EU BANK CRISIS MANAGEMENT FRAMEWORK

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Towards a simpler, stronger Banking Union

In last June, Parliament and Council have clinched a political deal that is applicable to all the EU member states, and which can be seen as a step towards completing the Banking Union. Whilst being an important step forward, the agreement on the Crisis Management and Deposit Insurance (CMDI) framework review may be less ambitious than the Commission's original proposal. Crucially, the core of the reform – the new "bridge the gap" tool, which would give the possibility to partly fund bank sales through deposit guarantee scheme (DGS) funds – is not as flexible as in other jurisdictions, such as the UK.

Nevertheless, this is a good deal that sends a message to countries in the Banking Union and those planning to join. Subject to final technical discussions, policymakers have found a path forward to foster financial stability within the Union.

It is time, then, to start charting what lies ahead.

In 2022, the Eurogroup published a statement setting out the next steps toward completing the Banking Union. This statement identified the CMDI review as the first step. After that, it called for a "review of the state of the Banking Union and identification, in a consensual manner, of possible further measures with regard to the other outstanding elements to strengthen and complete the Banking Union".

We hope this review starts soon. Certainly, some issues have been known for a very long time.

First, the Banking Union was designed with three pillars: a common supervision framework, a common resolution framework, and a European Deposit Insurance Scheme (EDIS). The third pillar, EDIS, remains unbuilt. The Commission's EDIS proposal is now so old that it is worth recalling briefly its content.

The original proposal for EDIS included national DGSs and a European deposit insurance fund. EDIS would be built in three stages over eight years. In the first stage, 're-insurance', the newly created EDIS would provide liquidity assistance and absorb part of the final loss of the national scheme in the event of a pay-out or resolution. In the second stage, 'co-insurance', EDIS would be able to absorb a larger share of any losses in a crisis. In the third and final stage, 'full insurance', EDIS would completely replace national schemes and become the sole insurance scheme for deposits in Banking union banks.

In this broader drive toward simplification, such a reform seems necessary – a one-stop shop for banks and their clients, both in normal times and during crises. A truly European, trusted system would replace the current patchwork of national frameworks. Banks, their clients, and investors could rely on a single authority across the EU, with benefits in terms of clarity, level playing field, and service quality.

This is what true simplification looks like.

Moreover, the European banking landscape is changing. At the end of last year, a large European online bank announced it had reached three million clients through its branches in a host Member State – a country of five million people. The covered deposits of these clients are currently protected by the deposit guarantee scheme of the bank's home country. In a Banking Union with European supervisory and resolution authorities in place, this national responsibility looks increasingly misplaced. Such large figures and growing interconnections call for a European solution.

EDIS is that solution. A complete Banking Union, with its third pillar in place, would offer citizens the same minimum level of not only legal, but also financial protection across all Member States, while still involving local authorities in decision-making.

Still, a full-blown EDIS, remains divisive and, thus, elusive.

Perhaps, incremental change is the right way to achieve progress. In April 2024, the European Parliament's ECON Committee adopted a report on EDIS. The report outlines an initial phase—referred to as EDIS I—focused solely on providing liquidity support rather than full loss coverage. This first phase would allow DGSs in need of funds to access loans through a common fund, which would be financed by contributions from other DGSs and, if necessary, through additional repayable loans – without risk-sharing between the DGSs.

EDIS can bring additional stability, clarity, and fairness to the Banking Union.

The common fund is expected to reach half of its final target level within three years of the regulation's entry into force. Although this phase does not include risk-sharing mechanisms, it would provide important liquidity backstops.

ECON has yet to vote on the interinstitutional mandate for this key proposal. Though less ambitious than the original third pillar of the Banking Union, it could still pave the way for progress towards a more effective, ultimately simpler, crisis management framework.

Now may be the right time to revive this essential debate.

SANTA PURGAILE

Deputy Governor – Bank of Latvia

Towards a balanced Banking Union: Stability, trust, and gradual integration

Completing the banking union: Making progress with realism and prudence

In recent years, the EU has made substantial progress in strengthening its banking supervision and crisis management framework. Today, the supervisory toolbox available to authorities, whether under the SSM, the SRB, or national frameworks, is robust. We have harmonised prudential requirements, enhanced stress testing, developed MREL targets, and improved governance standards.

