IMPROVING THE EU BANK CRISIS MANAGEMENT FRAMEWORK

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Liquidity in resolution: a missing piece in the framework

Liquidity is central to successful crisis management. Banks depend on trust. If customers lack confidence that their funds will be available on demand, a spiraling liquidity crisis may develop. Such a crisis can potentially drive fire sales of assets to meet increasing liquidity demands, hampering the viability of the bank, the feasibility of resolution and possibly spreading panic across the banking sector and beyond.

The Single Resolution Board's (SRB) resolution toolkit is strong but must be backed up by effective liquidity provisions to ensure the successful resolution of any crisis. While we have the tools necessary to restore a firm to viability, it may take time for market confidence to be restored. Without adequate liquidity support, the failure of a bank may become a self-fulfilling prophecy as market actors seek to ensure that they will not be left in a bank run. This is why in recent cases, the liquidity provisions have been of a dramatic scale relative to the size of the failing entity's balance sheet.

In some cases, this support can be provided directly by the private sector. For example where a large, liquid bank takes over a smaller competitor, the buyer can meet the liquidity needs of the failed bank thus restoring confidence. However, for the very largest banks it seems likely that some form of public liquidity support would be needed.

Even in the acquisition of Credit Suisse by UBS we have now seen that public support was available to give markets the confidence that the transaction would be successful. Such a funding mechanism should also be in place in the EU. How should we structure this mechanism? We would need to align to the Financial Stability Board (FSB) Guidance while accounting for Banking Union specificities. The FSB set out that the backstop should be of adequate size and be capable of rapid use. Importantly, rapid use is dependent on a lean, quick and efficient decision making process when calling on the facility, ensuring enough flexibility to act in a crisis scenario. In addition, the duration of funding should be no longer than the time needed to achieve an orderly resolution, but sufficiently long that the bank in resolution has time to regain access to private sector funding. Putting these different elements together, in a way that preserves the flexibility of the authorities, will ensure the authorities can rapidly intervene with the funding needed in a crisis scenario.

Importantly, developing an effective liquidity in resolution facility should also support the bank's return to market funding by restoring confidence in its finances and business. It is important to balance adequate incentives for the bank to return to the market without constraining too much the use of the liquidity tool. One thing important to underline is that the amount of support put in place to reassure the markets and customers is not necessarily drawn up by the bank in resolution. The liquidity really needed can be smaller and just for a short period of time, as a good resolution scheme will restore confidence in the bank.

Liquidity can come from several authorities in the Banking Union. The SRB has now built up the Single Resolution Fund, which stands at almost EUR 80 billion, and its firepower could almost double if the revised ESM Treaty is ratified. This is already an important step but the liquidity needs of a global bank could go well beyond this amount. As such, while we stand ready to play a role in providing liquidity, our role can only be limited. This is why we stand ready to work on developing an effective mechanism for liquidity in resolution in the Banking Union.

For these tail risk liquidity needs, the intervention of central banks is certainly needed. How the necessary protection to the central bank can be managed is clearly a topic of the utmost importance and further technical work is needed. Looking at other jurisdictions, it is clear that providing the support necessary for the central banks to act is key. In Switzerland, the US and the UK, we see that the possibility is in place for a public sector guarantee. This was a key part of making the Credit Suisse transaction credible, and of course we can see these facilities are in place in other jurisdictions such as the US or UK. Discussion is needed in the Banking Union on how we can develop such a facility within our own institutional context.

The SRB's resolution toolkit is strong but must be backed by effective liquidity provisions.

So the question is how can we make real progress on this thorny issue? While we can understand the concerns around committing to providing large amount of liquidity, failing to agree on an ex-ante facility may drive uncertainty that could lead to escalating liquidity needs. Given the nature and size of the facility, a clear political support is needed to make the technical work becoming a reality.

EDOUARD FERNANDEZ-BOLLO

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Enhancing the EU's crisis management toolkit

The European Commission has adopted a proposal to improve the EU's crisis management and deposit insurance framework. On 5 July the ECB issued its opinion on this proposal, emphasising the need to maintain the package's coherence to ensure the framework is effective, and calling for the legislation process to be swiftly finalised.

