

EFDI D3 Position Paper

Investment Strategy and Diversification of Available Financial Means

Approved by EU Committee

VERSION MANAGEMENT¹

Approved by EU Committee on 29 May 2024

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The following DGSs contributed with comments and suggestions: FR-FGDR, Central Bank of Cyprus

Introduction

The objective of this paper is to analyse the current approach of DGSs with regards to the investment strategy and diversification of available financial means, outline the EFDI members' response to the CMDI proposal and to contribute to the development of possible EBA regulation on this matter.

Article 2(1)(12) of the Deposit Guarantee Scheme Directive (DGSD)² defines available financial means as cash, deposits and low-risk assets which can be liquidated within a period not exceeding 7 working days and payment commitments up to the limit not exceeding 30% of the total amount of available financial means.

Article 2(14) further specifies that low-risk assets mean items falling into the first or second category referred to in Table 1 of Article 336 of Regulation (EU) No 575/2013 (CRR)³ or any assets considered to be similarly safe and liquid by the competent or designated authority.

Article 10(2) requires members to ensure that, by 3 July 2024, the available financial means of a DGS shall at least reach a target level of 0,8% of the amount of the covered deposits of its members.

Article 10(7) requires DGSs that its available financial means shall be invested in a low-risk and sufficiently diversified manner.

In the discussion for the preparation of this EFDI paper the **EBA/Op/2020/02**⁴: Opinion of the European Banking Authority on deposit guarantee scheme funding and uses of deposit guarantee scheme funds was taken into account.

On investment strategy, the EBA proposes that:

- (a) The DGSD should be clarified to state that, when it is not the DGS that sets the investment strategy, Member States should designate an entity with a mandate in line with the DGSD to be entrusted with setting the investment strategy. That entity should set the investment strategy in line with the objectives set out in recital 3 of the DGSD and the requirements under Article 10(7) of the Directive, and any further national legal specifications that are part of the transposition of the DGSD into national law. The investment strategy should not be subject to other objectives or additional restrictions, to mitigate the risk of the DGS being unable to fully perform its mandate of depositor protection.
- (b) Amendments to the DGSD appear to be unnecessary in relation to the requirement to invest funds in low-risk assets. However, the EBA invites the Commission to consider further whether or not the definition of a low-risk asset linked to Article 336 in the CRR is adequate.

²<https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32014L0049>

³ <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:32013R0575>

⁴https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2020/EBA%20Opinion%20on%20DGS%20funding%20and%20uses%20of%20DGS%20funds.pdf

- (c) The DGSD should be amended to require that the entity/entities responsible for determining the investment strategy for DGS funds should consider if the investment strategy will achieve sufficient diversification in terms of issuer, asset class, maturity and rating, taking into account the need to manage the liquidity of the fund and the riskiness of the assets. However, this amendment should not imply that the entity/entities is/are obliged to ensure that diversification is achieved for each of the four factors.
- (d) The DGSD should be amended to clarify that placing most or all of a DGS's available financial means with a central bank is allowed, despite the requirement to ensure sufficient diversification.
- (e) With regard to whether or not DGSs should be obliged to periodically review the investment strategy and to communicate the investment strategy to the DGSDA and/or the EBA, the EBA concluded that there was no need to introduce these requirements into the DGSD.

The European Commission's proposal for the amendment of the DGSD as part of the crisis management and deposit insurance (CMDI)⁵ legislative package also includes amendments to Directive 2014/59/EC. The CMDI proposal suggests, inter alia, that the EBA shall develop guidelines to assist DGSs with the diversification of their available financial means and on how DGSs could invest in low-risk assets applicable to their available financial means.

