Key messages - EC's TARGETED CONSULTATION REVIEW OF THE CRISIS MANAGEMENT AND DEPOSIT INSURANCE FRAMEWORK – BNP Paribas alternative view

- **The steady state Banking Union can only be envisaged based on** an affirmed single rule book, the full implementation and application of its existing pillars (single supervision and single resolution mechanisms), and finally on **the full concurrent recognition of the euro area as a single jurisdiction in all its regulatory and prudential components** (liquidity and capital waivers as well as no internal MREL within the Euro zone).
- As stated by the European Commission, the banking industry shares the view that the "current framework creates incentives for national authorities to deal with failing or likely to fail (FOLF) banks through solutions that do not necessarily ensure an optimal outcome in terms of consistency and minimisation in the use of public funds ... due to a restrictive approach to the public interest assessment in the Banking Union, an insufficient build-up of loss-absorbing resources held by non-retail investors in some mid-sized institutions and the misalignment between the conditions for accessing the resolution fund and certain (less stringent) conditions for accessing other forms of financial support under existing EU State aid rules, as well as the availability of tools in certain national insolvency proceedings (NIP), which are in practice similar to those available in resolution."
- Due to such national discrepancies and to socio-political considerations (difficulty to implement burden sharing on retail customers), experience has shown that the implementation of what appeared to be clear rules has deviated from the spirit of these rules and from the intention of the European lawmakers. Solutions close to bail-out have often been preferred over effective liquidation and consolidation of the European banking sector has been prevented.
- In order to remedy this type of behaviour and to foster the development of the Banking Union and of **effective single European resolution and supervision mechanisms,** we would propose a simple, predictable and empowering system where each stakeholder assumes clear responsibilities. All the banks with a balance sheet of at least € 15bn[1] should be deemed susceptible of positive public interest assessment a priori and would fall under the sole responsibility of the SRB (and not of the NRA) upon occurrence of a FOLTF event. They would all be subject to MREL requirements, including a recapitalisation amount, and they would all have access to the SRF at the same conditions (burden sharing and prior bail-in of 8% of TLOF).
- Resolution would in any case imply significant changes to the business model of a bank. The idea of phoenix banks, pretty much the same after resolution as before, should be banned, which should also be reflected in the level 1 texts. The SRB and the NRAs would be expected to adjust their mind set accordingly and to focus on anticipating the actual restructuring of banks under their respective responsibility with a relatively high FOLTF risk.
- Similarly, in case of difficulties, these banks should fall under the SSM. Consequently, the possible use of early intervention or preventive measures would be decided at European level in a consistent way, with due coordination between the ECB and the SRB. Such measures would no longer be available at national level for these banks.
- If not already under the SRB remit, smaller banks with a balance sheet below € 15bn would remain under the responsibility of National Resolution Authorities (NRAs) in case of FOLTF event and would be expected to rapidly exit the market in such case.
- Where available, preventive or alternative measures could remain possible for these smaller banks, at the cost of DGSs. A harmonised set of rules should however apply across the EU: same state aid rules as in resolution, least cost test, burden sharing, viability assurance (AQR), preventive action available only once per bank. In order to ensure effective and consistent implementation, early intervention or preventive measures should however not remain under the sole decision of NRAs or DGSs but would also require the SSM approval.
- **Regarding the use of DGSs**, a dilution of the privileged rank of covered deposits with extension to all deposits (including corporate ones), to allow DGSs to intervene more widely, should be avoided and further changes in the creditor hierarchy too. It would impede burden sharing, a key principle of the CMDI framework, and trigger moral hazards and liquidity issues.

[1] *The number of banks exceeding that threshold within the Banking Union amounts to about 200, out of a total number of about 3,000.*