We strongly support the proposed legislative package because of the valuable contribution it would make to improving the efficiency of the banking market. We are indeed convinced that widening the scope of the European harmonised resolution framework is the most cost-efficient way to facilitate an orderly market exit for failing or likely-to-fail banks. The proposed amendments would in certain cases also minimise net asset losses of struggling banks, contribute to stabilising deposits in the whole system and would also require less funding to be mobilised than is the case with depositor pay-outs. As a consequence, it would provide the private sector with an incentive to offer solutions for the orderly exit of struggling banks from the market. The proposed legislative package would also avoid sustaining zombie banks and the winding up of banks under national liquidation proceedings, rather than using the common European framework for resolving banks.

However, expanding the scope of resolution needs to go hand-in-hand with facilitating wider and more efficient access to the funds of the European safety net. This does not mean increasing the funds earmarked for this purpose, just increasing the capacity to actually mobilise these funds to support market exit solutions. This is the key objective behind the proposed single-tier depositor preference, and the possibility to count the contribution of deposit guarantee scheme (DGS) funds towards unlocking access to the Single Resolution Fund (SRF). The single-tier depositor preference is from a legal perspective a much simpler solution – even for the sole purpose of a liquidation procedure – than the three-tier system currently in place in the EU, which is possibly the most complicated system of depositor preference in any major financial centre.

Establishing a single ranking for all depositors means the "no creditor worse off" principle can be applied in a simpler way in any resolution situation. In addition, it will help in harmonising the methodology for the least-cost test in a way that facilitates greater use of the DGS in resolution. The ECB – whose mandate it is to preserve financial stability – observes that the general depositor preference has been in place for a long time in the United States, which has the largest bank bond market in the world. As no particular issues have emerged in the US with respect to funding the market exit of banks, it seems highly unlikely that this approach could not be applied to the European Union framework. The ECB is of course fully open to contributing to further analysis and discussions on the potential unintended consequences of this approach and ways to mitigate them.

Using DGS funds to contribute to unlocking access to the SRF would also be key in facilitating the smooth exit of failing banks from the market. Importantly, the DGS bridge mechanism is limited to transfer tools and is subject to additional safeguards. As this proposed amendment relies on the implementation of the resolution framework, I would like to emphasise that it does not exempt banks that are subject to it from the minimum requirement for own funds and eligible liabilities (MREL), or recovery and resolution planning more generally. It therefore actually reduces the potential moral hazard of "gambling for resurrection", which relies on more generous national frameworks being applied. Furthermore, the ECB would in all cases be able to withdraw a bank's licence, following its assessment as failing or likely-to-fail, which will also help responsible authorities ensure that banks who should leave the market do so in an orderly manner.

Finally, let me add that as the rationale behind this proposal is to promote early intervention, there is no reason to think that it aims to hinder preventive interventions that could ensure the same objective, in situations involving banks which have not reached the point of failing or likely-to-fail – quite the contrary in fact. In any case, the ECB clearly wants to also strengthen the effectiveness of the early intervention and preventive measures of these mechanisms and could support any further clarifications to ensure this objective.

Wider scope to help failing banks exit the market can improve the effectiveness of the EU's crisis management framework.

In view of the importance of the potential gains in efficiency the proposed legislative package offers, it would be particularly useful to have an open dialogue on its provisions and formulations. This would also dispel any possible misgivings and provide constructive support for its aims.

STEFANO CAPPIELLO

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Market confidence: the role for a public liquidity backstop

The resolution of Banco Popular in 2017 started an intense debate on the importance of liquidity in resolution: albeit liquidity crises are indeed an inherent feature of the banking industry, the European framework lacks an effective tool to manage liquidity needs after resolution (Constâncio, 2018).

Viable banks can rely on several sources of liquidity (including, central bank lending and market funding). Yet, after entering resolution these funding sources freeze: as the past cases showed, even if soundly recapitalized, the resolved bank will still suffer substantial outflows until it regains investors' trust. Moreover, the fall in markets' and depositors' confidence might also have systemic implications. Even in those cases where liquidity is not the cause of resolution, liquidity will become an issue in resolution.

This clearly calls for the resolution "technology" to include credible liquidity backstops, which must be transparent and easily understood by market participants and depositors (not to put at risk the resolution process and the extent of bail-in). Still, as any form of public support, the backstop could foster moral hazard, and thus it must be accompanied by sufficient safeguards.