The CMDI specifies in Article 10(7) that Member State shall ensure that DGSs, designated authorities, or competent authorities set the investment strategy for the available financial means of DGSs, and that the investment strategy complies with the principle of diversification and investments in low-risk assets. CMDI further inserts possibilities that DGSs may place all or part of their available financial means with their national central bank or national treasury, provided that those available financial means are kept on a segregated account and that they are readily available for use by the DGS. CMDI further allows DGSs to use the funds originating from the Alternative Funding Arrangements (AFA), which are not financed through public funds, before using the available financial means and before collecting the extraordinary contributions. However, DGSs must ensure that they use alternative funding arrangements financed through public funds only as a last resort.

⁵https://finance.ec.europa.eu/publications/reform-bank-crisis-management-and-deposit-insurance-framework_en

Chapter 1: Methodology

In order to investigate its members' views on the CMDI proposals in relation to investment strategy and diversification of available financial means, EFDI launched a survey in October 2023. This survey served as a basis for further analysis of and discussions about the CMDI proposals among EFDI members.

The survey contained several closed and open questions regarding:

- DGS investment strategy, decision making process and its reviews,
- A body that executes investment strategy and its responsibilities,
- Risks that are being considered in decision making process,
- Diversification of available financial means,
- Current structure of available financial means,
- Opinion of EFDI members on the CMDI proposal.

A total of 18 DGSs⁶ responded to the survey, among which:

- 17 DGSs from EU jurisdictions of which 11 from the euro area
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- 1 DGS from a non-EU/EEA jurisdiction.

The initial survey results were discussed by members of the EFDI D3I Working Group in February 2024. Survey results with the main findings and draft conclusions were presented to the EU Committee in March 2024. D3I reviewed the draft paper at its meeting on 15 May 2024. The draft was submitted to EFDI EU Committee for comments on 20 May 2024. The final draft was submitted for the decision of the EU Committee on (to be inserted).

⁶ Responding DGSs: BG, CY, CZ, DE-BVR, ES, FI, FR, GR, HU, IT-FITD, IT-FGDCC, LI, LT, LU, LV, NO, PL, SE

Chapter 2: Main Findings

2.1 Investment strategy

DGSs are crucial components of financial systems, providing stability and assurance to depositors. An important part of their operations is the management of ex-ante funds, which necessitates well-defined investment strategies and policies. Understanding DGSs investment strategies and policies is essential for assessing their ability to fulfil the mandates effectively. Findings from this survey offer insight into DGSs investment practices.

One fundamental aspect is the **control and access to ex-ante funds**. Across the board, responding DGSs assert full control over these funds. Moreover, the majority of DGSs prioritize the adoption of **investment strategies focused on liquidity, low-risk, and diversification**. This often translates into the allocation of funds into safe instruments, particularly government bills and bonds or Central Banks and Treasury accounts.

The **decision-making process regarding investment strategies** exhibits a diversity of approaches, influenced by factors such as the DGS's organizational structure and national legislation. Typically, the **responsibility falls on the governing bodies of DGSs**, be it the Board of Directors, DGS Council, or Management Committee. In cases where funds are deposited with Central Banks, their involvement becomes relevant. Additionally, Investment or Asset Management Committees, along with external asset managers, contribute to the formulation and review of investment policies.

Regular review of investment strategies emerges as a **common practice** among DGSs, albeit without strict legal requirements. Most commonly, these reviews occur on an annual basis, with half of respondents indicating this frequency. This review process is often defined within the framework of DGS investment policies and may be triggered by event-driven factors such as legislative changes or shifts in market conditions.

Execution of investment strategies involves various actors. External asset managers may handle specific types of investments, while internal asset managers or other authorized agencies may also play a role, especially in certain portfolios. Central Banks often assume the role of fund managers according to mandates set by DGSs.

The selection of asset managers is a critical process, with **DGSs typically retaining the independence to choose**. Procedures for this selection may be stipulated by legislation or internal regulations, often involving public procurement processes for external managers in case of public DGSs.

Responsibilities within the investment process are distributed between DGSs and asset managers. While asset managers typically handle front, middle, and back-office operations, DGSs retain oversight and decision-making authority. This includes determining fund allocations and ensuring compliance with investment strategies.