These tools are not theoretical, they are operational. It is now our shared responsibility to apply them effectively and consistently across the Union. Yet, one central pillar of the Banking Union remains unfinished: EDIS. While recent progress, such as the political agreement on CMDI reform, brings us closer to a more coherent and credible crisis management framework, an agreement on EDIS remains elusive.

EDIS: A phased approach is the responsible path forward

Moving EDIS forward is not merely a technical matter, it is a question of political courage and financial solidarity. In the current political and financial landscape, a phased approach to EDIS is not just more realistic than a full-package agreement, it is the only responsible way forward.

A full mutualisation of deposit insurance, without first addressing governance, risk convergence, and supervisory alignment, could undermine financial stability rather than reinforce it. Particularly for smaller countries with limited DGS resources, an unconditional pooling of liabilities poses risks without guarantees of equitable support or operational clarity.

Therefore, we support a step-by-step development of EDIS. Beginning with a common liquidity backstop to national DGSs to ensure prompt and credible payout capacity, especially in the face of modern, rapid bank runs. This should be followed by a conditional reinsurance mechanism, allowing national DGSs to access a European fund once their own resources are exhausted, and under strict eligibility criteria. Only in the final stage, after sufficient convergence, should a carefully governed, fully mutualised scheme be established.

Such a phased structure builds confidence gradually while respecting the financial and institutional diversity across the EU. It ensures that national DGSs remain credible and effective, particularly in jurisdictions where depositor trust depends on the visible strength of national safeguards.

Caution on free capital and liquidity movement in cross-border groups

In parallel to EDIS, the issue of capital and liquidity waivers within cross-border banking groups remains a matter of debate. Some advocate for the removal of ring-fencing to support group-wide efficiency. However, for host countries with subsidiary-based banking models, this raises serious concerns.

The assumption that liquidity will move freely within banking groups overlooks critical legal and prudential constraints. In practice, while intragroup support may be feasible under normal conditions, in times of stress, such support is constrained by the legal obligations governing each entity, requiring that decisions align with the corporate interest and financial stability of the individual institution. In a crisis, that support becomes conditional, discretionary, and often unavailable.

Even where intragroup support is contractually defined, there is no legal mechanism that guarantees liquidity transferred to a parent will return in a time of need. The notion of unconditional, reciprocal support is neither enforceable across jurisdictions nor compatible with sound corporate governance.

Until these structural limitations are addressed, lifting capital and liquidity restrictions would expose host countries, especially smaller Member States, to disproportionate risk. We therefore view legally binding and enforceable intragroup support agreements, embedded in resolution planning, as an essential precondition for any further movement toward capital waivers.

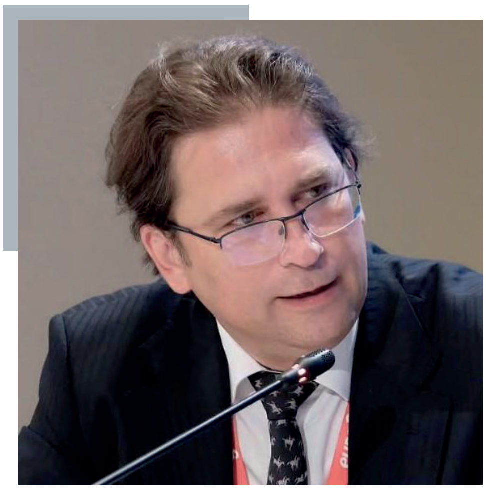
> **A gradual, structured approach offers the clearest path to building mutual trust.**

Conclusion: A union that works for all sizes

The development of the EDIS can move forward with both realism and ambition. A gradual, structured approach offers the clearest path to building mutual trust while respecting the diversity of national systems. Equally, proposals to ease restrictions on cross-border capital and liquidity must be guided by strong legal safeguards and enforceable support arrangements. Only then can we ensure that integration strengthens resilience without shifting undue risks onto any one part of the system.