- **Concerning Public Interest Assessment** (PIA),
- The key principle that positive PIA implies resolution and negative PIA implies wind-up and rapid market exit should be reiterated and effectively applied across the EU/Banking Union.
- PIA should not be interpreted too restrictively and it should cover as many banks as possible with national importance. It should also be better framed and applied consistently across the EU, which implies an assessment at European level, i.e. by the SRB.
- A new harmonised regime for administrative liquidation, which would create significant risks of competition distortion, blur the system and open the door to arbitrages, should be rejected.
- The proposed system where a balance sheet above or below € 15bn implies a presumption of positive or negative PIA respectively would reaffirm the above-mentioned key principle with 2 clearly predictable possible regimes for failing banks. It would also limit risks of legal challenges and remain well manageable (with about 200 banks under the SRB remit).
- **Concerning conditions of funding and access to the resolution (SRF) and DGS funds,**
- Access to the public or mutualised funds should be subordinated to effective burden sharing. This burden sharing needs to be as demanding as it is today, in relation with the use of extraordinary public resources or mutualised funds collected on competitors. From this viewpoint (extraordinary actions, fairness vis-à-vis the rest of the marketplace), it would be misguided to alleviate the level of burden sharing required by the existing framework. To reduce further the burden on other banks and minimise moral hazard as well as competition distortions, adequate burden sharing must be imposed on any failing bank's shareholders and creditors, (e.g., through the write-down of equity and bail-in of subordinated debt instruments), when the relevant DGS deploys preventive or alternative measures in a liquidation. This should hold whether the DGS is utilising public funds subject to state aid restrictions, or privately mutualised funds. In addition, each alternative measure should be subject to the least cost test and to a numerical cap (e.g. 25% of the outstanding size of the DGS) to ensure the DGS is not excessively depleted.
- This key principle of burden sharing must also apply to depositor-funded banks in case of FOLTF event, whatever their size. Equity and debt holders of such banks must be clearly informed about the risks attached to their investments, in line with MIFID, and protective rules for retail investors should be reinforced as appropriate, such as minimum thresholds for such investments, in order to prevent socio-political issues upon FOLTF event.
- The calculation method of the SRF contributions should be amended to better reflect the calculation principles (size and risk) set out in the regulation. We propose the introduction of RWAs as relevant size factor and of the Pillar 2 Requirement as complement to the single risk factor indicator.
- The contributions from banks to the resolution and deposit guarantee funds should systematically be proportional to the probability of using them. Provisions allowing highly concentrated banking sectors to limit the target level of deposit guarantee funds to 0.5% of covered deposits must be confirmed and implemented.
- To avoid any distortion or accounting arbitrage effect, all the reports used to calculate these different contributions should be exclusively based on the European accounting rules in force, i.e. the IFRS standards.
- In addition, EDIS/EDRIS should remain a scheme and not become a fund. It should intervene only in liquidity support of DGS in need, lending them funds it would borrow from other DGS, the ECB, the SRF or the market. It could benefit of an emergency borrowing line from the SRF.
- An EDIS that would mutualise costs and losses of national systems at European level would only reinforce the bank-sovereign doom loop, support national discrepancies at the expenses of the level-playing field and prevent the consolidation of the European banking sector.

BNP Paribas is committed to support the achievement of the Banking Union. It expects that an appropriate end-point of the steady state framework will be precisely defined and agreed upon at EU level and, in its opinion, EDIS is not the "missing link".

The steady state Banking Union can only be envisaged based on an affirmed single rule book, the full implementation and application of its existing pillars (single supervision and single resolution mechanisms), and finally on the full concurrent recognition of the euro area as a single jurisdiction in all its regulatory and prudential components (liquidity and capital waivers as well as no internal MREL within the Euro zone).

As stated by the European Commission, the banking industry shares the view that the "current framework creates incentives for national authorities to deal with failing or likely to fail (FOLF) banks through solutions that do not necessarily ensure an optimal outcome in terms of consistency and minimisation in the use of public funds ... due to a restrictive approach to the public interest assessment in the Banking Union, an insufficient build-up of loss-absorbing resources held by non-retail investors in some mid-sized institutions and the misalignment between the conditions for accessing the resolution fund and certain (less stringent) conditions for accessing other forms of financial support under existing EU State aid rules, as well as the availability of tools in certain national insolvency proceedings (NIP), which are in practice similar to those available in resolution."

Due to such national discrepancies and to socio-political considerations (difficulty to implement burden sharing on retail customers), experience has shown that the implementation of what appeared to be clear rules has deviated from the spirit of these rules and from the intention of the European lawmakers. Solutions close to bail-out have often been preferred over effective liquidation and consolidation of the European banking sector has been prevented, which goes against the objectives of the Commission, the EU lawmakers and supervisors.

