Factsheet on setting and collecting extraordinary contributions for the Deposit Guarantee Scheme

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If the means of the Deposit Guarantee Fund (**DGF**) are insufficient to make payouts under the Deposit Guarantee Scheme (**DGS**), De Nederlandsche Bank (DNB) will levy extraordinary contributions. In that case, DNB may ask the banks for advance payments, so the DGS immediately has funds available to finance DGS payouts. In this fact sheet, we explain how we set and collect extraordinary contributions or advances, should this be required for DGS payouts.

When does DNB levy extraordinary contributions?

DNB levies extraordinary contributions if the DGF's means are insufficient.[1] This is the case if the fund does not have enough available means to ensure full funding to (i) make DGS payouts or (ii) make an amount available as a contribution to the funding of a resolution tool.[2] DNB will levy extraordinary contributions to obtain the necessary additional financial means if the DGF's management board indicates that the available means are insufficient.

How does DNB set the amounts of the extraordinary contributions?

DNB sets the extraordinary contributions on the basis of formulas laid down in national legislation[3].

- **First, DNB establishes the amount of the DGF's shortfall at the time of the payouts.** This will be the total amount DNB levies from all banks together that are operating as a bank at the time and come under the scope of the Dutch DGS.
- **Next, DNB calculates the contributions of each individual bank.** Half of the contribution amount is proportional to the guaranteed deposits reported on the last day of the previous quarter, which is the *last assessment before the shortfall arose*. The other half of the contribution is calculated on the basis of the bank's share in the total risk-weighted guaranteed deposits, at the

1 Pursuant to Section 29.14 of the Decree on Special Prudential Measures, Investor Compensation and Deposit Guarantees under the *Wft* (*Besluit bijzondere prudentiële maatregelen, beleggerscompensatie en depositogarantie Wft* – Bbpm)
2 Amount made available pursuant to Section 3:265e of the Financial Supervision Act (*Wet op het financieel toezicht – Wft*).
3 Annex D of the *Bbpm*.

last assessment before the shortfall arose, using risk weighting percentages that are also used to calculate the bank's quarterly contributions to the fund. For more details, see the fact sheet on risk methodology.

When are extraordinary contributions due and when must they be paid?

Banks are required to pay extraordinary contributions at the moment DNB has set them and has issued a decision to impose them. The decision sets out the total amount owed by the bank and any instalment amounts. If extraordinary contributions are needed, DNB may require banks to make advance payments.[4] Imposing an advance payment is a way to ensure that depositors have timely access to their DGS payouts.

When DNB sets the instalment amounts, it takes into account that no bank has to pay an extraordinary contribution in any one year exceeding 0.5% of the guaranteed deposits held with the respective bank.[5] If the total contribution due exceeds this, the excess amount will be charged in the following calendar year.

DNB may suspend the payment of extraordinary contributions if a bank's solvency or liquidity position so warrants.[6] If DNB, in its capacity as supervisory authority, finds that payment of the extraordinary contributions would jeopardise a bank's liquidity or solvency, it will send the bank its decision, but will also immediately grant extended payment terms. In that case, it will charge the bank interest at the statutory rate. DNB grants extensions for a maximum of up to six months.

When assessing the impact on the banks' solvency positions, DNB takes account of the fact that, while extraordinary contributions are a burden for banks, they will be paid back a large proportion – and possibly the full amount – in due course. Based on the current creditor hierarchy in place, the DGF will receive payments from a bank's liquidated assets before other creditors.[7] The regulations state that DNB will redistribute the liquidation proceeds obtained to banks that have made extraordinary contributions. When assessing the balance sheet impact on banks, DNB will take into account how they expect to process the extraordinary contributions in accounting terms.

4 Section 29.14a(1) of the *Bbpm*.
5 Article 10(8) of the DGS Directive.
6 Section 29.14(3) of the *Bbpm* read in conjunction with Article 10(8) of the DGS Directive.
7 Section 212ra(1) of the Bankruptcy Act (*Faillissementswet*).

How does DNB set and collect extraordinary contributions and advance payments?

When DNB decides to request advance payments, it will make an estimate of the extraordinary contributions due by the banks, based on the latest available data on their guaranteed deposits. If applicable, DNB will also consider the maximum amount it can charge in the current year. It sends them a decision stating the advance payment that it will request. Banks can object to DNB's decision. However, this will not suspend the operation of this decision.

As the extraordinary contributions are intended to contribute to the funding of DGS payments, DNB must be able to collect them at very short notice. This is why it has asked banks to authorise DNB to collect the extraordinary contributions and advances from their TARGET2 accounts, as is also the case for their regular contributions to the DGF.

Any advance payments by the banks will be offset against the extraordinary contributions due. The total amount of the payouts made to depositors under the DGS may differ from the amount of funding that was required at the start of the payout period. DNB will send banks a final decision for the definitive amount of the extraordinary contributions, stating the amount still due or to be paid back further to the advance payment they made previously.

How and when does DNB pay back extraordinary contributions?

The banks that have paid extraordinary contributions do not have any direct claim against the failed bank's assets. The banks have a claim on the DGF, which in turn has a claim on the failed bank's assets. When the DGF pays compensation under the DGS to a depositor, it takes over the depositor's rights in respect of the latter's corresponding claim on the failed bank (subrogation).[8] The DGF therefore has a claim on the failed bank's assets in the same amount. For that reason, banks that have paid extraordinary contributions do not have their own claims against the failed bank's assets.

When the DGF receives a payment from the failed bank's assets, these proceeds are redistributed to banks, but only and to the extent that they have paid extraordinary contributions.[9] Liquidation distribution among banks takes place in proportion to the extraordinary contributions they have paid. For each individual case in which extraordinary contributions were imposed, the accounts record the shares of individual banks. After each liquidation distribution, DNB will transfer the funds to the banks until the extraordinary contributions have been repaid in full. It may also offset paybacks against any outstanding extraordinary contributions. Any remaining proceeds following full repayment will be added to the DGF.

8 Section 3:261(5) of the *Wft*.
9 Section 29.15(1) of the *Bbpm*.