With a clear focus on implementation, fairness and credible burden-sharing, the EU has the opportunity to deliver a Banking Union that truly reflects stability, solidarity, and shared responsibility. It can be a framework that protects depositors, reinforces trust in the internal market, and prepares all Member States to meet future challenges with confidence.

As Goethe wisely said, “Knowing is not enough; we must apply. Willing is not enough; we must do.” The tools and the vision are already in place. Now is the time to move forward together.



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Strengthening competitiveness: a driver for the completion of the Banking Union

As a consequence of direct and indirect security threats and geopolitical shifts, the EU is facing unprecedented economic challenges. Given the dominant role of the banking sector in financing of the EU economy, it is unrealistic to expect significant increase in the EU's economic potential or to close the investment gap without a significant improvement in the efficiency of EU banks. Banks also play a key role as intermediaries in capital markets; however, their activities are still limited to only a part of Europe, or even just one Member State. Strengthening their cross-border business could boost retail investor participation — a critical factor for advancing the Capital Markets Union. Still, one of the main barriers remains the persistent fragmentation of the EU banking market — including gold-plating and application of "golden rules" and underuse of the internal market and cross-border opportunities. From a policy standpoint, it is essential to introduce incentives that create market-driven motivations for consolidation and integration. This would increase the sector's resilience and competitiveness — both within the EU and globally.

The challenge is that this policy objective must not come at the expense of other equally important goals — namely, banks' resilience and soundness. In particular, the resolution of failing banks with minimal impact on the real economy and without relying on taxpayers' money. To support this, Member States have already identified three interlinked and politically critical workstreams that must be addressed jointly:

1. A system of common protection for depositors.
2. Integration of the single market for banking services.
3. Diversification of banks' sovereign bond holdings across the EU.

Any attempt to take shortcuts, address these challenges asymmetrically, or push through solutions via "back door" is destined to fail — as we have seen far too often recently. This applies to initiatives from the European Commission as well as to the negotiation approaches in the Council of the EU and the European Parliament. Hence, going forward, I believe four key principles must be respected:

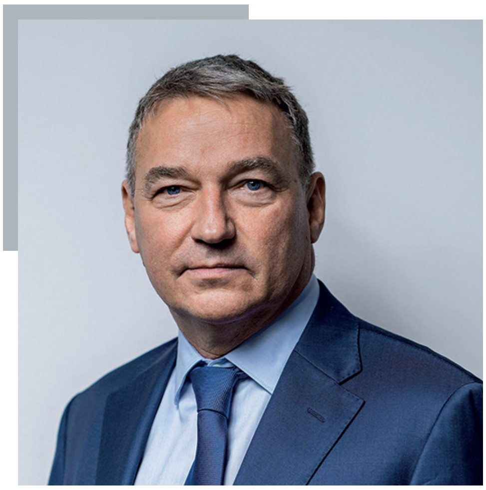
1. A holistic approach, recognizing the interdependence of the three workstreams.
2. A consensual process, ensuring ownership and building trust among stakeholders.
3. The principle of proportionality, focusing on systemically important entities which would benefit from the improved internal market.
4. Competitiveness as a benchmark, meaning every measure should be tested against its ability to enhance competitiveness, while respecting that from a long-term perspective financial stability is also a competitive advantage.

In order to succeed, a comprehensive approach must be adopted.

The EU's current focus on competi-tiveness presents a real opportunity for advancing the Banking Union project.

The European Commission has already announced that it will present its report on the competitiveness of the banking sector earlier than originally planned — in 2026. If approached correctly, this report could create much-needed momentum, especially in connection with the Savings and Investments Union. A strong emphasis must be placed on simplification and reducing administrative burden — including a thorough scrutiny of Level 2 measures. Of course, Member States still have their homework when it comes to strengthening competitiveness. An opportunity presents itself to revive the Banking union discussions from where they were left off in 2022 (statement of the Eurogroup in inclusive format from June 2022). Without progress on the Banking Union, it is difficult to speak credibly about enhancing the competitiveness of EU banks — or about reclaiming a global leadership position. A renewed focus on competitiveness could trigger a fresh perspective on the need to complete the Banking Union. It should not be overlooked that an important step has already been taken — the political agreement on the revision of the crisis management and deposit insurance framework (CMDI), which in particular improves the resolution framework for small and medium-sized banks. Still, many view this agreement as lacking ambition. The reason is clear, as highlighted above, no progress can be achieved through back-door approaches that lead to asymmetry and disturb the fragile political balance. It is now up to the European Commission to seize this opportunity. But, in order to succeed, a comprehensive approach must be adopted.

