



**DET KONGELIGE
FINANSDEPARTEMENT**

Royal Ministry of Finance

The Minister of Finance

Commissioner Michel Barnier
European Commission
B-1047 BRUSSELS

Your ref

Our ref
09/3079 JCW

Date
11.11.2013

Deposit Guarantee Scheme Directive

I refer to the letter 10 October 2013 from my predecessor Sigbjørn Johnsen regarding the Deposit Guarantee Scheme Directive. I would like to underline that the issue of maintaining the present Norwegian coverage level of 2 million NOK per depositor per bank (about 250 000 euro), is very important also for me. The Norwegian parliament has unanimously supported the government's work with this issue.

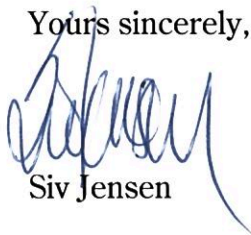
I appreciate the efforts to accommodate our view. It is – as you know – important for Norway to be able to permanently maintain our present coverage level. Article 5.3a adopted by the European Parliament on 16 February 2012 will solve the specific Norwegian problem and at the same time ensure a level playing field. Article 5.3a will therefore provide a good solution for Norway without attracting any capital from any EU Member States. I therefore strongly hope that Article 5.3a may be part of the final compromise between the Council and the Parliament. According to art 5.3a Norwegian banks cannot provide a higher guarantee than 100 000 euro in foreign markets (foreign depositors), and all foreign banks operating in Norway through branches can – as they have done since 1996 – provide a 2 million kroner guarantee (approximately 250 000 euro) on the Norwegian market through a topping up guarantee in the Norwegian deposit guarantee system. Therefore no distortion of competition will take place.

I understand that a grandfathering clause limited to deposits at a given historic date (31 December 2010) has been discussed in the trilogue. However, I will underline that a distinction between historic deposits and “new” deposits will be practically impossible to operate. A given savings amount may have been transferred between banks in the meantime. It will also be impossible for the Bank Guarantee Fund to make correct pay-

outs with such a distinction within the pay-out deadline, which in Norway is one week. A distinction between “new” and deposits at a historical date may also, even if it could be practically operated, lead to a deposit “lock-in” which will have negative impact on the competition in the savings market. A distinction between historic deposits and “new” deposit would therefore not be in line with the overall objectives with the directive. I also refer to a copy of the attached letter to you from Finance Norway of 5 November 2013, which represents all banks in Norway, also branches of foreign banks. In this letter Finance Norway also states that the discussed distinction between historic and “new” deposits would be practically impossible to implement. The relevant information is simply not available from the banks’ data systems.

Regarding the discussion of a transitional period (which must be related to equal treatment of all deposits), I will point out that reducing the coverage level with 60 pct. within a transitional period as short as five years will be very difficult to implement. I understand that one of the overall objectives of the directive is to secure a level playing field. However, this objective will not be achieved until all aspects of the directive have been harmonised in EU. It is therefore important that Norway at least should be able to maintain our present coverage level until the deadline for reaching full harmonised rules in the directive (which is by end 2027 according to the Council General Approach). However, as I have stated above, introducing art 5.3a on a permanent basis will also avoid any distortion of competition.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Siv Jensen', is written over the typed name.

Siv Jensen

Enclosure

Commissioner Michel Barnier
European Parliament,
B-1047 Brussels

Date: 05.11.2013

Our ref.: 13-1533

Deposit Guarantee Schemes Directive

Finance Norway is the Norwegian federation for banks, insurance companies and other financial institutions. Finance Norway represents 200 (i.e. almost all) financial institutions operating in the Norwegian market.

The reason for my letter is the ongoing political trilogues on the Deposit Guarantee Schemes Directive. The outcome of these trilogues is of great importance for the institutions active in the Norwegian market and for Norwegian households. We are surprised and concerned about the latest development in the political trilogues, in which a permanent exemption from the 100 000 euro coverage level for Norway was rejected. The present Norwegian guarantee coverage for bank deposits covers approx. 250 000 euro per depositor per bank. Finance Norway share the opinion of the Norwegian Government that it is very important to maintain our present level of coverage.