Risk management is paramount in DGS investment strategies, with a **focus on liquidity, credit, market, and concentration risks**. Foreign currency exposure is limited and non-financial risks are less frequently addressed.

In recent years, **environmental, social, and governance (ESG) considerations have gained importance** in investment practices. Approximately half of respondent DGSs incorporate ESG criteria into their strategies, although this does not necessarily translate into explicit investment restrictions or targets.

2.2 Diversification of available financial means

Results of the questionnaire shed light on the exact strategies employed by DGSs to ensure the secure **investment of funds in low-risk assets**. These strategies encompass a variety of measures aimed at mitigating potential risks while optimizing the safety and stability of invested financial reserves.

One fundamental aspect is the stringent adherence to **high credit ratings of issuers** and counterparties. DGSs meticulously manage credit risks by establishing minimum acceptable credit ratings for potential investment partners, with the minimum rating level set by EU regulation. Predominantly, DGSs allocate their investments towards low-risk assets, such as deposits or reverse repo agreements with reputable entities like the Central Bank, Ministry of Finance or banks, constituting 47% of their investment portfolio. Additionally, government bonds form a substantial portion, accounting for 50%. Investments in corporate bonds are minimal, comprising only 3% of the portfolio, however, some DGSs invest higher share into this category of instruments. Shares are deemed ineligible for investment, but in a diversified portfolio could be considered as a low-risk asset as they remain liquid whatever market conditions are and do not correlate to interest rates.

DGSs implement **concentration limits** to reduce exposure to any single issuer or government bond issue, thereby enhancing portfolio diversification and resilience against potential defaults.

Moreover, DGSs primarily invest in **fixed income instruments**, particularly plain vanilla bonds, which represent 100% of their fixed income securities portfolio. This deliberate exclusion of bonds with complex structures, such as credit-linked notes or convertible bonds, ensures a straightforward investment strategy focused on capital preservation and steady returns.

Currency risk is effectively managed by predominantly investing in financial instruments denominated in the payout currency, typically the local currency or euro. Marginal investments in foreign currencies exist, comprising 5% of the portfolio and in some cases are also hedged against exchange rate risks.

Furthermore, DGSs proactively address **interest rate risk** by maintaining a low duration for their investment portfolios. The majority of funds are allocated to short-term instruments with durations of up to one year, accounting for 65% of the portfolio. This strategic allocation effectively mitigates interest rate risk as well as maintaining the high liquidity parameter, safeguarding the value of invested capital in fluctuating market conditions.

Ensuring the **availability of invested funds within a strict timeframe of 7 working days** is a paramount responsibility for DGSs. To achieve this critical objective, DGSs implement a comprehensive selection of strategies and safeguards aimed at maintaining liquidity and readiness for rapid fund disbursement.

First and foremost, **DGSs prioritize maintaining a robust cash position**. A significant portion of funds, approximately 47%, is strategically invested in deposits and reverse repos, ensuring prompt access to liquidity when needed. This allocation provides a vital foundation for meeting immediate financial obligations within the prescribed timeframe.

Moreover, **DGSs strategically allocate a portion of their long-term investments into highly liquid assets**, particularly government bonds, constituting 95% of their long-term investment portfolio, nevertheless this might differentiate in case of some DGSs. These bonds are carefully selected for their active secondary market, facilitating swift liquidation within the required timeframe if necessary. This liquidity-enhancing feature ensures that DGSs can swiftly access funds even from their long-term investment holdings.

Diversification of investments is another key strategy employed by DGSs to ensure liquidity and availability of funds within the designated timeframe. By spreading sales channels across different markets and asset classes, DGSs mitigate the risk of illiquidity in any single investment, thereby enhancing overall liquidity and responsiveness to fund withdrawal demands.