Finally, the success is also dependent on the completion of the ratification of the European Stability Mechanism reform — to enable a common backstop for the Single Resolution Fund — and on further progress in building the Capital Markets Union, particularly when it comes to alternative sources of private financing, as these developments will have also synergistic effects on the banking sector.



KARSTEN BILTOFT
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CMDI is a step forward - but how will EU handle cyber-driven banking crises?

When banks fail, the consequences can quickly ripple through the broader economy. In response to the global financial crisis, the EU took important steps to develop a robust framework that enables the orderly resolution of banks without destabilizing the financial system or burdening taxpayers with bailouts. The crisis management and deposit insurance framework represent a key advancement in this effort. Although the current framework provides a solid foundation for managing traditional financial crises, it remains incomplete in addressing the growing and distinct threat posed by cyberattacks.

A political milestone

The political agreement reached on 25 June 2025 between the European Parliament and the Council on the Commission's proposal for crisis management and deposit insurance (CMDI) marks another important milestone in advancing the resilience and integration of the EU banking sector. As Commissioner Maria Luís Albuquerque stated, the reform ensures that: *"bank failures can be managed efficiently, fairly, and without burdening taxpayers."*

The revised CMDI framework aims to ensure that more banks—including medium-sized banks—can be resolved under the EU resolution regime rather than through national insolvency proceedings. The political agreement also expands the conditions under which national deposit guarantee schemes (DGSs) may contribute to and co-finance resolution actions. This enables a potential shift from liquidation to resolution as the preferred strategy, where it better serves financial stability and depositor protection.

The practical application of these amendments will largely depend on how each EU member state addresses insolvency within its legal framework. Differences in national insolvency laws and administrative practices may affect the extent to which the revised resolution tools will be used. Furthermore, the structure and functioning of national deposit guarantee schemes such as decision-making procedures and system design, will play a key role in determining when and how the updated resolution framework will be applied going forward.

Proven blueprint

Denmark's long-standing approach offers a practical example of how resolution and deposit insurance can work together effectively. For over a decade, Danish authorities have integrated resolution tools with the national DGS, enabling flexible and timely handling of failing banks—including small and medium-sized ones. As a result, most banks are resolved rather than liquidated.

Although only systemically important banks must meet full MREL requirements, Denmark applies loss-absorbing rules to all banks. This allows viable parts of a failing institution to be preserved, while losses are absorbed by shareholders and creditors—minimizing disruption and protecting depositors.

Denmark's experience also highlights the importance of a digital infrastructure. With a highly digitalized banking sector, even smaller banks may be considered to have critical functions. Resolution ensures uninterrupted access to deposits, whereas insolvency could delay payouts by up to seven working days, potentially undermining trust.

A new kind of systemic risk

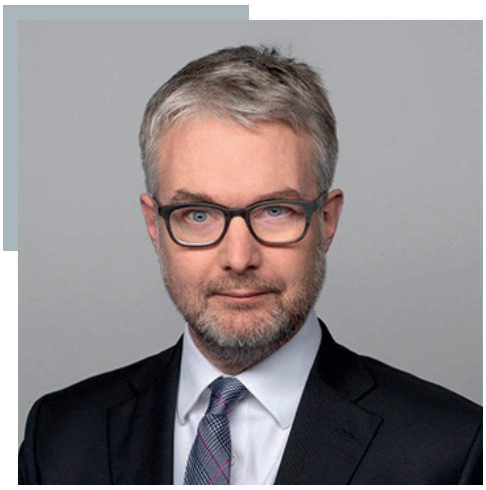
While the CMDI reform provides measures to address traditional financial instability, the evolving threats of cyberattacks necessitate additional legislative frameworks. These frameworks are essential to ensure the resilience and stability of major financial institutions to avoid significant adverse effects on the financial system in the event of attacks.

