### **Criterion 3 – Action took place on areas of improvement**

227.The DGSs adopted different measures and approaches with regard to taking action on the areas of improvement have been taken by the DGS. The majority of the reported actions (15) were ongoing at the time of drafting the peer review. Some actions (9) were not started and a few were already completed (3).

228.The PRC could not effectively assess if the AT DGS could demonstrate that actions on the areas of improvement have been taken by the DGS, as a consequence of AT DGS not identifying any shortcomings or follow-up measures. Thus, the grade for this criterion reflects the grade assigned for criterion 1.

229.BE could partially demonstrate that actions on the areas of improvement have been taken by the DGS. BE reported that there is no progress report available on the actions taken since the conclusion of the stress testing cycle in June 2024. Only one reported follow-up measure has been completed, the work on all the others has not started by the end of the stress testing cycle. In the course of the cross-border stress test, the DGS has identified an IT deficiency which has led to the DGS grading itself as insufficiently resilient. The DGS has been aware of this deficiency since 2022 but did not resolve it which, in the view of the PRC is a significant shortcoming in itself. However, a mitigating factor is that in the test the DGS has managed to find a solution to affect the payout, despite the high severity of the IT issue. The DGS is analysing how its tools and working methods can improve. This includes an ongoing assessment of the areas in IT processes that need enhancement and possibilities for more automation. The DGS plans to start adjusting the repayment system for cross-border cooperation in the next calendar year. In addition, the DGS indicated the need and willingness to organize more cross-border cooperation tests in the next testing cycle.

230.ES could fully demonstrate that actions on the areas of improvement have been taken by the DGS, as evidenced by several operational improvements that have been made, such as the enhancement of the software application for the review of SCV files and the improvement of the quality of communication tools, for both a domestic and a cross-border repayment scenario. On the cooperation agreements with partner DGSs, the DGS reported that conversations with several DGSs are ongoing.

231.FI could fully demonstrate that actions on the areas of improvement have been taken by the DGS. It reported that the work on the follow-up actions is ongoing. The DGS provided an

extensive and detailed update on its ongoing work on many follow up actions, for example in the area of external and internal communications.

232.IT could fully demonstrate that actions on the areas of improvement have been taken by the DGS. It reported that the work on the follow-up actions is ongoing. The DGS explained that it is currently in the planning phase to take action on the follow-up measures.

233.LV could fully demonstrate that actions on the areas of improvement have been taken by the DGS, including taking many steps regarding the follow-up measures mentioned under criterion 2. The DGS will continue to follow up on measures related to the elimination of deficiencies in the future. Among these actions are the drafting of decisions on the DGS contribution to resolution and to insolvency. The DGS also reported that it is anticipating the CMDI-framework implementation into national legislation, and that it plans to incorporate mandate for the DGS intervention in failure prevention.

234.PL could largely demonstrate that actions on the areas of improvement have been taken by the DGS. It reported that two IT system errors were already addressed. However, the DGS also reported that there are currently no plans to address an error identified in cross-border cooperation, to ensure functionality.

## Conclusions

235.DGSs should demonstrate that they have effectively identified which areas of their DGS systems require improvements and that they can demonstrate that they have already improved or are planning to take action to improve these areas in comparison to previous tests in accordance with GLs 1 and 5. This self-reflection and improvement is a key part of the DGS stress testing framework. The PRC found that the criteria were fully applied by four DGSs (ES, FI, IT, LV), largely applied by one DGS (PL), and partially applied by two DGSs (AT, BE)

236.In relation to benchmark 5, DGSs have identified various areas that went well, such as improved funding capabilities (BE), regular and continuous communication with credit institutions regarding SCV files (AT, FI, PL), an improvement in the quality of SCV files and CIs' abilities to deliver the SCV files within the required timeframes (BE, ES, IT, LV, IT), the functioning of the DGS's crisis management organisation in different simulation scenarios (FI), and the use of the DGS's IT systems for the different functions of the DGS (LV, IT).

237.The areas of improvement that were identified by the DGSs were all related to the operational capabilities of the DGSs. None of the DGSs reported significant areas of improvement related to funding capabilities, with the exception of one finding that funding stakeholders need to be more involved in the stress testing. The majority of DGSs reported the need for making improvements to (i) the IT systems or applications used for DGS payouts, (ii) the communication with depositors and the wider public, including the use of call centres, and (iii) internal organizational frameworks. All six DGSs who demonstrated having identified areas of improvement, reported that the review of SCV files is an ongoing process of further enhancing the quality of the CI's SCV files.



238. The areas of improvement that were reported to the PRC varied in scope, scale and severity. Some areas could be addressed instantaneously, like minor improvements to IT systems and information provided to credit institutions regarding the SCV framework. Other areas need more time to be addressed, for example when there is a need to set up collaboration with new partners or when there is a need to amend the regulatory framework.