Additionally, several DGSs leverage repo agreements as a means to achieve immediate liquidity from their bond portfolios. Should the need arise, DGSs can opt to close a repo agreement instead of directly selling bonds, thereby swiftly accessing liquidity while utilizing the bond portfolio as collateral. In times of financial market stress, some DGSs have the option to seek liquidity support from Central Banks through repo agreements, subject to legislative conditions. Certain DGSs have access to AFAs not financed through public funds, provided as short-term credit lines (i.e. up to 1 year) for liquidity needs. The bond portfolio serves as indirect collateral for the reimbursement of the credit lines, thus widening the available liquidity sources for the DGSs. This provides an additional layer of liquidity assurance, bolstering the DGSs' capacity to meet fund withdrawal demands promptly.

To further ensure liquidity readiness, **DGSs rigorously monitor liquidity parameters on a regular basis**, defining minimum traded amounts of issues and maximum issue amounts to maintain liquidity adequacy. Moreover, DGSs conduct comprehensive disinvestment stress tests regularly, engaging both internal and external asset managers to assess liquidity resilience and readiness under various scenarios.

In essence, through prudent investment strategies, active liquidity management, and stringent monitoring mechanisms, DGSs remain firmly committed to ensure that invested funds are readily available within the mandated timeframe of 7 working days, thereby safeguarding depositor confidence and financial stability.

Investment limits serve as critical safeguards within the framework of DGSs, ensuring that funds are prudently and sufficiently diversified to mitigate risk and optimize financial stability. These limits, meticulously defined within DGSs' investment policies, encompass a range of criteria designed to uphold key principles such as asset class diversity, issuer reliability, counterparty resilience, concentration moderation, and foreign exchange risk management while prioritizing the safeguarding of invested funds and maintaining ample liquidity.

Asset class limits delineate the permissible allocation of funds across different asset classes, encompassing a balanced mix of low-risk investments to hedge against market volatility and preserve capital. By imposing limits on asset class exposure, DGSs mitigate the risk of over-concentration in any single asset class, ensuring a well-diversified investment portfolio.

Issuer limits establish thresholds for the maximum exposure to individual issuers, safeguarding against over-reliance on any single entity and minimizing the impact of issuer-specific risks on the overall investment portfolio. Similarly, counterparty limits impose constraints on the maximum exposure to counterparties, reducing dependency on specific financial institutions and enhancing portfolio resilience. However, in certain cases, DGSs are constrained to investing exclusively into bonds issued by local governments with diversification achieved via limits placed on individual issues.

Concentration limits are pivotal in mitigating the risk of over-concentration within specific sectors or geographic regions, promoting portfolio diversification and resilience against sector-specific shocks or regional economic downturns. Furthermore, foreign exchange limits are important in managing currency risk by imposing restrictions on investments denominated in foreign currencies, thereby mitigating the impact of currency fluctuations on investment returns, even if these investments are limited in DGSs portfolios.

The composition of investment benchmarks serves as a guiding framework for defining diversification strategies, aligning investment limits with benchmark composition to optimize portfolio performance and mitigate risk effectively. By adhering to benchmark-driven diversification, DGSs ensure alignment with industry best practices and benchmark performance standards.