<u>Questions 4, 20 and 21 – Sources and conditions of funding in resolution and insolvency:</u>

- It is essential that the CMDI framework minimises moral hazard and strengthens market discipline to ensure that equity accurately reflects risk and to incentivise banks to improve resolvability. Use of public or mutualised funds should therefore be minimised and limited to where these are necessary to ensure financial stability. The framework should impose market discipline and send the clear message that it is the primary responsibility of each bank to ensure that it has the loss-absorbing resources available to manage its failure in an orderly manner.
- Access to the public or mutualised funds should be subordinated to effective burden sharing, which is a key principle of the CMDI framework to be reaffirmed. This burden sharing needs to be as demanding as it is today, in relation with the use of extraordinary public resources or mutualised funds collected on competitors. From this viewpoint (extraordinary actions, fairness vis-à-vis the rest of the marketplace), it would be misguided to alleviate the level of burden sharing required by the existing CMDI framework. To reduce further the burden on other banks and minimize moral hazard as well as competition distortions, adequate burden sharing must be imposed on any failing bank's shareholders and creditors, (e.g., through the write-down of equity and bail-in of subordinated debt instruments), when the relevant NRA or DGS deploys preventive or alternative measures in a liquidation. This should hold whether the DGS is utilising public funds subject to state aid restrictions, or privately mutualised funds. In addition, each alternative measure should be subject to the least cost test and to a numerical cap (e.g. 25% of the outstanding size of the DGS) to ensure the DGS is not excessively depleted.
- This key principle of burden sharing must also apply to depositor-funded banks in case of FOLTF event, whatever their size. Equity and debt holders of such banks must be clearly informed about the risks attached to their investments, in line with MIFID, and protective rules for retail investors should be reinforced as appropriate, such as minimum thresholds for such investments, in order to prevent socio-political issues upon FOLTF event.

- It is also necessary to review of the calculation method of the SRF contributions to meet shortcomings raised by the General Court. To better reflect the calculation principles (size and risk) set out in the regulation. We propose the introduction of RWAs as relevant size factor and of the Pillar 2 Requirement as complement to the single risk factor indicator.
- The contributions from banks to the resolution and deposit guarantee funds should systematically be proportional to the probability of using them. Accordingly, provisions allowing highly concentrated banking sectors to limit the target level of deposit guarantee funds to 0.5% of covered deposits must be confirmed and implemented, considering that, in case of failure, a bank in a concentrated banking sector is likely to be subject to resolution proceedings, keeping covered deposits and the relevant DGS unaffected. This should apply where the banking sector is clearly highly concentrated according to the result of calculations made on a consolidated basis, as provided by the Directive, as for instance in France.
- In order not to generate moral hazard and to be consistent in the calibration of the second (resolution) and the third (deposit guarantee) pillars of the Banking Union, contributions to the two mechanisms should also be inversely proportional and reflect the probability of institutions to be covered either by a resolution procedure (SRM) or by an insolvency procedure (SDRM).
- Furthermore, in order to avoid possible distortions and arbitrages and to ensure fairness across the system, all the reports used to calculate these different contributions should be exclusively based on the European accounting rules in force, i.e. the IFRS standards.
- Concerning the SRF, contributions generate very significant costs for banks. Solutions should be put in place to reduce this and to avoid superfluous accumulation of funds that should only be used in exceptional circumstances (as MREL targets are being implemented and expected to be duly met by all concerned banks). Accordingly, the SRF target size should be capped and should not exceed 1% of the covered deposits as of end 2023.
- The establishment of an ad hoc resolution mechanism for medium-sized banks, maintaining their access to the SRF but at quite favourable conditions, i.e. without having to bail-in at least 8% of the TLOF (Total Liabilities and Own Funds) would be inconsistent with the single rule book rule "same activity, same risk, same rules".
- Furthermore, as foreseen in the SRMR, it should be reiterated that all banks should be subject to MREL. In particular, mid-size ones should have MREL objectives including a recapitalisation amount, all being susceptible of being resolved. As a matter of fact, there is clear empirical demonstration of the ability of these banks to raise MREL at fair and reasonable cost, even in the recent past. Moreover, that would constitute a protection for the depositors and for the DGSs.
- Finally, as interventions by the SRF or the DGS consumes resources collected from banking peers and may raise competition issues, the contributing fund should benefit from claw-backs stemming from its intervention.

