# EU bank crisis management framework

## 1. EU crisis management framework: where do we stand?

### 1.1 A welcome political agreement on CMDI

The Chair welcomed the political agreement on the Crisis Management and Deposit Insurance (CMDI) package, noting that this is good news and expressing the hope that the package will be finalised swiftly.

An industry representative emphasised that compromises were necessary on all sides to reach this agreement, given the wide range of competing priorities.

An official highlighted that, despite divergent positions between the Council and Parliament, and even within the Council itself, a difficult political compromise on CMDI has been achieved. Technical work to finalise the package is progressing well. Implementation will require the transposition of two directives into national law, which must respect the spirit of the agreement and avoid gold plating. The CMDI package should be viewed as a stepping stone towards further deepening the banking union, in line with the Eurogroup's June 2022 statement.

A central bank official pointed to the substantial progress achieved in Europe over the past decade, notably the establishment of the Single Supervisory Mechanism (SSM) and the Single Resolution Board (SRB), which provide the EU with effective crisis management tools. The CMDI agreement represents a major advance in completing the banking union.

### 1.2 CMDI: a new tool to strengthen financial stability

The Chair explained that the new "bridge-the-gap" tool can be useful, after all MREL has been used up, to support market exits whilst protecting depositors and taxpayers, thereby supporting EU financial stability. Nobody knows whether SRB may need it for the banks in its remit, but its availability is reassuring. The CMDI package also introduces a number of technical refinements that will make resolution planning more efficient and coherent. However, it does not alter the minimum requirement for own funds and eligible liabilities (MREL).

### 1.3 EDIS: still a missing piece of the banking union puzzle

The Chair underlined that while CMDI applies across the European Union, it is particularly significant for the banking union. With CMDI nearing completion, the moment is appropriate to reopen discussions on the European Deposit Insurance Scheme (EDIS).

Although views diverge on its necessity, a model based on three pillars - supervision, crisis management and resolution, and EDIS - would provide a single, coherent system to protect depositors throughout the EU in the event of liquidation.

### 1.4 Addressing liquidity in resolution: another remaining gap

An official noted that the political agreement on CMDI signals renewed confidence in the banking union project. Nevertheless, two major gaps remain that could undermine trust and amplify disruption during a crisis.

The first concerns funding in resolution. In addition to establishing a public backstop, a new tool is needed to provide liquidity during resolution—the so-called "Monday morning problem". The European Stability Mechanism's (ESM) backstop to the Single Resolution Fund (SRF) addresses this issue and is now operational.

The second gap is the lack of a common deposit insurance scheme. Rather than relying on ad hoc crisis responses, arrangements should be agreed in advance to prevent contagion and limit systemic risk. Well-designed liquidity arrangements exist in some jurisdictions, with the Nordic framework standing out as particularly effective. However, all involve some form of government support, which poses challenges in the EU institutional context. Addressing this complex issue will require strong and coordinated action across Member States.

## 2. Expectations for the political trilogues

### 2.1 CMDI: political compromise followed by rapid technical progress

A regulator observed that the speed and quality of the technical discussions have been impressive, although the process is not yet complete. It is expected that the remaining work will be finalised within the next month. One outstanding issue concerns the scope of the public interest assessment (PIA).

### 2.2 Public interest assessment: clarity without overreach

An industry representative referred to the "elephant theory" as a way to conceptualise the PIA. Just as an elephant may be hard to describe but is instantly recognisable, cases where resolution is in the public interest will be clear. The PIA should remain aligned with the political compromise, and the scope of resolution should not be expanded, as this could undermine national deposit guarantee schemes (DGSs).

An industry representative added that resolution authorities now have the possibility to apply the framework to mid-sized banks that would previously not have fallen within its remit. However, it is essential to remember during finalisation that most banks, particularly smaller ones, will continue to be liquidated under normal insolvency proceedings. Imposing resolution frameworks, including MREL requirements, on these institutions would be inappropriate. The resolution framework is designed for the few, not the many.

He also stressed that the framework is not an arena for experimenting with new uses of DGS funds. "Bridging the gap" forms part of crisis management evolution, but the use of DGS funds in resolution remains subject to strict conditions. In practice, DGS funds are already being used in resolution, and the ways in which this is done are evolving within the system.

#### 2.3 Retaining super-preference: essential for safeguarding the role of DGSs

An industry representative underlined the critical role of DGSs within the CMDI framework. It is essential to maintain the super-preference for covered deposits and DGSs. In the event of insolvency, this preference enables efficient payouts to depositors. Once payouts are made and reimbursed, DGS funds are replenished.

