DET KONGELIGE
FINANSDEPARTEMENT

Royal Ministry of Finance

The Minister of Finance

Herr Burkhard Balz
European Parliament
B-1047 BRUSSELS

Your ref	Our ref	Date
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Dear Burkhard,

Deposit Guarantee Schemes Directive

I refer to our previous correspondence and meetings regarding the Deposit Guarantee Scheme Directive. I will again thank you sincerely for your work in the European Parliament in order to allow continuation of the coverage level of the Norwegian deposit guarantee scheme. 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 Council and the Parliament acknowledge how important this issue is for Norway, and are now

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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 marked 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 <u>all</u> 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