Whereas cyberattacks on systemically important banks are unlikely to lead to insolvency or liquidity shortfalls, they can still paralyze operations and erode confidence. In such cases, traditional resolution tools such as bail-in or sale of business will be useless, and replacing management could hinder rather than help recovery. The focus must instead shift toward restoring operations swiftly and maintaining trust in the system.

> **The changing landscape implies that resolution authorities may need to look for an expanded toolbox.**

The nature of threats to financial stability has changed, and today, a cyberattack on a major financial institution can create serious challenges for authorities even if the bank is not insolvent. Therefore, a dedicated legislative framework at the EU level is needed to provide a degree of protection for the affected bank, including new tools, adapted to the digital reality and the need for operational continuity.

By equipping resolution authorities with the right tools to address cyber-specific crises, Europe can safeguard the resilience and credibility of its financial system, especially as the cyber threat landscape continues to evolve. To stay ahead of these developments, institutions and authorities must continuously adapt their frameworks, capabilities, and coordination mechanisms to meet the challenges of an increasingly digital and interconnected financial landscape.



DANIEL QUINTEN
Member of the Management Board – National Association of German Cooperative Banks (BVR)

CMDI: Looking ahead at the technical trilogue and beyond

The compromise achieved on June 25 certainly is a step in the right direction. All parties had to make concessions. The agreement will enable the European financial system to develop further. Deposit protection can be modernized, national deposit schemes are strengthened, and the European resolution regime be strengthened. At the same time the proven diversity of national banking structures, such as institutional protection schemes, is maintained.

During the coming months the parties in the trilogue will have to address some remaining key issues in a technical trialogue. Legal texts have to be drafted in order to create a stable, proportionate and functioning set of rules that does justice to the different structures of the European banking sector. A positive and rapid outcome of the technical trilogue will require that the parties respect and build on the parameters of the political agreement and do not try to reverse results. From our perspective, that would imply:

As regards institutional protection schemes, a workable compromise has been found. The political agreement will ensure that German institutional protection schemes remain functional and that the diversity of the banking landscape is maintained. We will be able to preserve our national institutional protection, which has been successful for over 90 years and enjoys the full confidence of our customers. It is now crucial that the political compromise is transformed in workable legal texts without any new technical details affecting the positive outcome.

Another important result is the preservation of the super-preference. The priority of deposit guarantee schemes in the event of the insolvency of an affiliated institution remains unchanged. This strengthens the financing of deposit guarantee schemes as well as the confidence of depositors. There are still some open questions about harmonizing creditor hierarchies and the treatment of certain liabilities, for which adequate solutions need to be found.

On the other hand, the agreement also brings a new financial challenge: the bridge-the-gap instrument will allow greater use of deposit guarantee funds to finance resolution cases in future. Many of the mechanisms to limit the access previously envisaged have not found their way in the political agreement. This increases the risk of more frequent and greater burdens on national systems. It is important that the final legal text imposes clear and transparent conditions.

We also view the new calculation method for the least-cost-test critically. It could considerably reduce the possibility of preventive measures and lead to higher cost and inefficiencies.

The agreement will enable the European financial system to develop further.

The public interest assessment is another important issue. The criteria according to which banks (especially smaller and medium-sized ones) would fall under the new resolution framework are not fully clear yet. For us, the treatment of smaller banks and the use of resolution tools is a sensitive point. We believe that the extension of the resolution rules, which were designed for systemically important banks to small and medium-sized banks could weaken national deposit guarantee schemes. Our understanding of the political agreement is that it only moderatetly extends the scope. In fact, in many cases, regular resolution would neither be necessary nor economically senseful. Therefore, the design of the public interest assessment agreed and proposed by the Council must not be weakened in the technical negotiations. Insolvency proceedings must remain the standard solution when small institutions fail. A public interest assessment for banks adhering to an institutional protection scheme should be negative, as the scheme will always ensure that the resolution objectives are not endangered.

Thus, some important open issues remain, where the trilogue has to bring solutions. When it comes to transforming political agreements into legislative text, it will become evident how much the devil lies in the detail. Developments will have to be carefully monitored.