Authorities have previously indicated a need for greater flexibility in using available instruments. As the requirements governing the use of DGSs in resolution cases are being defined, it is crucial to uphold the core principle of the crisis management directive: losses must first be borne by the shareholders and creditors of the institutions concerned.

#### 2.4 Confirming the role of the institutional protection scheme (IPS) in EU crisis management

An industry representative highlighted that the political compromise on CMDI allows IPSs to operate within the CMDI framework, which is a positive development. IPSs, with their early warning mechanisms and preventive measures, enhance the resilience of the European banking system.

An industry representative added that IPSs also function as a type of DGS and contribute to strengthening financial stability.

#### 2.5 Providing predictability through timely completion

The Chair stressed that, while technical discussions should not be rushed, stakeholders need predictability and clarity. A speedy completion of the CMDI process would help build confidence. A lengthy transition period will be required to transpose the package into national legislation, which further underscores the importance of completing the project promptly.

## 3. Remaining gaps and priorities for the future

Emerging systemic risks call for a more agile response and a reconsideration of the EU resolution toolbox to address new threats.

#### 3.1 Strengthening EU crisis management in the face of emerging risks

A central bank official stressed the need for supervisors and resolution authorities to work closely together to ensure that stress testing for cybersecurity and geopolitical risks is appropriate and effective. Recent experience in the United States has shown how the digital era accelerates bank runs.

An official noted that increasing interconnections between banks and non-bank financial institutions (NBFIs) have turned banks into conduits for central bank liquidity to investment funds during periods of stress. NBFIs are becoming more leveraged and share exposures with banks. They are also major investors in MREL debt, meaning that shocks in one area can spread rapidly across the system. A credible framework must therefore include tools to address risks arising from NBFIs and mitigate the potential for systemic liquidity crises.

The ESM is adapting its risk assessment framework and reviewing simulation exercises to better capture new risks and spillover effects.

A regulator confirmed that the current resolution toolbox is effective for addressing known risks such as capital and liquidity shocks. However, new threats are emerging. A cyberattack on a systemically important financial institution (SIFI) or a critical infrastructure bank that corrupts its data would be particularly serious: the institution might lose visibility over its balance sheet and be disconnected from payment systems, likely resulting in failure.

In such a scenario, resolution authorities would face major challenges. Traditional tools - such as bail-in, replacing management or injecting capital and liquidity - would be inadequate. This highlights the need for an EU-level review of the resolution toolkit, similar to those conducted for the BRRD and CRD. Historically, policy responses have prepared for "the last war," which centred on capital losses and liquidity shortages. Future crises may present different challenges.

The Chair acknowledged that cyber risk is not new, but its frequency and potential impact are increasing.

#### 3.2 Four priorities for the future

An official identified four key priorities. First, firepower: the SRF backstop must be finalised, with or without amendments to the ESM Treaty. Second, further harmonisation of bank insolvency regimes to reduce costs and delays while maximising value. Third, the creation of a harmonised framework for liquidity support in resolution. Although this is a sensitive topic, it needs to be addressed in detail. Fourth, state aid: once CMDI is finalised, subsequent developments will fall under the Commission's remit, and communication should remain aligned with BRRD rules.

#### 3.3 Boosting competitiveness: simplification, proportionality and tackling sensitive issues

An official underlined that competitiveness is a political priority and a pressing issue for the banking sector. European banks are losing market share both globally and within the EU. In response, the Commission has accelerated its competitiveness report, now expected in 2026.

The main objective should be to simplify and improve the operating environment for banks, including by addressing sensitive issues such as ring-fencing practices. A more effective application of proportionality could also strengthen competitiveness. Although this remains contentious between sovereigns and banks, it should not be avoided. Lessons from past financial and sovereign debt crises must be heeded. As the Danish proverb goes, “a small fire that warms you is better than a large one that burns you.”

A central bank official cautioned that cross-border liquidity and capital waivers require careful consideration, as liquidity may not flow as expected during periods of stress. Host–home dynamics are likely to come under strain in a crisis. Without enforceable, unconditional intra-group support mechanisms in resolution planning, relaxing safeguards on cross-border liquidity and capital waivers could expose smaller host countries to disproportionate risks.

### 3.4 A holistic, competitiveness-driven approach to completing the banking union

An official stated that boosting the competitiveness of EU banks will be difficult without completing the banking union and fully leveraging the single market, one of the EU’s greatest assets.