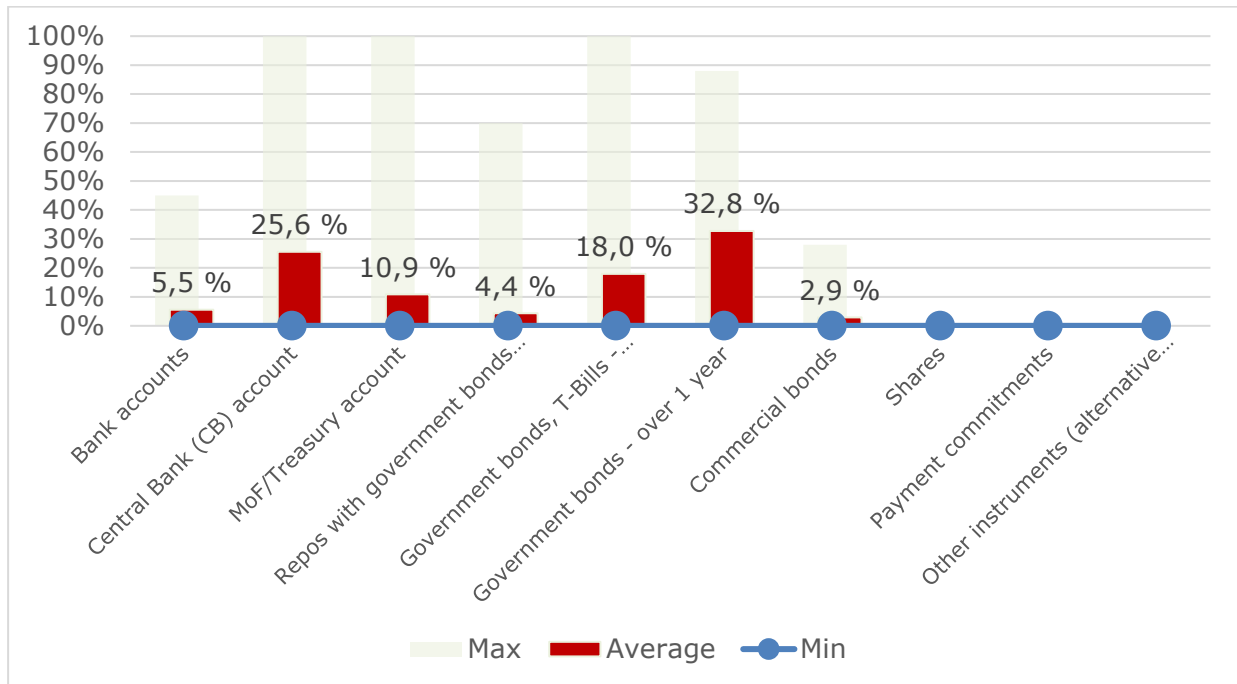
Additionally, some DGSs impose **limitations or restrictions on direct investments in banks**, aiming to prevent conflicts of interest and maintain impartiality in investment decisions. By restricting exposure to banks, DGSs enhance risk management practices and uphold the integrity of their investment portfolios.

In summary, investment limits play a pivotal role in shaping the investment strategies of DGSs, facilitating prudent risk management, diversification, and liquidity optimization. By adhering to rigorous investment limits and benchmarks, DGSs safeguard depositor funds, promote financial stability, and uphold their mandate of protecting depositors' interests in the event of bank failures.

2.3 Current structure of available financial means

Out of the 18 DGSs participated in the survey, 16 enclosed information on the current structure of the investments. 3 DGSs have all the financial means deposited either in the Central Bank or Ministry of Finance or Treasury account. One DGS used mainly reverse repo with Central Bank securities to earn interest on the funds. However, on average and counting for all DGSs, **the biggest part of investments is allocated into either long-term or short-term Government bonds and T-bills**, representing 50% of the total. None of the DGSs has investments into equities and on average only 3% of the investments is allocated into commercial bonds. Based on the reported asset allocations, DGSs invest only in fixed income or money market instruments with overall low interest rate risk.

The following chart shows the dispersion in asset allocations among surveyed DGSs⁷:



2.4 Discussion on CMDI proposal

Responses to the question regarding the necessity of EBA Guidelines on DGSs' funds investments varied among individual DGSs:

A few respondents expressed a clear need for EBA Guidelines, citing reasons such as the need for deeper harmonization or usefulness of guidance on risk-based contributions. On the other side, they stressed the importance to maintain the flexibility to accommodate differences in national legislation.

Others held a neutral stance, indicating no strong opinion on the matter.

Several respondents explicitly opposed the idea of EBA Guidelines, arguing that current regulations are sufficient, and expressing concerns about potential infringement on DGSs' competences and responsibilities.

A few respondents highlighted the importance of maintaining autonomy in investment decision-making and expressed scepticism about the necessity of additional guidelines.