The FSB highlighted the need for introducing a public sector backstop funding mechanism already in 2016. Despite the variety of solutions available in each jurisdiction (resolution funds, deposit insurance funds, resolution authorities, central banks and/or finance ministries), it stressed some common design principles:

- The mechanism should have a credible size (to fund all banks in need), capable of being deployed rapidly, and to be extended for as long as needed to allow the bank to regain access to the market;
- The deployment should be subject to strict conditionalities: i.e. available only if the bank is fully recapitalized and has a viable business plan, while market access to funding is temporarily precluded, and accompanied by constraints to minimise moral hazard;
- The legal regime should make it clear the way to recover any losses incurred, either from shareholders and unsecured creditors or – if necessary – from the financial system as a whole.

The turmoil in the US and the collapse of Credit Suisse (CS) revamped this debate: the takeover of CS was underpinned through the provisions of emergency liquidity assistance (ELA) issued by the Swiss National Bank and other public sector backstops, amounting to dozens of billions of Swiss francs. The Swiss Banking Act had been amended precisely to introduce a liquidity backstop and the plan deployed for CS was therefore able to factor it in.

A stronger liquidity backstop in resolution would support confidence and make its use less likely.

Although available in several other key jurisdictions (the UK and the US), in Europe we lack an adequate public backstop tailored to provide liquidity assistance to institutions in resolution. ELA is limited to solvent financial institutions, requires eligible collateral and, for operations above €2bn, also the ECB's consent. State guarantees on newly issued liabilities are in principle limited to banks showing no capital shortfall and still rely on the market. Both measures represent national-only safety nets and might be difficult to deploy for cross-border groups. Pending the adoption of the European Deposit Insurance Scheme, equipped also with a liquidity function, within the BU the SRF (€77bn) can indeed be used for liquidity purposes, but even when coupled with the €68bn from the ESM backstop, it still might be insufficient for G-SIBs or under a systemic scenario (König, 2018).

Hence, the EU/BU framework lacks an important safety valve: a reliable, overt, and predictable liquidity public backstop is crucial to make resolution credible. Its mere presence would help restoring confidence in the banking system, making its use even less likely. This, without prejudice to the principle that private sources should remain the primary source of funding for banks in resolution and that resolution planning and preparation is key (SRB, 2020).

For this purpose, a number of options are worth being further explored with respect to the access in resolution to Central bank liquidity facilities (or a new harmonized, centralized facility). For example, the SRF may act as a guarantor, ensuring that any losses would be borne by the industry (including via ex-post contributions), or the liquidity facility could be backed by an EU government guarantee, or the scope of the eligible collaterals for ELA could even be extended. Along a similar line, the ESM backstop facility could be reviewed too, to make the provision of liquidity support to the SRF easier and more automatic, even above the € 68bn cap, or it could be the ESM itself that provides the guarantee to the ECB.

To foster market confidence, access conditions should be made public, and the decision-making process should be predictable.

JACEK JASTRZĘBSKI
Chair of the Board - Polish Financial Supervision Authority

Clear crisis management rules - basis for the stability of the financial system

In order to prevent uncontrolled bank failures and safeguard public interest, as part of the 'lesson learned' following the 2007–2008 global financial crisis, in 2014 the European Parliament and the Council adopted the Bank Recovery and Resolution Directive (BRRD) and the Deposit Guarantee Schemes Directive (DGSD). The experience, gained also in Poland, in practical application of that regulatory framework has shown that it is necessary to introduce changes to the crisis management solutions. Those necessary changes are partly included in a legislative package on Crisis Management and Deposit Insurance (CMDI)[1], published by the European Commission (EC) in April of this year, aiming at adjusting and strengthening the EU's existing legal framework, with a focus on medium-sized and smaller banks.

Nevertheless, the to-date experience related to the application of the BRRD regime demonstrates, that future regulatory priorities in the field of crisis management should also include additional elements.

In this paper I briefly mention the key objectives that should also be taken into account in connection with further steps of the reform.

1. Ensuring an effective mechanism for supplying liquidity in the resolution procedure.

    - Due to high dynamics of crisis situations the liquidity needs of banks are extremely urgent, while the current EU State aid framework foresees in the case of banks of significant size a requirement of obtaining each time an approval of the European Commission for granting State aid, which is time-consuming.

    - In the case of small and medium-sized institutions the need to obtain the EC approval every six months for prolonging the State aid programme is an additional complication.

    - The requirement of 8 percent bail-in before receiving liquidity support may be an additional hindrance for financial institutions, regardless of their type.