Looking beyond the end of the trilogue and reflecting on the future of an EDIS seems to be rather difficult from today's perspective. We believe that meaningful reflections on a European Deposit Protection Scheme do not make much sense as long as there are no final texts of the CMDI package available. Any EDIS proposal would have to build on those rules. Moreover, my takeaway from the CMDI negotiations is that a less ambitioned proposal, like a voluntary EDIS, for example, could help to avoid years of slow and stalling negotiations as we had in the past. That being said, it remains my firm believe that even under such circumstances some preconditions will have to be fulfilled, like a harmonization of insolvency laws and the breaking of the sovereign nexus.

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Five pillars for a successful resolution framework

On 25 June 2025 a political agreement was reached by the Council and the European Parliament on the review of the Crisis Management and Deposit Insurance (CMDI) framework. According to the Polish Presidency this reform will significantly enhance the EU's ability to respond to bank failures in a proactive, credible, and efficient manner - protecting depositors and safeguarding financial stability. Without any doubt one may congratulate the Presidency but is the agreement worth to say it will bring more stability to the financial system?

At this point, the concrete texts are still under negotiation and therefore a final result is still pending. However certain pillars should not be questioned in the new European resolution framework.

1. "The resolution framework is for the few not the many" the former Chair of the SRB declared in several speeches after the entry into force of the BRRD and the SRM. And it is exactly the way the resolution framework should also be applied in the future: Primarily to banks with a balance sheet (currently) above 30 billion Euros. The new framework may try to find ways to apply in doubt the resolution framework to certain well-defined mid-sized banks under this threshold. However in no way the new framework should turn the resolution framework to a framework for each and every bank. This is particularly true for the scope of application for resolution measures and MREL requirements. It must be borne in mind that the majority of banks will still be liquidated in normal insolvency proceedings as the insolvency of a simple and regionally active bank usually does not lead to an impairment of the financial market stability of a whole Member State.

2. The resolution framework (with BRRD and SRMR) is no playground for new use cases of the means of Deposit guarantee funds. Consumers are trusting the existing and already built-up deposit guarantee schemes in Europe. They trust that they will receive their amounts within seven days after an insolvency. For good reasons the means of these deposit guarantee schemes are not under the disposal of resolution authorities. Instead, it is the main task of prudential authorities to activate a case of the deposit insurance but also to supervise deposit guarantee schemes. The CMDI should therefore avoid ways to drain the means of deposit guarantee funds for different purposes in the resolution framework. Hence, it has to be ensured that losses are borne first by the bank's shareholders and creditors. It is therefore all the more crucial to implement clear and effective safeguards on technical level for a restricted use of DGS funds for resolution objectives.

3. In addition, it is essential that the agreed CMDI upholds the super preference status for covered deposits and DGS claims. Only a super preference will enable deposit guarantee schemes to manage successfully depositor payouts by getting reimbursed by the insolvency mass. Only this reimbursement can maintain the high trust in the banking system.

4. Some voices have expressed the view that the CMDI deal marks another step towards the completion of the EU's banking union as this agreement delivers on a key commitment made in the Eurogroup statement of June 2022. It should be recalled that a union wide framework for deposit guarantee schemes already exists. The Deposit Guarantee Scheme Directive (DGSD) provides a harmonized scope of coverage of deposits, fast repayment periods, improved information and robust funding requirements. In the past the national deposit guarantee schemes have successfully built up their ex-ante funds in line with the DGSD demonstrating their resilience across various scenarios. And therefore, with regard to the trust in the framework we should stop now any ideas for the built-up of European Deposit Guarantee Scheme.

5. No less important is to strengthen institutional protection schemes (IPS) in the resolution regime respecting the characteristics and their functioning. Institutional protection schemes with their early warning systems and preventive measures make the European banking system more resilient. In this respect it is of key importance to maintain a functioning framework for IPS to implement preventive measures.

The resolution framework is no playground for new use cases of the means of deposit guarantee funds.

European lawmakers have shown in the last 15 years how they are able to regulate the European banking system. Now it is the time to finalize current projects as CMDI but afterwards to do that what the European Commission had declared from the very beginning of its current turn: to simplify the framework.