### **Follow up measures**

239. DGSs should put sufficient effort to identify and report all relevant shortcomings identified in the course of the stress tests, and in real life interventions, with the aim of finding lessons learned.

240. DGSs should evaluate each stress test individually shortly after the test was executed and start the work on addressing follow-up measures – where possible – still in the same cycle.

### **Best practices**

241. On regular SCV tests, the PRC encourages DGSs to apply the practices of having continuous contact with credit institutions (FI), to perform onsite inspections (AT, ES, LV, PL), and to share the outcomes of the SCV files tests with the individual credit institutions (BE, ES, FI, IT, PL). Some DGSs reported having these practices in place, though one of them (BE) indicated that were not performed during this particular cycle (BE) and reported it as an area of improvement.

242. The PRC encourages DGSs to involve other safety net participants in the evaluation of the stress testing. In case they acted as participants in the tests, the PRC encourages that they perform an assessment of their own role and identify lessons learned (FI).

## 6. Conclusions and recommendations

### 6.1 Overall conclusions

243. Based on the analysis of the practices of DGS with regard to the stress testing performed by deposit guarantee schemes the PRC concludes that all seven DGS in scope of this review have implemented the Revised EBA Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2016/04 ('Revised Guidelines on DGS stress tests').

244. Through its analysis of the benchmarks that were set for the purposes of this report the PRC found significant divergences with respect to their stress testing of the resilience of deposit guarantee schemes among the seven DGS subject to the peer review. The PRC found that those seven DGSs have effectively developed their stress testing programmes in line with the methodology outlined in the guidelines, with only minor shortcomings. Similarly, the PRC found that all the DGS could demonstrate effective cooperation with relevant authorities in the context of the stress tests, irrespective of whether a DGS is a public or a private entity, or whether it is part of the same authority as the competent authority, or not. However, with respect to the other benchmarks, in particular, on the performance of mandatory core tests, the increase of severity and complexity of testing scenarios, and the identification of areas of improvement to DGS systems, some of the seven DGS fell short of the standard which the PRC expected when designing these benchmarks.

245. With regard to the performance of the mandatory core test, five DGS could largely demonstrate meeting that benchmark. Among the two that could not, PL was not compliant as it has not performed one of the mandatory core tests, did not stress test the SCV files of all its member institutions in the stress testing cycle under review, and have not conducted any end-to-end tests. The PRC concluded that successful real-life interventions in the past led the PL DGS to believe that stress tests are not a useful tool beyond SCV file tests. BE was only partially compliant as it has not performed any end-to-end simulations, which is particularly important given that the BE DGS experienced only one bank failure in the last 10 years.

246. Five DGSs could largely demonstrate increasing the severity and complexity of stress testing programmes in line with the requirements of the GLs. PL could not demonstrate increased severity and complexity of the test at all. As mentioned above, it did not run any end-to-end tests, and the tests the DGS has conducted, were not more severe or complex than what the DGS has experienced in the past, and did not push the DGS to stress test its operations. BE DGS could only partially demonstrate increased severity and complexity over time – a shortcoming largely stemming from not organising any end-to-end simulations.

247. Findings in relation to mandatory core stress tests and increased severity and complexity benchmarks clearly show the importance of end-to-end simulations.

248. Five DGSs could demonstrate using stress testing to find areas for improvement and implementing measures to address those shortcomings. AT could only partially demonstrate meeting the requirements of the GLs in relation to finding shortcomings in real-life cases and/or stress tests, as means towards improving for the future. In AT, there appears to be a reluctance to identify potential shortcomings even though the GLs require it, and consider finding ways to improve as a virtue. BE could only partially meet this benchmark – while the PRC could see clear evidence of willingness to find shortcomings, the DGS was downgraded for the fact that even though stress testing has uncovered a critical shortcoming a couple of years ago, it has still not been fixed at the time of publishing this report.

249. At the other end of the spectrum, the PRC was particularly impressed with the FI DGS, which could fully demonstrate compliance with all the five benchmarks set by the PRC and set a high standard for other DGSs to follow. The DGS could clearly demonstrate a holistic approach to stress testing, involving all the relevant stakeholders, thorough and thoughtful planning and execution, and continuous development and willingness to learn from the identified shortcomings.

250. A series of best practices were set out in the report and the PRC strongly encourages all DGS to adopt similar practices in particular on organising thorough end-to-end simulations, and engaging all relevant stakeholders in all the stages of the stress testing cycle – from planning, through execution, to evaluation.

251. Throughout this report and as set out in the section below the PRC have identified follow up measures which are applicable to all CAs and DGS and not just those in scope of this review. These are aimed at strengthening the consistency of supervisory practices. The EBA will conduct a follow-up peer review of the implementation of the measures included in the report in two years.