Overall, **while some DGSs see value in EBA Guidelines for providing clarity and guidance, the majority prefer to maintain autonomy and flexibility in their investment practices.** The responses reflect differing perspectives on the balance between regulatory oversight and national discretion in managing DGS funds' investments.

⁷ 16 DGSs provided information on current asset structure, 2 DGSs did not share data (confidential information).

Chapter 3: Main Findings

3.1 DGS Expertise and Strategy

The vast majority of **DGSs have established investment strategies and policies**, indicating a proactive approach towards managing their funds. This reflects a commitment to prudent financial management and the recognition of the importance of having a structured framework for investment decision-making. Such investment strategies and policies are **grounded on a risk-based approach**, reflecting, in particular, the possible future risks DGSs may face.

The strategies and policies are typically **outlined in annual plans or policies approved by the governing bodies of the DGSs**, such as the Management Committee or Council. The **decision-making process** for investment strategy varies among DGSs but **typically involves the governing bodies of the DGS**, such as the Board of Directors or Management Board. In some cases, an Investment Committee is established to provide technical expertise and recommendations regarding the investment strategy, although its role may be consultative rather than decision-making. Additionally, the investment strategy is often implemented by designated departments within the DGS or by Asset Management Committee. While many DGSs manage funds internally, external asset managers and Central Banks also play significant roles, particularly in managing certain portfolios such as Marked-to-Market. This highlights the importance of leveraging external expertise and resources to enhance investment performance and diversification. Overall, there's a clear emphasis on ensuring sound and prudent management of investments, often guided by regulatory provisions and compliance requirements.

The common **practice of regularly reviewing investment strategies demonstrates DGSs' responsiveness to changing market conditions, regulatory requirements, and evolving risk landscapes**. This iterative process allows DGSs to adapt their investment approaches to optimize returns while mitigating risks effectively.

DGSs demonstrate a robust understanding of various risks inherent in investment activities, including liquidity, credit, market, and concentration risks. This awareness underscores their commitment to prudently managing their portfolios and safeguarding depositor funds against adverse market conditions.

Preserving asset value and ensuring liquidity emerge as top priorities for DGSs. This focus reflects their primary mandate of safeguarding depositor funds and maintaining financial stability, underscoring a risk-averse approach to investment management.

DGSs recognize the importance of flexibility in managing liquidity needs, especially during adverse financial market conditions. Investment allocation of ex ante resources may take into account the possibility of the DGS to opt for AFAs⁸ or resources collected via voluntary schemes. In accordance with current legislation, AFAs can provide short-term credit lines to address the liquidity requirements of DGSs. Simultaneously, the bond portfolio can serve as indirect collateral ensuring repayment of these credit lines. In times of necessity, DGSs have the option to utilize AFAs instead of resorting to "fire sales" of the bond portfolio. This affords greater flexibility in their investment decisions for AFM, particularly regarding maturity and market risk exposures, especially amidst adverse

⁸ <https://docs.google.com/document/d/1kvdHEaO2NkvSwaAQ0a8Oa2rt-CWQoxwGy/edit?pli=1>

financial market conditions.

3.2 Main features of Investment Practises

DGSs prioritize the **protection of invested funds** to ensure adequate coverage for credit institution payouts. Their investment policies are meticulously crafted to focus on low-risk fixed income instruments, including deposits, reverse repos, and government bonds. This strategic allocation minimizes exposure to market volatility and safeguards the principal amount invested. Additionally, DGSs predominantly invest in short-term instruments with durations of up to 1 year, thereby reducing interest rate risk. Furthermore, DGSs mitigate currency risk by primarily investing in financial instruments denominated in their payout currency, ensuring stability and consistency in investment returns.

