COMPLETING THE BANKING UNION

Reform of the crisis management and deposit insurance framework (CMDI)
April 2023

Objectives of the reform

- Preserving financial stability and protecting taxpayers’ money
- Better protection for depositors
- Shielding the real economy from the impact of bank failure

What are we doing?
Making the system of handling banks failure and shielding depositors more effective especially for smaller and mid-sized banks

Mid-size and smaller banks
Business model with high share of deposits in the balance sheet

Before the reform
If bank fails: losses need to be absorbed by...
- Shareholders & creditors
- Depositors
- National Resolution Fund / Single Resolution Fund (in the Banking Union)

After the reform
If bank fails: losses can be absorbed by...
- Shareholders & creditors remain first line of defence
- Deposit guarantee scheme (instead of depositors)
- National Resolution Fund / Single Resolution Fund (in the Banking Union)
Privately funded safety nets (e.g. Deposit Guarantee Schemes and resolution funds) should be put to good use to reinforce our crisis management toolbox, as a complement to banks’ internal loss absorption capacity.

Levels of safety nets financed by the banking sector in the Banking Union by 2024

<table>
<thead>
<tr>
<th>Single Resolution Fund</th>
<th>Deposit Guarantee Schemes</th>
</tr>
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<tbody>
<tr>
<td>80 billion* €</td>
<td>55 billion* €</td>
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</table>

* Amounts expected by the end of the build-up phase

Safety nets barely used in resolution

By relying on safety nets, we limit the use of taxpayers’ money
Applying resolution can improve cost-efficiency, supporting the real economy and its competitiveness.

**LOCAL PUBLIC ENTITY**  
(e.g. municipalities)  
For instance EUR 300 000 in bank account, offering services to the local community

**SMALL COMPANY**  
active on local markets  
For instance EUR 220 000 in bank account, catering for working capital (pay salaries/invoices, supply chain)

**SAVERS**  
For instance EUR 130 000 in bank account, as a result of lifetime saving

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**FAILURE**  
of the mid-size/smaller bank

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### BEFORE THE REFORM

- **Low incentive** to choose resolution for smaller/mid-size banks

| 100 000 €: protected*  
Rest of deposits: low chance to recover |
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**Pressure on public funds**

### AFTER THE REFORM

- **Higher incentive** to choose resolution for smaller/mid-size banks, e.g. facilitate transfer of deposits to another bank

| 100 000 €: protected  
Rest of deposits: uninterrupted access, e.g. through a transfer to another bank |
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**Better protection for public funds**

*National option to protect deposits from public entities*
The level of coverage of EUR 100 000 per depositor and bank remains for all EU eligible depositors

The reform will improve depositor protection across the crisis management framework

<table>
<thead>
<tr>
<th>Temporary high balances on bank accounts</th>
<th>Deposits from public entities</th>
<th>Protection of client funds’ deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harmonisation of the protection of the amounts in excess of EUR 100 000 linked to life events such as:</td>
<td>Harmonisation of the protection of deposits from public entities to reduce losses on public funds such as:</td>
<td>Client funds held by non-bank financial institutions will now be protected:</td>
</tr>
<tr>
<td>Real estate transactions</td>
<td>Schools, universities</td>
<td>E-money institutions</td>
</tr>
<tr>
<td>Insurance indemnities</td>
<td>Hospitals</td>
<td>Payment institutions</td>
</tr>
<tr>
<td>Inheritance</td>
<td>Municipalities</td>
<td>Investment firms</td>
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