Bank savings have a strong tradition in Norway and accounts for a substantial part of Norwegian households' financial savings. Bank savings are also a vital part of the funding of our member banks. A harmonized coverage level of 100 000 euro would mean that Norway would be the only EU/EEA country which would have to reduce the level of coverage (a reduction of 60 pct). With a 100 000 euro coverage level, only 45 per cent of the eligible deposits in Norway would be covered. Both financial stability and Norwegian households' financial security would be severely weakened by this reduction. It is important that the discussions regarding the Norwegian situation take into account that a 100 000 euro coverage level is very low in a Norwegian context, because of high nominal income level and living costs. E.g. the wage level of Norwegian industry workers are more than 60 per cent higher than the average in the euro zone countries. Furthermore, according to The Economist Big Mac index (July 2013), a Big Mac hamburger costs \$7.51 in Norway compared to \$4.66 in the euro countries.

In considering this question it is crucial to recognize that the Norwegian deposit guarantee scheme is a vital part of our financial regulation and ensures financial stability by preventing “bank runs”. A reduction in the level of coverage to 100 000 euro would have adverse effects on both consumer protection and financial stability in Norway.

Article 5.3 was included in the directive in the EPs legislative resolution in 2012. The article ensures the furthering of a relevant protection in line with the traditions in the Norwegian market. At the same time Article 5.3a ensures that the higher coverage level may only apply to Norwegian residents and it will not be possible for Norwegian banks to attract deposits from depositors abroad through a high deposit guarantee. An inclusion of this article will thus not interfere with the competition between the Member States or threaten the Single Market.

I also want to emphasize that the Norwegian deposit guarantee has not previously caused any distortions. The difference in coverage level between Norway and neighbors has not led to any significant inflow of deposits from abroad, not even during the crisis in 2008. Statistical data prove this statement¹. Furthermore, the Norwegian deposit guarantee scheme has an extra prohibition clause which provides coverage of depositors of Norwegian branch offices in other countries in line with but not above the level of the host country scheme. The topping up option granted to branches of foreign banks in Norway provides equal competitive conditions between domestic banks and foreign branch offices in Norway. In order to avoid that foreign depositors are attracted to these branch offices, we foresee that foreign depositors in those branch offices are treated the same way as foreign depositors in Norwegian banks, i.e. the guarantee level has a ceiling of 100 000 euro.

Grandfathering will not solve the problems for Norwegian firms and households. However, I also have some deep concerns in relation to the discussion on this compromise. First, a potential grandfathering rule must cover all eligible deposits. A distinction between new and existing deposits will have serious adverse effects on capital flow and competition as it will lock in existing deposits. Bank deposits are highly liquid and the depositors use these funds for their daily transactions, and therefore a locking in of existing deposits will be detrimental to the bank customers’ needs. Also, a historical cut-off date is not practically possible to implement. The deposits might have been moved several times after the cut-off date. The relevant information is simply not available from the banks’ data systems. A future date will also pose serious problems as it might trigger transfers of deposits, which could pose a risk to financial stability. The only viable construction of a grandfathering rule is therefore one with a long transition period during which all deposits are covered.

¹ In 2010 there were only about 2 500 foreign depositors who had deposits above 100 000 euro and below 250 000 euro. The corresponding numbers for 2007, 2008 and 2009 are 1 700, 2 200 and 2 400.

Yours sincerely
Finance Norway


Idar Kreutzer
Managing Director



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FINANSDEPARTEMENT

Royal Ministry of Finance

The Minister of Finance

Commissioner Michel Barnier
European Commission
B-1047 BRUSSELS

Your ref

Dear Michel,

Our ref

09/3079 JCW

Date

10.10.2013

Deposit Guarantee Schemes Directive

I refer to our previous correspondence and meetings regarding the Deposit Guarantee Scheme Directive. I have been informed that the first political trilogue (following the February 2012 EP plenary vote) on the Deposit Guarantee Scheme Directive under the present presidency, took place in Brussels 1 October 2013.