Four principles should guide this process. First, a holistic approach recognising the interdependence of the three core workstreams. Second, a consensual process, as recommended in the Eurogroup statement, to build trust and foster stakeholder ownership. Third, applying proportionality and focusing on systemically important entities that would benefit most from an improved internal market. Fourth, ensuring that competitiveness remains the guiding principle, with each measure evaluated on its contribution to competitiveness.

The design of EDIS should be approached with creativity and openness. A phased implementation or an opt-in/opt-out model could be considered, provided proportionality is respected. A particularly positive outcome would be if the banking union became so attractive that non-Eurozone countries chose to join.

## 4. EDIS: debates, approaches and realities

The Chair recalled that discussions on EDIS began 10 to 15 years ago and that divergent views on its necessity remain pronounced.

### 4.1 The necessity of EDIS is in question

An industry representative stressed that funding and resolution capacity - particularly the public backstop - is the most critical element for effective crisis management. Since EDIS was first proposed in 2010, major changes have taken place, especially regarding DGSs.

The legislative framework has established a unified system of DGSs across the EU, with harmonised definitions and ex ante funding, enabling payouts within seven days.

Supervision arrangements are also relevant: only the largest banks are directly supervised by the ECB, while the majority remain under national supervision. This creates a disconnect between the idea of a single EDIS fund and the reality of national supervisory structures. In addition, the presence of government bonds on banks’ balance sheets must be taken into account. For EDIS to function effectively, risks across national banking systems would need to converge to a comparable level.

### 4.2 Prioritising simplification and predictability over new reforms

An industry representative highlighted that the current policy focus is on simplification. EDIS and crisis management have been debated for 15 years. Following three years of negotiations, a new crisis management framework has been agreed. Banks will need time to fully understand, discuss and implement this new framework. In this context, prioritising simplification and predictability is preferable to launching new reform discussions.

The Chair suggested that establishing a single European deposit guarantee scheme is a form of simplification.

### 4.3 EDIS: political divisions, economic challenges and procedural realities

An industry representative pointed out that, politically, Friedrich Merz recently stated his opposition to EDIS if it undermines well-functioning national systems. A Eurogroup discussion in 2022 also concluded that a consensual approach would be required, but there is currently no political agreement on EDIS, making a way forward difficult.

From an economic standpoint, strengthening banks’ financial capacities would support EU competitiveness. Free movement of capital, one of the four freedoms of the Schengen Treaty, remains an incomplete goal for cross- border banking groups. The home–host issue persists, and regulatory fragmentation hampers competitiveness. For example, the absence of a single, standardised framework and the existence of multiple parallel rulebooks for smaller and medium-sized banks are problematic.

Procedurally, deposit protection and resolution are closely linked. Completing the CMDI package - including finalising technical details and transposing it into national law - will take several years. EDIS discussions should therefore be paused and reconsidered later if needed.

### 4.4 EDIS: a step-by-step approach is the responsible path forward

A central bank official stressed that completing the banking union will not be possible without EDIS. An “all or nothing” approach will not revive the debate; a phased strategy is the most responsible path. This could start with a common liquidity backstop, followed by a reinsurance system under which national schemes could access European funds subject to strict eligibility criteria. Political courage and financial solidarity will be essential.

Full mutualisation of deposit insurance, without first addressing governance, risk convergence and supervisory alignment, could undermine rather than enhance stability. For smaller countries with limited DGS resources, unconditional pooling of liabilities would pose significant risks without ensuring fair support or operational clarity.

## 5. Ways forward for building confidence in the EU resolution framework

The Chair emphasised the importance of confidence in the framework and trust among all actors in the system.

An official reminded participants that the purpose of the banking union is to create a safer and more resilient banking system that supports both stability and growth. While the banking union has delivered on stability, a lack of integration has constrained growth.

An official argued that European institutions such as the SSM and the SRB, which have demonstrated their effectiveness, should be entrusted with broader powers.

An industry representative noted that improving EU competitiveness- particularly by removing barriers - will reinforce trust and confidence in the framework.

A regulator proposed the development of a common EU framework for cyber risk.

An industry representative stressed that the implementation of early warning and prevention systems in all European banking groups would increase the financial stability in the European banking system.

A central bank official underlined that completing the banking union, introducing EDIS and ensuring that stress testing adequately covers emerging risks are key steps to strengthening confidence.