

Key messages on the Review on Banks' Crisis Management and Deposit Insurance Framework (CMDI) during Kangaroo Group (7 June 2023).

On 7 June 2023, Karolin Schriever, Executive Member of the Board, of the German Savings Banks Association (DSGV) took part in a debate hosted by the Kangaroo Group on "Supporting medium-sized smaller banks in the EU – the European Commission's new CMDI regime".

Background

- The European Commission presented the Review on Banks' Crisis Management and Deposit Insurance Framework (CMDI) on 18 April 2023. It seeks far-reaching changes to the Bank Recovery and Resolution Directive (BRRD), the Single Resolution Mechanism Regulation (SRMR) and the Deposit Guarantee Schemes Directive (DGSD).
- The proposals of the CMDI review threaten to severely restrict preventive, i.e. institution-securing measures by introducing numerous preconditions: coordination processes with the supervisory and resolution authorities, implementation of a least cost test, setting of a strict timetable in advance for the repayment of liquidity protection measures, limitation of the amount of funds that can be used, absence of a threat to the existence of the institution.
- This has severe negative implications on the proper functioning of institutional protection schemes (IPS) including the one of the DSGV.

Main Messages of DSGV during the debate

- We agree that a strong CMDI framework is important, but we do not need a complete overhaul as proposed by the European Commission. The focus needs to be on financial stability. The proposed measures instead erode depositors' trust.
- "A resolution for all" comes with a significant price tag. In order to provide the necessary funding, well-functioning DGS would be drained to make their funds available for resolution.
- The Eurogroup statement of June 2022 was very clear in our reading: the CMDI Review will have to preserve a functioning framework for IPS. The CMDI Review, however, could not be further away from this commitment as it contains a number of elements that are not compatible with the proper functioning of IPSs. 100mn customers in the EU trust that their deposits are well protected by an IPS.
- Without a carve-out, IPSs would be bereft of their preventive capabilities, thus actually reducing stability in a crisis.
- Policymakers should actively embrace the diversity of the EU's financial sector. It would be incredibly wrong to promote more concentration and bigger banks as a lesson learned from recent cases in the US or Switzerland.

About Deutscher Sparkassen- und Giroverband (German Savings Banks Association, DSGV):

DSGV is the umbrella organisation of the Sparkassen-Finanzgruppe. It is funded by the regional savings banks associations together with the Landesbanken. It represents the interests of the Sparkassen-Finanzgruppe on banking policy, regulatory law and other banking industry issues on a national and international level. It also organises decision-making and stipulates strategic direction within the Group, acting in cooperation with the regional associations and other Group institutions.