<u>Questions 5, 6 and 9 – Use of DGS:</u>

- Regarding DGS preventive measures, we would like to stress that a DGS' primary role is to protect covered deposits.
- The extensive use of deposit guarantee funds beyond their function of compensating depositors and notably preventive interventions to avoid liquidations go beyond the spirit of the 2nd and the forthcoming 3rd Pillar of the banking Union.
- It looks inappropriate that resources collected by DGSs on their member banks be used to restore the viability of a failing (non-critical) competitor. DGSs should use those resources and their specific powers (preventive actions, alternative measures, pay-out) to organise the exit of the market in the most efficient possible way, with an immediate or short-term liquidation perspective, something that was not often enforced so far.
- This liquidation perspective can be set through a (pragmatic) requirement for market prices when using transfer tools and through adequate least-cost tests. Then, such a liquidation

perspective ensures an effective burden sharing by the stakeholders of the failing bank (according to the creditor hierarchy), as well as the level playing field for all market players.

- Therefore, where available, preventive or alternative measures at the hand of national authorities could only be maintained for small banks with a balance sheet of less than € 15bn. Such measures should nevertheless be borne by the DGSs at national level, without any impact on future mutual funds at European level such as EDIS or EDRIS other than possible liquidity support.
- It is important that DGSs act in a consistent and consequent way across the different member states. A harmonised set of rules should however apply across the EU: same state aid rules as in resolution, least cost test, burden sharing, viability assurance (AQR), preventive action available only once per bank.
- In order to ensure effective and consistent implementation, early intervention or preventive measures should however not remain under the sole decision of NRAs or DGSs but would also require the SSM approval.
- The relationship between preventive action by DGSs and the European State Aid framework should also be clarified to avoid different outcomes in similar situations according to how DGSs are set-up or depending on whether BRRD or national insolvency rules apply.
- Mutual funds at European level such as EDIS or EDRIS should intervene to support of DGSs only when compliance with the conditions of Article 10 (2) of the DGSD is fulfilled[2].
- DGSs should not have the opportunity to reconstitute their funds too often and too quickly at the expenses of sound banks and at the risk of destabilizing the national or even European financial system. Accordingly, limits to the annual contributions they can require from the banks should be set.
- Furthermore, any preventive intervention to avoid declaring an institution FOLTF should be limited to one intervention per establishment in order not to unfairly penalize other contributing establishments in the country or unfairly distort competition and keep "zombie" banks artificially alive. In the same vein, the conditions that usually apply to precautionary support measures (solvent banks, AQR, stress test etc.) should also apply to DGS preventive measures given their similarities. Finally, the different DGS setup across the EU can lead to different outcomes in terms of state aid control. The ensuing distortions between Member States and level-playing field issues should therefore be minimised and the state aid framework should be clarified to that effect.
- Obviously, European authorities should be able to ensure effective enforcement of the rule book. To that effect, the NRAs and DGSs should provide an annual report to the SRB, the SSM and the Commission detailing ex-post all their interventions and demonstrating effective market exit of failing or failed banks.
- As preventive measures would consume resources collected from domestic peers, the intervening DGS should benefit from a claw-back stemming from its intervention.
- A dilution of the privileged rank of covered deposits with its extension to all deposits (including corporate ones) in order to allow deposit guarantee systems to intervene more widely must be avoided as this would lead to major moral hazards. On the one hand, poorly managed banks could attract deposits despite high risk and large depositors would be relieved of their due diligence and fiduciary duties. On the other hand, this could generate significant impacts in terms

[2] *Member States shall 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. Where the financing capacity falls short of the target level, the payment of contributions shall resume at least until the target level is reached again. If, after* ***the target level has been reached for the first time, the available financial means have been reduced to less than two-thirds of the target level, the regular contribution shall be set at a level allowing the target level to be reached within six years..*** *Member States may extend the initial period referred to in the first subparagraph for a maximum of four years if the DGS has made cumulative disbursements in excess of 0,8 % of covered deposits.*

of liquidity and financial stability, with more volatile corporate deposits replacing short- and medium-term notes and bonds.