## 6.2 Follow-up measures for CAs

252. The appropriate, proportionate and necessary follow-up measures considered necessary for relevant CAs to take in order to address the issues identified in the report are set out below. When a DGS is administered by a private entity, competent authorities should ensure that the follow-up measures are applied by such DGSs.

Benchmark	CA(s)	Follow-up measure
1	All CAs	Stress test programmes should be developed promptly at the start of the stress testing cycle, and reflect lessons learned and needs for improvement identified in the previous stress testing cycle. <sup>8</sup>
	All CAs	Stress test programmes should cover the full stress testing cycle even where a DGS chooses to run stress tests on an annual basis. In such cases, the programme can simply specify that all tests will be done each year. <sup>9</sup>

<sup>8</sup> This measure was identified via minor deficiencies in the practices of AT

<sup>9</sup> This measure was identified via deficiencies in the practices of ES

Benchmark	CA(s)	Follow-up measure
	All CAs	Stress test programmes should be revisited in case significant operational or institutional changes occur in the course of the stress testing cycle. That does not mean that the stress test programme will always need to change, but a reflection on such a need is necessary. <sup>10</sup>
2	All CAs	As per the GLs, DGSs should perform stress tests of all the interventions they are legally mandated to perform. Where a test of a particular intervention is not performed, the DGS should clearly document the rationale for this, outlining on what basis a particular test has not been performed. This will help to avoid the impression that the rationale for not conducting a test has been developed post-factum. <sup>11</sup>
	All CAs	DGSs should ensure sufficient resources to be able to stress test the ability of all their members to provide SCV files at least once in a stress testing cycle. <sup>12</sup>
	All CAs	As per the GLs, real life interventions can be used in lieu of simulations. However, DGSs should take note that this is only the case when the real-life case has happened in the same stress testing cycle, as when the stress test was meant to occur. While real life experience from the previous cycles is relevant, Level 1 requires regular stress tests to ensure capabilities tested in the past remain relevant and up-to-date. <sup>13</sup>
	All CAs	As per the GLs, DGSs should conduct at least one end-to-end test of each of their function in a given stress testing cycle: a simulation of potential real-life interventions, encompassing the entire process of such an intervention, and involving all the relevant stakeholders. <sup>14</sup>
	All CAs	DGS should ensure objective evaluation of the results of the stress tests, with particular focus on identifying shortcomings and lessons learned. <sup>15</sup>
3	All CAs	DGS should ensure that stress tests involve all the relevant stakeholders. <sup>16</sup>
4	All CAs	At the beginning of the stress testing cycle DGSs should clearly set out the rationale for choosing a particular level of severity and complexity of each stress test, and relate it to the level of severity and complexity of previous stress tests, or real-life interventions. <sup>17</sup>

<sup>10</sup> This measure was identified via deficiencies in the practices of LV

<sup>11</sup> This measure was identified via deficiencies in the practices of PL

<sup>12</sup> This measure was identified via deficiencies in the practices of PL

<sup>13</sup> This measure was identified via deficiencies in the practices of PL

<sup>14</sup> This measure was identified via deficiencies in the practices of BE and PL

<sup>15</sup> This measure was identified via deficiencies in the practices of AT and PL

<sup>16</sup> This measure was identified via deficiencies in the practices of BE, ES and PL

<sup>17</sup> This measure was identified via deficiencies in the practices of AT, BE, LV, PL

Benchmark	CA(s)	Follow-up measure
4	All CAs	DGSs should ensure that scenarios provide a challenge for them including the sort of unexpected challenges that arise in real life interventions. <sup>18</sup>
4	All CAs	DGSs should thoroughly assess what the results of the stress test mean for their resources – both human, IT and others – and ensure it informs their resource planning. <sup>19</sup>
5	All CAs	DGSs should put sufficient effort to identify and report all relevant shortcomings identified in the course of the stress tests, and in real life interventions, with the aim of finding lessons learned. <sup>20</sup>
5	All CAs	DGSs should evaluate each stress test individually shortly after the test was executed and start work on addressing follow-up measures – where possible – still in the same cycle. <sup>21</sup>

## 6.3 Best practices

252. Stress test programmes should be dynamic and evolve in light of real-life cases, test results, and regulatory developments, for example as was the case in ES.

253. Stress test programmes should include to the extent possible holistic stress tests (i.e. end-to-end tests for each core test) as this allows DGSs to fully test a DGS function, identify deficiencies and take corrective actions.

254. Involving all stakeholders in the stress tests would increase the possibility for improving cooperation between them by lessons learned through the tests.