2. Reforming and harmonising insolvency law in the European Union so that restructuring tools similar to those foreseen in the BRRD (in particular, the takeover and the asset separation tools) may be applied also in the case of entities that do not meet the public interest condition in insolvency proceedings.

Future regulatory priorities in the field of crisis management should include additional elements.

3. Preventing a so-called 'limbo effect', which occurs in a situation in which a financial institution does not meet the conditions for insolvency and the public interest condition, but it meets the FOLTF (failing or likely to fail) condition, and as a result it may neither be subject to the resolution procedure, nor to the insolvency procedure. The BRRD in its new wording clearly states that in the case where the FOLTF condition is satisfied but the public interest condition is not, the institution should be subject to insolvency procedure. However, because the proposal for a directive does not harmonise the insolvency law (including the conditions for insolvency), in legislative regimes of different Member States such a financial institution may not be meeting the conditions for opening insolvency proceedings against it. That means that such an institution may be obligated to maintain a certain part of the MREL recapitalisation requirement.

4. Changing a paradigm according to which, in the current proposals, insolvency (notably – conducted in the absence of harmonisation of the insolvency law, as mentioned above) is foreseen as the default option, although one of the intentions declared by the authors of the legislative proposal is to propagate the use of resolution, especially in the case of small and medium-sized institutions. The crisis management framework should be based on the assumption that the default option is resolution and not insolvency.

5. Providing clear conditions for an entity to be considered as failing – according to the BRRD, an institution shall be deemed to be failing or likely to fail, if the institution is unable to pay its debts or other liabilities as they fall due or there are objective elements to support a determination that the institution will, in the near future, be unable to pay its debts or other liabilities as they fall due. It is not clear what other liabilities are considered – whether or not, for example, the inability to repay liabilities owed to employees or pay social security contributions is sufficient for commencement of the resolution process.

It is without doubt that further legislative activity in the above-identified areas would help improve the effectiveness of the bank crisis management framework in the European Union.

1. *https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2250.*

DANIEL QUINTEN

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The importance of deposit-related protection schemes for financial stability

On 18 April 2023, the European Commission published a legislative package to revise the framework for crisis management and deposit insurance ("CMDI Review"). The proposal may be promoted as being technical only, but the intention of the EU Commission is to subject the CMDI framework to comprehensive changes which include fundamental policy decisions. It initiates nothing less than a paradigm shift and a complete system overhaul of crisis management for banks, which was established at European level after the last financial crisis in 2014.

The decision of the European legislator in 2014 was clear and precise: Only systemically important credit institutions should fall within the resolution regime and the less significant institutions should regularly be considered eligible for insolvency.

Now, the EU Commission would like to change that. The resolution designed for systemically important banks shall also be made the standard model for small and medium-sized banks. This will be triggered by a change in the assessment of public interest to be made by the competent authorities: For example, critical functions at the regional level, rather than at member state or EU level, as is currently the case, shall be sufficient to require a credit institution to fall within the resolution regime.

That is going to require funds, of course. So, deposit guarantee schemes (DGS) shall be called upon to finance the resolution of these institutions in addition to the existing resolution fund. The price-tag for this major shift is extremely high and it shall be paid by the existing national protection schemes.

Just to unlock the financial means required for financing resolution tools for small and medium-sized banks, the EU Commission proposes to significantly reduce the overall level of deposit protection.

1. DGSs would lose their privileged position in insolvency proceedings, making it more difficult to recover funds paid for depositor compensation. The function and financial performance of the DGS would be impaired and thus discredited in this way.

2. This would indirectly result in further financial burdens for the credit institutions because the use of DGS funds for resolution combined with the loss of the super-preference in insolvency proceedings would lead to frequent additional funding obligations. In times of crisis, these obligations could end in a domino effect.

The protection afforded by existing national insurance safety nets would be abandoned.

3. The role of DGSs and Institutional Protection Schemes (IPSs) shall also be reduced to mere payboxes instead of risk minimisers. As stated in a Joint Declaration and a call for action of all IPSs in Europe, their preventive measures using financial resources will be made more difficult or even impossible due to new extensive requirements which are not in line with obligations an IPS has to fulfil pursuant to Article 113(7) CRR.

Is the price to be paid for the paradigm shift towards "resolution for all" worth it? To answer this question, one needs to bear in mind that the global financial system has evolved over centuries, incorporating various mechanisms to ensure financial stability, safety, and consumer protection. Two vital components of this framework are deposit insurance and institutional protection schemes. These tools not only safeguard the depositor's funds but also contribute significantly to overall financial stability.