DGSs are mandated to ensure that invested **funds are readily available within a strict 7-working-day timeframe** to meet payout obligations. To fulfil this requirement, DGSs maintain a robust cash position, ensuring prompt liquidity for fund disbursement. Moreover, long-term investments are predominantly allocated to liquid government bonds, which can be swiftly sold within the 7-day deadline if necessary. Additionally, the bond portfolio can serve as a collateral for repos or AFAs, providing immediate liquidity without the need for direct sales. This strategic approach enhances liquidity management and responsiveness to payout demands.

DGSs implement a **diversified investment strategy tailored to specific market and legislative conditions**. Operating in both the eurozone and non-eurozone markets, DGSs face distinct challenges and opportunities. While the eurozone offers a wide range of eligible issuers, non-eurozone markets may present limitations, particularly regarding issuer ratings and liquidity requirements. Consequently, non-eurozone DGSs often invest primarily in domestic government bonds to meet regulatory criteria. Additionally, investing primarily in the payout currency mitigates currency risk, aligning with the DGSs' commitment to stability and liquidity. However, managing liquidity requirements can be complex, especially when planning and hedging future cash flows from bond investments. Furthermore, when utilizing Central Bank liquidity support through collateralized repo agreements, DGSs must adhere to eligibility criteria defined by the domestic Central Bank, limiting investment options to bonds eligible for repos.

In conclusion, **DGSs employ a prudent and adaptive investment approach to safeguard invested funds, ensure liquidity, and navigate diverse market conditions effectively**. By prioritizing protection, liquidity, and strategic diversification, DGSs uphold their mandate to safeguard depositor interests and maintain financial stability.

Transparency regarding the investment of available financial means is usually ensured by regular disclosure of information on investment strategy or policy and the structure of financial reserves in the annual reports of DGSs.

Chapter 4: Conclusions

Based on the survey findings, we can draw the conclusions that **DGSs available financial means are well managed as DGSs apply risk-based approach in their investment practices**. These practices are characterized by structured policies, routine reviews, and a steadfast emphasis on asset preservation and liquidity. Leveraging external expertise and exploring alternative financial mechanisms, DGSs aim to enhance investment performance while upholding the stability and integrity of their operations. Conducting comprehensive disinvestment stress tests is an essential component of DGS's regular operations. These tests involve collaboration with both internal and external asset managers to evaluate liquidity resilience and preparedness across different scenarios. Investment practices are operationally divided into front office, middle office, and back office. DGS staff have separate access and responsibilities within specific functional areas. As DGSs are not as large and structured as banks, they carry out investment procedures in some cases using external resources such as central banks, asset managers, custodians and accounting firms. The investment process is also overseen by an external auditor.

We specifically highlight the following **key outcomes**:

- DGSs possess ample knowledge and expertise to effectively manage their financial reserves.
- DGSs perceive no need for additional regulatory measures regarding investments and diversification.
- The specific 7-day payout deadline may constrain diversification possibilities in DGSs' investment strategies; however, this deadline may be met through support from the ECB/local central banks or alternative financial arrangements.
- DGSs operate under significantly different market conditions, both globally and domestically, complicating efforts for deeper harmonization.
- Reference to legislation unrelated to DGSs' activities, such as the definition of low-risk assets, should be reviewed for relevance.
- Setting of investment strategies, while ensuring compliance with relevant legislation, should be the prerogative of DGSs, without compromising their control over resources.
- If placing alternative financial means with national central banks or treasuries is considered, measures should be in place to safeguard DGSs' management roles and resource control while maintaining flexibility.

With that we formulate the following **considerations to the CMDI proposal**:

The suggestion to **introduce guidelines for diversification of available financial means and investments in low-risk assets should be dismissed**, particularly in consideration of the specific market and legislative conditions governing DGSs. DGSs operate within obviously different market environments, engaging both in the expansive euro global market with a broad spectrum of eligible issuers, and in local domestic markets where, frequently, only domestic government securities meet the necessary rating and liquidity criteria. The vast majority of DGSs denominate their investments in the payout currency to mitigate currency risk. Venturing into the global financial market would expose non-eurozone DGSs to currency risks, which could be mitigated through effective hedging operations such as cross-currency swaps or FX forwards. However, hedging becomes complex due to the unpredictable nature of cash flows, especially as DGSs face strict 7-day liquidity requirements.