255. DGSs would benefit from having in place MoUs with key stakeholders to ensure strong cooperation is embedded in their procedures. While the assessment shows strong cooperation does not require MoU, it can only strengthen cooperation and ensure it remains strong, even if there are personnel changes in the future.

256. Involving other safety net participants in the development of the stress test programme and specific tests, as was the case in FI, increases the possibility of better organization and cooperation among participants leading to better chances of successful tests with meaningful results. This is mainly driven by the specific knowledge and expertise of some stakeholders.

257. As per the practice of FI, it is useful to involve other safety net participants in the execution of the stress tests, not only as participants to play the part they would play in real life cases, but also as independent evaluators of the process and the results. It maximises the possibility

<sup>18</sup> This measure was identified via deficiencies in the practices of BE and PL

<sup>19</sup> This measure was identified via deficiencies in the practices of BE, LV and PL

<sup>20</sup> This measure was identified via deficiencies in the practices of AT

<sup>21</sup> This measure was identified via deficiencies in the practices of BE

for lessons learned from an outside partner, as they can provide useful input on the process of conducting the stress test, on the content of the stress test, and on the results. In case they acted as participants in the tests, they are encouraged to perform an assessment of their own role and identify lessons learned, for example as was the case in FI.

258. Publishing the results of the stress tests ensures transparency, but also accountability for the DGS, as well as clarity for the market in relation to SCV file tests as institutions can understand how they perform in comparison to their peers.

259. A number of DGSs highlighted the high value of onsite SCV file tests in finding errors that otherwise may go unnoticed in the course of automated offsite checks. DGSs also reported it offers an opportunity to engage with the credit institutions and help them to improve their systems, which ultimately results in higher quality SCV files.

260. On regular SCV tests, DGSs are encouraged to apply the practices of having continuous contact with credit institutions (FI), to perform onsite inspections (AT, ES, LV, PL), and to share the outcomes of the SCV files tests with the individual credit institutions (BE, ES, FI, IT, PL). Some DGSs reported having these practices in place, though one of them (BE) indicated that they were not performed during this particular cycle, and reported it as an area of improvement.

261. The simulation of a business recovery plan as part of the disaster recovery plan and its activation by the DGS (IT), including the testing of data, services and tools provided in a secondary data centre, is good practice to test whether these are available and operational in the event of an emergency. As part of a worst-case scenario, this form of worthwhile testing should be formalised and developed by DGSs in more detail and tested at least once in a cycle.

262. One DGS (FI) developed a new method for organising and modelling its crisis management process during this stress test cycle. This method was tested in the cycle and served as a tool for the steering groups of all core tests to map all activities, including the newly developed ones, in a DGS intervention that need to be tested in order for the stress tests to be as comprehensive as possible. Such a tool can facilitate a common comprehension within and outside the DGS, as it becomes clear to whom which tasks have been delegated in the event of a crisis, including monitoring the bank's situation, communications, supervisory authority responsibility, etc.

# Annex 1. Competent authorities reviewed

The following competent authorities were the focus of this peer review<sup>22</sup>:

<b>Member State</b>	<b>Competent authority (DGSDA)</b>
AT	Austrian Financial Market Authority (FMA)
BE	The Guarantee Fund for Financial Services
ES	Fondo de Garantía de Depósitos (FGD), Banco de España (BdE)
FI	Finnish Financial Stability Authority (FFSA)
IT	Banca d'Italia
LV	Latvijas Banka
PL	Bank Guarantee Fund (Bankowy Funduszu Gwarancyjny)

<sup>22</sup> When the DGS is administered by a private entity, the focus of the peer review is also the DGS.

## Annex 2. Peer review committee

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Peer reviews are carried out by ad hoc peer review committees composed of staff from the EBA and members of competent authorities, and chaired by EBA staff.

This peer review was carried out by:

### Co-chairs

Jonathan Overett Somnier  
Head of Legal and Compliance Unit, EBA

Slawek Kozdras  
Senior Policy Expert, Conduct, Payments and Consumers Unit, EBA

### Members

Adrienne Coleton  
Legal Expert, Legal and Compliance Unit, EBA

Loucas Arminiotis  
Administration of Deposit Guarantee, Resolution Department, Central Bank of Cyprus

Gitta Greve  
Senior Policy Officer, Depositor and Investor Protection, BaFin

Ivy Jeuken  
Policy Expert, Resolution and DGS, De Nederlandsche Bank

Michael Rademacher  
Depositor and Investor Protection Specialist, CSSF





Tour Europlaza, 20 avenue André Prothin CS 30154  
92927 Paris La Défense CEDEX, FRANCE

Tel. +33 1 86 52 70 00

E-mail: [info@eba.europa.eu](mailto:info@eba.europa.eu)

<https://eba.europa.eu>