Deposit insurance serves two fundamental purposes: protecting small depositors who cannot afford to lose their savings and preventing bank runs.

Of course, it is often argued that deposit insurance can also create moral hazard by encouraging risky behavior from banks because their customers know that their deposits are insured. However, the idea to apply resolution as default procedure to all banks creates a moral hazard problem that supersedes the moral hazard by deposit protection by far. As was the case in the recent failure of the Silicon Valley Bank, any customer – even the most sophisticated ones who are excluded from deposit protection – would entirely rely on their deposits just being transferred to another bank as part of a resolution procedure. As a result, the total number of bank failure would most likely increase as customers would not be encouraged to assess the riskiness of a bank model.

The European Commission's goal of strengthening crisis management for credit institutions is correct in principle. However, the brief overview of the planned changes alone should already demonstrate that the measures envisaged for such purpose promote the exact opposite effect. With these measures, the protection afforded by existing national insurance safety nets would be abandoned and replaced by a hitherto non-functioning resolution regime. As is often said: Let's fix the roof while the sun is shining. But let's focus on the roof that actually needs fixing.

AXEL MARMOTTANT
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Resolution: a way to deal with the failure of small and mid-size banks

The Single Resolution Fund has finally reached its target with ca. EUR 80bn outstanding. The constitution of this fund came at a steep cost for the banking sector, and *in fine* its customers, especially in France. Since its inception, this financing arrangement has never been called so far to support a resolution in the Banking Union.

The CMDI reform is an opportunity to ensure the failures of small and mid-size banks are not dealt with using mutualized funds at the expense of healthy competition and of the consolidation of the European banking sector. In line with the principle of "same risks, same rules", this should mean an extension of resolution to a larger set of small and mid-size banks, which are also risky as we recently saw in the US:

- The way resolution authorities conduct the Public Interest Assessment ("PIA") should better capture the financial stability risks stemming from the failure of small and mid-size banks at the local level. It should also better incorporate the higher likelihood that many of these institutions cannot be simply liquidated by paying out depositors without negative consequences. The proposal of the Commission in that regard goes in the right direction. However, it is essential to put in place safeguards to ensure a harmonized application of the revised PIA. In our view, a summary of negative PIAs should be disclosed to the market.
- Such an enlargement of resolution is paramount to minimize competition distortions in the Single Market. Directly competing against big banks, many small and mid-size banks are not subject today to the constraints of the resolution framework in going-concern, especially fully-fledged MREL requirements and resolution planning works. However, they would benefit from external resources in gone-concern, or be rescued though unviable, without any strings attached. Hence, any PIA that includes the use of mutualized funds in liquidation should necessarily conclude positively on the use of the resolution framework.
- Complying with the SRB expectations for banks and the EBA guidelines for resolvability would ensure small & mid-size banks are best prepared operationally speaking for a crisis. Such a preparation would smoothen the crisis management process and be beneficial for both the public authorities and the sector as a whole.

A strict burden-sharing must remain the cornerstone of resolution, excluding a DGS bridge.

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The current rule applicable to access the SRF (the 8% TLOF requirement) must remain intact. Moreover, this principle should be extended to other possible sources of external funds while ensuring a more balanced allocation of SRF contributions across the banking sector:

- A stringent burden-sharing requirement should ensure that shareholders and creditors of failing banks absorb their fair share of losses while minimizing the burden on sound banks: the "DGS bridge" introduced in the proposal is inconsistent with such a principle. Moreover, no exemption, be it in the name of financial stability concerns, should be allowed;
- To comply with such requirement and bridge the potential funding gap, small and mid-sized banks should build up a MREL buffer. It is important to recall that Less Significant Institutions in the Eurozone are already highly capitalized. Therefore, echoing the SRF and the existing Pillar-1 MREL rules, the MREL requirement imposed on small-and-mid-size banks should be systematically floored, with a subordination component equal to 8% TLOF;
- If some of them cannot somehow issue MREL instruments, there are other solutions, like a longer transitional period, relying on a higher share of retained earnings or creating an escrow account that could be tapped in resolution. Otherwise, it would mean that these institutions are not viable and should either restructure themselves or exit the market.