Question 10 & 18 -– PIA & orderly liquidation tool

- The key principle that positive PIA implies resolution and negative PIA implies wind-up and rapid market exit should be reiterated and effectively applied across the EU/Banking Union.
- A significant loophole in the BRRD, which translates notably into the uneven and inconsistent implementation of the public interest assessment by resolution authorities, allowed several banks to fall into national insolvency proceedings and benefit from state aid as enabled by national law. The founding principles of the Single Resolution Mechanism (SRM), i.e. burden sharing (of shareholders and creditors) through bail-in for the institutions to be resolved on the one hand and through liquidation, without state aid, for the other institutions on the other hand, should be duly and consistently applied in all member states. This should be further clarified in related level 1 texts such as the BRRD/SRMR as in the 2013 Banking Communication concerning state aids.
- PIA should not be interpreted too restrictively and cover as many banks as possible with national importance. It should also be better framed and applied consistently across the EU, which implies an assessment at European level, i.e. by the SRB.
- Through restrictive approach to the PIA as the entry gate to resolution, some countries use preventive interventions (either via DGS or state aid under the form of precautionary recapitalisation or so-called "market-conform" recapitalisation) to circumvent a founding principle of the resolution, i.e. burden sharing and bail-in. Consequently, as stressed by EU legislators and regulators, zombie banks are artificially kept alive in Europe, crippling the potential for economic growth, distorting competition and hindering sector consolidation.
- In order to remedy this type of behaviour and to foster the development of the Banking Union and of effective single European resolution and supervision mechanisms, we would propose a simple, predictable and empowering system where each stakeholder assumes clear responsibilities. All the banks with a balance sheet of at least € 15bn should be deemed susceptible of positive public interest assessment a priori and would fall under the sole responsibility of the SRB (and not of the NRA) upon occurrence of a FOLTF event. They would all be subject to MREL requirements, including a recapitalisation amount, and they would all have access to the SRF at the same conditions (burden sharing and prior bail-in of 8% of TLOF).
- Resolution would in any case imply significant changes to the business model of a bank. The idea of phoenix banks, pretty much the same after resolution as before, should be banned, which should also be reflected in the level 1 texts. The SRB and the NRAs would be expected to adjust their mind set accordingly and to focus on anticipating the actual restructuring of banks under their respective responsibility with a relatively high FOLTF risk.
- Similarly, in case of difficulties, these banks (with a balance sheet above € 15bn) should fall under the SSM. Consequently, the possible use of early intervention or preventive measures would be decided at European level in a consistent way, with due coordination between the ECB and the SRB. Such measures would no longer be available at national level for these banks.
- If not already under the SRB remit, smaller banks with balance sheet below € 15bn would remain under the responsibility of National Resolution Authorities (NRAs) in case of FOLTF event and would be expected to rapidly exit the market in such case.
- Where available, preventive or alternative measures could remain possible for these smaller banks, at the hand -and at the cost of NRAs and DGSs. A harmonised set of rules should however apply across the EU: same state aid rules as in resolution, least cost test, burden sharing, viability assurance (AQR), preventive action available only once per bank. In order to ensure effective and consistent implementation, early intervention or preventive measures should however not remain under the sole decision of NRAs or DGSs but would also require the SSM approval.
- In order to ensure effective market exit further to a preventive intervention as further to a FOLTF declaration, the DGS should systematically become the controlling shareholder of the bank upon

preventive intervention, with a clear mandate to find a short term solution to market exit. This should be stated in the regulation.

- The rules should also clearly state and apply to all resolution authorities that state aid and any DGS alternative measure (as it could be qualified as state aid) may not be incorporated in the liquidation counterfactual analysis for the public interest assessment.
- Obviously, European authorities should be able to ensure effective enforcement of the rule book. To that effect, the NRAs and DGSs should provide an annual report to the SRB, the SSM and the Commission detailing ex-post all their interventions and demonstrating effective market exit of failing or failed banks.
- Under this proposed simplified mechanism with a clear threshold (total balance sheet of € 15bn) between resolution by the SRB or wind-up by the NRAs, an orderly liquidation tool would be superfluous. In any case, it must be avoided. Otherwise, there is a significant risk that resolution would become widely obsolete and only reserved for G-SIIs and top-tier banks. Such envisaged tool would thereby create a significant distortion to competition in the single market. While directly competing against G-SIIs and top-tier banks, smaller banks would not be subject to the constraints of the resolution framework in going-concern and would benefit from mutualized resources without strings attached in gone-concern.
- We would like to underline that the resolution framework already provides a comprehensive set of harmonised tools, including the sale of business or asset separation tool, which allow carving out a “good bank” and winding down a “bad bank”. If the need arises, it also provides external funding to support a resolution with harmonised and clear conditions to access the SRF and DGS funds.

