

Reform of the European
Crisis Management and
Deposit Insurance (CMDI)
framework

Views from supervisory perspective



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Introduction

Introduction

- General importance of the current review of the European crisis management and deposit insurance (CMDI) framework
- Successful progress in crisis management at European level
- Practical experience gained in the banking union has supported this review
- Today's focus topics:

The role of supervisors in crisis management

Ensuring optionality in crisis situations



Role of supervisors in crisis management

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Development of stress level

Preparation/ planning

- Assessment of banks' recovery plans and recoverability
- Consultative role in resolution planning & assessment of banks' resolvability

Early intervention

e.g. possible application of supervisory or early intervention measures

Assessment of Failing Or Likely To Fail

e.g. supervisor in consultation with resolution authority

Determination of conditions for resolution

- Resolution
 authorities are
 responsible for
 deciding on the
 appropriate resolution
 action
- Close cooperation with the respective resolution authorities

Business as usual

Distressed situation

Failure or likely failure

CMDI proposals: early intervention and cooperation



ECB welcomes the proposals on Early Intervention Measures (EIM), in particular:

- Direct legal basis for the ECB
- Removal of overlap between EIM and supervisory measures
- Alignment of the conditions to use supervisory measures and EIM.



ECB supports very much the proposal to further enhance cooperation and information exchange with resolution authorities in legislation.

As proposed by the Commission, it will be important that **this new early warning process does not affect the well-established resolution procedure**.

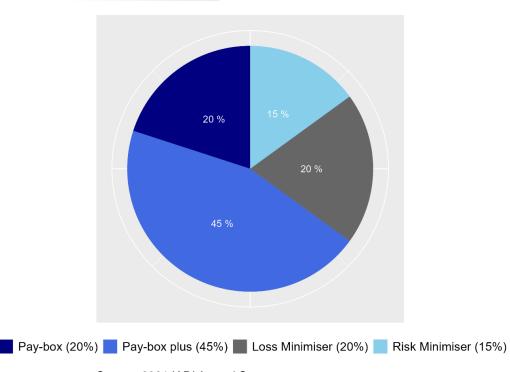


Ensuring optionality in crisis situations

Ensuring optionality in crisis situations

DGS preventive Precautionary Supervisory **Before FOLTF** measures and EIM recapitalisation measures DGS alternative **After** Resolution Liquidation **FOLTF** measures

Role of DGSs



Source: 2021 IADI Annual Survey

Advantages of transfer strategies

Compared to a liquidation, transfer strategies can:

- Improve value recovery by preserving franchise value and through faster process
- Reduce strains on DGSs' liquidity arising from payouts
- Improve depositor protection: Uninterrupted access and broader scope of protection
- Strengthen financial stability and minimise the need for government support

How can value recovery be improved by a transfer?

Transferring the **whole bank – or key parts –** often generates more value than liquidating **individual assets**

- Customer relationships
- Experienced staff
- Deposit base
- Transfer of whole bank minimises administrative costs

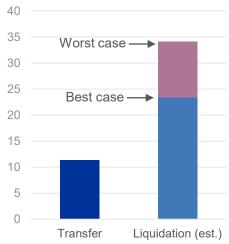
Example: Banco Popular:

- Liquidation would have inflicted 2-3 times the amount of losses on shareholders and creditors than the transfer.
- Looking at creditors alone, costs would have been 7-12 times higher.

 https://www.srb.europa.eu/system/files/media/docume

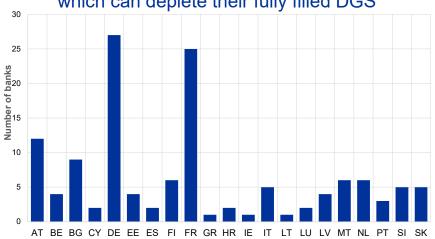
Source: Published version of BPE valuation 3: https://www.srb.europa.eu/system/files/media/document/2018-08-06%20Annex%20I%20-%20Valuation%203%20Report%20EN.pdf





Pay-outs can strain the DGS (1/2)

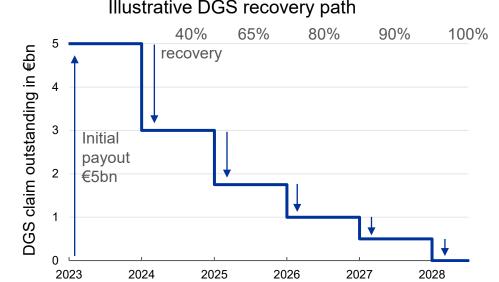




Looking at gross payout amounts, in each Member State in the banking union, at least one less significant institution can deplete its fully filled DGS with a single depositor payout.

Source: Eule, Kastelein, Sala (2022) Protecting Deposits and Saving Money, Q4 2020 Notes: The chart counts the number of LSIs, LSI groups and LSIs' hosted subsidiaries per Member State whose covered deposits match or exceed the target level of the relevant DGS.

Pay-outs can strain the DGS (2/2)



70

40

120

Even with eventual full recovery of its initial outlay (best-case scenario), a payout of €5bn can currently cost more than €400m in lost interest income/financing costs.

200

Annual cost

in €m

20

DGS bridge function to the SRF