Norway experienced, as you know, a severe and systemic banking crisis in the period 1988-1993. Bank savings have traditionally had a very strong position in Norway, and the Norwegian Deposit Guarantee Scheme is well known among Norwegian depositors and to the public more generally. The present Norwegian guarantee coverage for bank deposits, adopted in 1996, covers 250 000 euro per depositor per bank.

If Norway were to adopt a 100 000 euro coverage level, it would be necessary to reduce the coverage level with 60 pct. With a 100.000 euro coverage level, only 45 pct. of the eligible deposits in Norway would be covered – compared to 72 pct. in the EU (according to the Impact Assessment). Even with the existing 250 000 euro coverage level, only 56 pct. of eligible deposits are covered in Norway. Because of the strong position bank savings have in Norway, it would be very difficult to weaken this important part of the Norwegian financial regulation by proposing a significant reduction of the guarantee-level to the legislators.

I have been informed about the trilogue meeting on the Deposit Guarantee Scheme Directive 1 October 2013, and I understand that one of the issues that were discussed was a grandfathering clause that could comfort Norway. I appreciate that the trilogue parties acknowledge how important this issue is for Norway, and are now discussing a solution for Norway.

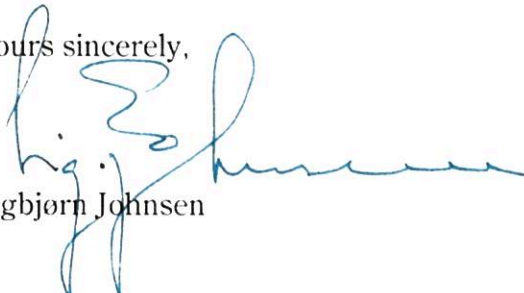
As you know, Article 5.3a adopted by the European Parliament on 16 February 2012, will solve the specific Norwegian problem, and it will at the same time make fully sure that a level playing field is secured, and that absolute no distortion of competition in the European bank savings market will take place. Article 5.3a will therefore provide a good solution for Norway without attracting any capital from any EU Member States. I therefore strongly hope that Article 5.3a may be part of the final compromise between the Council and the Parliament.

I would also like to make a few comments regarding the grandfathering compromise which I understand has been discussed. I emphasize that the conditions for a potential grandfathering clause should be in line with the overall objectives of the internal market, financial stability and competition.

A grandfathering clause that is limited to “existing deposits” raises several very difficult problems. A distinction between existing and new deposits will be practically impossible to operate if the cut-off date is set at a historical date. In Norway, people generally move bank savings between banks depending on the competition in the bank market, and a given saving amount may have been transferred between (many) banks in the meantime. If the cut-off date is set in the future, the depositors’ adjustment to the new rules may cause extensive transfers of deposits which may have huge negative consequences for the Norwegian capital markets. A distinction between new and existing deposits may also lead to a deposit “lock-in” which will have negative impact on the competition in the savings market. The limitation of a grandfathering clause to only cover existing deposits would therefore not be in line with the overall objectives of the internal market. A grandfathering clause should for the transitional period cover all eligible deposits and not make a distinction between “existing” and new deposits.

It is also very important that the transitional period for a possible grandfathering clause is longer than five years. A reduction in the coverage level with 60 pct. in only five years would be very difficult to implement. A transitional period for a possible grandfathering clause should therefore be in line with the longest transitional period in the directive, which is when the DGS fund should reach its target level (which is by end 2027 according to the Council General Approach). I will underline that it is only from this point in time that the EU would achieve a fully harmonised deposit guarantee scheme regime. Let me finally mention that a compromise in the trilogue could be to adapt article 5.3a for a transitional period until 2027 (the date the whole regime in EU is harmonised).

Yours sincerely,



Sigbjørn Johnsen