<u>Question 11 - FOLF and insolvency triggers:</u>

- The articulation between the Resolution Measures and Insolvency proceedings and their respective trigger events is unclear, which prevents legal certainty and predictability. It is for instance possible that, upon a FOLTF event, the SRB and a national court consider respectively that neither the conditions for a resolution action at EU level nor those for an insolvency procedure under the relevant national legislation are met for a cross-border banking group.
- Therefore, there is a need to harmonise Banking insolvency rules in Europe for insolvency triggers following FOLTF in order to ensure a level-playing field and to avoid cross-border NCWO issues.

<u>Questions 29 and 30 - Harmonisation of the creditor hierarchy:</u>

- Further changes in the hierarchy of creditors should be avoided because this would generate side effects that are neither controllable nor desirable such as eviction on other debts eligible to MREL or on banks’ funding capacity and costs.

<u>Questions 31 and 32 – Depositor insurance:</u>

- Further harmonisation among Member States for the protection of depositors should be sought but possible major (down)side effects should be carefully avoiced.

<u>Questions 34, 35, 36,37 and 38 – EDIS:</u>

- (Q38) The Single Deposit Refinancing Mechanism should only benefit Credit institutions members of a National or Dedicated Deposit Guarantee Scheme as defined in Directive 2014/49/UE, subject to the supervisory (CRR & CRD) and resolution (BRRD & SRMR) European legislative frameworks.
- ((Q38) The Single Deposit Refinancing Scheme (EDRIS) should only be introduced in parallel with certain sanity conditions (Asset Quality Reviews, NPL trigger, minimum funding of national

of national DGS…) to be met by all institutions potentially benefiting from such a scheme in order to avoid any moral hazard.

- (Q37) The functioning of the Single Deposit Refinancing Mechanism should only be structured around an EDRIS. Therefore, EDRIS should support national or dedicated deposit guarantee funds (NDGF) only through liquidity provision in the form of loans while potential losses should only be borne by the requesting NDGF before being compensated by the relevant national industry over time.
- Any other initiative, going beyond refinancing in liquidity, seems misguided and could entail major contagion and pro-cyclical effects. An EDIS that would mutualise costs and losses of national systems at European level would only reinforce the bank-sovereign doom loop, support national discrepancies at the expenses of the level-playing field and prevent the consolidation of the European banking sector.
- Any compensation of preventive actions would only remove any incentive for NDGF to act in a disciplined way and trigger risks of creating vicious circles of support to zombie banks at the expenses of the sound ones.
- (Q37) The EDRIS should only be activated once the requesting NDGF has been activated and depleted, to reduce any moral hazard from an ex-ante trigger of EDRIS. Contributions to the EDRIS should be called only from NDGFs and not directly from banks. In practice, EDRIS would call other NDGFs in liquidity ex-post, in proportion to the contributions made ex-ante by NDGFs' members, as provided by the DGS Directive. NDGFs' contributions would thus remain at the national level until the activation of EDRIS.
- (Q37) The ex-post contribution of NDGFs to EDRIS should be capped in order to ensure, in every Member state, a remaining funding level that should be defined in the Regulation. This feature is essential in order to avoid any contagion throughout euro area banks that could lead to a systemic crisis.
- (Q37) The loan provided by EDRIS to the requesting NDGFs should be refunded prior to the replenishment of the requesting NDGFs.
- (Q 34, 35, 36) Beyond the fact that contributions to the SRF and to DGS mechanisms should be inversely proportional so as to reflect the probability of institutions to be covered either by a resolution procedure (SRM) or by an insolvency procedure (SDRM), the principle of cost neutrality defined in Directive 2014/49/EU as well as in the draft Regulation amending Regulation 806/2014, proposed by the European commission in November 2015, must be respected with:
  - ✓ The possibility to contribute to NDGFs with Irrevocable Payment Commitments (IPCs). The rule that IPCs should not be deducted from own funds should be affirmed in the level 1 text.
  - ✓ Provisions allowing highly concentrated banking sectors to limit the target level of deposit guarantee funds to 0.5% of covered deposits must be confirmed and implemented, considering that, in case of failure, a bank in a concentrated banking sector is likely to be subject to resolution proceedings, keeping covered deposits and the relevant DGS unaffected.

  It is therefore mandatory to build a European system that is not more expensive than national systems.
- Accordingly, the EDRIS should remain a scheme and not become a fund. It would fund itself through debt issued to DGSs, the ECB, the SRF or the market and, as explained above, it would lend funds to DGS in need but not support their losses.
- In case of urgent need, the EDRIS could benefit from an emergency drawing right on the SRF.