Another critical factor complicating deeper harmonization is the imperative for flexible financing to address immediate liquidity needs. DGSs may necessitate flexible financing instruments, such as repo agreements, to promptly secure financing when the portfolio serves as collateral. In such cases, DGSs must adhere to specific collateral conditions set by the financing counterparty, such as local Central Banks, voluntary schemes or banks.

Furthermore, the introduction of guidelines on diversification of available financial means and low-risk asset investments would run counter to the subsidiarity principle, intruding upon DGSs' competences and undermining their ability to set investment strategies tailored to their specific conditions. DGSs should retain full responsibility for setting their investment strategies, aligning them with their managerial and financial duties to ensure regulatory compliance. Best practices for investment policies may be developed through non-binding guidance from the EFDI, taking into account DGSs' practical insights, market conditions, and legal frameworks in individual jurisdictions.

Annex

Questionnaire distributed to EFDI Members.

A. Investment Strategy		
1	Does the DGS in your jurisdiction have full control and access to the DGS ex-ante funds? If no, how is it ensured that funds can be accessed early enough for a timely payout?	
2	Does your DGS have an investment strategy in place? Has your DGS adopted an investment policy?	
3	Who decides on the investment strategy and who is involved in the decision-making process? Do you have e.g. an investment committee that meets on a regular basis?	
4	Is there any process defined for the regular review of the investment strategy? How often is the strategy reviewed? (e.g. annually, upon changes of legislation, upon meeting certain criteria)	
5	Which body executes the investment strategy?	DGS - internal Asset Manager
		DGS - external Asset Manager
		Central Bank (CB)
		MOF
		other
6	Can the DGS independently choose the Asset Manager?	
7	Is the process for choosing an Asset Manager defined:	in legislation
		in DGS internal regulations
		by another authority
8	Does the process for choosing an Asset Manager define the specific procedures to be followed (e.g., public procurement process)?	
9	Does the Asset Manager responsibility include	front office services
		middle/risk management services
		back office/settlement services
10	Does the DGS keep the responsibility in the following areas:	front office services
		middle/risk management services
		back office/settlement services
11	Does your investment strategy include ESG considerations?	
12	What type of relevant risks are being considered in the investment strategy of your DGS (e.g. credit risk, interest rate risk, liquidity risk, concentration risk)?	
B. Diversification of AFM		
1	How does your DGS ensure that funds are invested in low-risk assets? What criteria do you apply?	
2	How does your DGS ensure that funds are invested in a sufficiently diversified manner? What criteria do you apply?	
3	How does your DGS ensure that invested funds will be available within 7 working days?	

4	Does your DGS diversify its investments also in foreign currency:	AFM are invested primarily in DGS payout currency
		AFM are invested in foreign currency according to the structure of deposits / anticipated payout currency structure/ any other criteria
	if Yes, what is the share of foreign currency investments in DGS portfolio as of 30/6/2023?	
	if Yes, are foreign currency investments hedged against the foreign exchange risk?	
5	Does the central bank (CB) provide the DGS with short-term funding (with /without collateral)?	
	If Yes, do you allocate AFM only into assets that are eligible for repo transactions collateral of the CB?	
6	What are your priorities in investing your financial reserves (e.g. liquidity, asset level stability, profitability)?	
C. Current structure of AFM		
1	What is the structure of AFM in % of the following as of 30/6/2023:	Bank accounts
		Central Bank (CB) account
		MoF/Treasury account
		Repos with government bonds or CB bonds
		Government bonds, T-Bills - under 1 year
		Government bonds - over 1 year
		Commercial bonds
		Shares
		Payment commitments
	Other instruments (alternative assets, derivatives...)	
D. Other		
1	Do you see the need for the EBA Guidelines on this issue as provided in the CMDI proposal?	