

Setting and collecting extraordinary contributions or advance payments for the deposit guarantee scheme

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

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When will DNB set extraordinary contributions?

DNB will set extraordinary contributions if the financial means of the DGF are insufficient.¹ This is the case if the fund does not have enough resources to (i) make DGS payouts or (ii) make an amount available from the DGS as

a contribution to the funding of a resolution tool.² DNB will set extraordinary contributions to obtain the necessary financial resources if the DGF's management board indicates that the available means are insufficient.

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How does DNB set the amounts of the extraordinary contributions?

DNB will set the extraordinary contributions on the basis of formulas laid down in national legislation:³

■ **First, DNB will establish the shortfall in the fund at the time of the payouts.** This will be the total amount to be imposed on all banks together that are operating at the time and that fall under the scope of the Dutch DGS.

■ **Next, DNB will calculate what each individual bank must contribute.** Half of the contribution amount is proportional to the covered deposits *at the first reporting date after the shortfall arose*. The other half of the contribution is calculated on the basis of the bank's share in the total (risk-) weighted covered deposits, using risk weighting percentages based on the risk category to which the bank has been assigned at that time. For more details, see the [Factsheet Risk methodology](#).

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*.

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

Banks are required to make 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.

When DNB sets the instalment amounts, it is taken into account that no bank has to pay extraordinary contributions in one year exceeding 0.5% of the covered deposits held with the respective bank.⁴ If the total contribution due is greater, then the excess amount will be charged in the following calendar year. The limit of 0.5% per bank in any one year means that a total of up to €2.7 billion can be collected, based on the current size of the covered deposits.

DNB may suspend the payment of extraordinary contributions if a bank's solvency or liquidity position so warrants.⁵ If it becomes clear that payment of the extraordinary contributions would jeopardise a bank's liquidity or solvency, DNB will send the bank the decision, but will also immediately grant extended payment terms. In that case, statutory interest will apply. DNB will grant 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 an expense for banks, they will be paid back a large proportion – if not all – in due course. Based on the creditor hierarchy, the DGF will receive payments from a bank's liquidated assets before other creditors.⁶ The regulations state that DNB will redistribute the obtained liquidation proceeds to banks that have made extraordinary contributions. When assessing the balance sheet impact on banks, DNB will take into account how banks will most likely process the extraordinary contributions in accounting terms. Banks have indicated that they will make their own estimate of the expected liquidation proceeds based on information they receive from the administrator (on an individual basis), and process them in accordance with the accounting principles that apply. This determines whether and to what extent the claim against the failed bank can be recorded as an asset on the balance sheet and what will have to be taken to the profit and loss account as a loss.

⁴ Article 10(8) of the DGS Directive.

⁵ Section 29.14(3) of the *Bbpm* read in conjunction with Article 10(8) of the DGS Directive.

⁶ Section 212ra(1) of the Bankruptcy Act (*Faillissementswet*).

When will DNB ask banks to make advance payments on extraordinary contributions?

If extraordinary contributions will be collected, DNB may request banks to make advance payments.⁷ The advance payment procedure is an important instrument for ensuring that depositors are able to receive DGS payouts in good time, even if there are insufficient means in the fund.

At the time that the DGF has to make funds available to finance DGS payouts, the definitive extraordinary contributions will not have been set yet. Therefore, in the meantime the DGF will have to rely on bridge financing by third parties. The advance payments scheme is a way of obtaining bridge financing from the banks participating in the DGS. The DGF may also enter into loan agreements to obtain financing from third parties.

Whether DNB will apply the advance payments scheme depends on the specific circumstances at the time.

Together with the DGF DNB will determine how the DGS payouts will be bridge-financed if there are insufficient resources in the DGF. There is no fixed order in which financing or bridge financing must be used, as each case is different and requires its own customised solution.⁸ DNB will specifically look at whether advance payments could cause liquidity problems for the banking sector as a whole.

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

When DNB decides to ask banks for advance payments, DNB will make an estimate of the extraordinary contributions due by the banks, based on the latest available data on their covered deposits. If applicable, DNB will also consider the maximum amount that can be charged in the current year. DNB will send the banks a decision stating the provisional amount of the extraordinary contribution and the advance payment that the banks are required to pay. Banks can object to a decision. However, this will not suspend the operation of this decision.

As the advances are intended to contribute to the funding of DGS payments, DNB must be able to collect them at very short notice. This is why banks have been asked to

authorise DNB to collect the extraordinary contributions and advances directly 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. Once the data are available on banks' deposit bases after the shortfall arose, DNB will set the definitive extraordinary contributions. As shares in total (risk-weighted) covered deposits may have changed since then, banks' extraordinary contributions – charged in that year – may be slightly higher or lower than the advances set earlier. DNB will send banks a final decision indicating the amount still due or to be paid back.

⁷ Section 29.14a(1) of the *Bbpm*.

⁸ See the Explanatory Memorandum accompanying the Amended Financial Markets Decree 2018 (*Herstelbesluit Financiële Markten 2018*).

How and when does DNB pay back extraordinary contributions?

The banks that made extraordinary contributions do not have any direct claim against the failed bank's assets, but only indirectly, through the DGF. When the DGF pays DGS compensation to a depositor, it takes over the depositor's rights in respect of the corresponding claim on the bank (subrogation).⁹ The DGF therefore has a claim on the failed bank's assets in the same amount. For that reason, banks that have made 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 in case and to the extent that they have paid extraordinary contributions.¹⁰ The distribution of the liquidation proceeds among banks takes place in proportion to the extraordinary contributions they have made. 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. Any remaining proceeds following full repayment will be added to the DGF.

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⁹ Section 3:261(5) of the *Wft*.
¹⁰ Section 29.15(1) of the *Bbpm*.