Last but not least, we can note the proposed changes brought to the creditor hierarchy actually constitute the cornerstone of CMDI. However, seniorizing non-covered non-preferred deposits would have significant and unintended consequences such as:

- Banks' senior preferred debt ratings may be affected and the cost for issuing such instruments may rise;
- Day-to-day liquidity management may be impacted as corporate deposits, which are more volatile, may replace short and mid-term issuances;
- It would create moral hazard for depositors;
- The scope of bail-in would be reduced and huge amounts of external resources would likely have to finance resolution while the burden should remain on the failed bank's shareholders and creditors.

Reforming an unsatisfactory crisis management framework well makes sense, but should not be done at the expense of banks' customers and in the end, EU citizens.

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Roadmap to a complete Banking Union: the CMDI reform

Banking resolution is considered by many a truly "philosopher's stone" to ensure financial stability. The reasoning is that, in an ideal world, if a bank could be resolved without externalities (contagion, spillovers or any other form of systemic effects), minimising associated costs for taxpayers and real economy, and efficiently (in an orderly manner, quickly and minimising costs for creditors and the financial system), there would be little one could seek from a gone-concern perspective.

That explains why the CMDI proposal has been so long-awaited, so debatable, and so important. But also, why it is so necessary. The absence of a credible resolution framework would ultimately mean increasing risks to financial stability and the real economy. Besides, a unified crisis management framework for banks in a jurisdiction like the EU should naturally aspire to have an integrated Deposit Guarantee Scheme (DGS) at the EU level. The reason is straightforward. Once a bank fails – or is near to fail – there are different routes to follow in order to decide the best way that DGS funds should be used to protect depositors.

As banks in the EU are part of a still evolving banking union, a crisis management framework in such a context should aim to have an EU-wide scope. Also the DGS, by the same reasoning. This is a simple but powerful motivation for an European Deposit Insurance Scheme (EDIS). Anything less would be a permanent source of fragmentation and, ultimately, a barrier to a complete banking union in the EU. Further, from a practical perspective, the recent financial turmoil in the US illustrated the need for a strong and ready-to-act deposit insurance system that can rapidly cut uncertainty and lack of confidence among market participants. Against this background, an EDIS would help to increase depositors' confidence regardless their location in the EU, reducing the link between banking risk and sovereign risk.

Recent events also illustrate some elements that have worked, some that have not, as well as gaps and challenges when having to resolve banks. These recent experiences include, as expected, the cases of Silicon Valley Bank in US and Credit Suisse in Europe, but also other previous examples in Europe. Based on that evidence, it seems clear that the resolution framework needs to be practical, effective, and fair.

CMDI should be up to the banking union expectations and conscious of recent experiences.

Regarding practicality, the observed experiences with failing banks have shown the need to complement existing resources with an agile and operational liquidity-in-resolution tool. Such a tool would provide short-term "gone concern" liquidity support to the resolution process, avoiding unwarranted or increasing ex-ante contributions to existing resources. A liquidity-in-resolution tool could directly be implemented by the European Central Bank (ECB), given its experience in providing collateralised funding to the market. Procedural rules should be well defined and known ex-ante by financial institutions. This new mechanism could be inspired, for example, by those mechanisms recently used by the US Federal Reserve. It is worth noting that both the Chair of the Single Resolution Board (SRB) and the ECB itself have flagged the issue of liquidity in resolution.

Furthermore, the sale-of-business tool has been the only strategy followed thus far in the three resolution decisions adopted by the SRB (Banco Popular and the two Sberbank subsidiaries). This strategy has resulted an effective tool in practice, though there is room for some improvements. Under the existing framework, the acquirer of a failing bank is exposed to a broad range of contingent and hidden liabilities. Most of them are generally due to facts or events that were underestimated or unrecorded prior to the resolution process – which in turn has to be done in a quite narrow time window. The effectiveness of the sale-of-business strategy can be enhanced by providing better protection for the acquirer against such a type of contingent and hidden liabilities.

Finally, fairness. The Commission's proposal on CMDI increases the scope of resolution and the national DGS – for example, by including eligible deposits from non-bank financial entities. It can be argued that extending the scope of resolution would not be fair for stakeholders involved if the framework remains incomplete or not fully operational in practice. In the same vein, clear and strong client identification requirements should be fulfilled ex-ante by non-bank financial firms taking deposits which are now covered by the DGS. They should also remain accountable to their clients for the information provided.