
Press release

AFME welcomes Commission proposals on Crisis Management and Deposit Insurance Framework

18 April 2023

Following the European Commission's publication of its proposed Crisis Management and Deposit Insurance Framework (CMDI) review today, **Sahir Akbar, Head of Resolution Regulation at AFME** said:

"Today's targeted proposals are another step along the journey to completing the Banking Union. They will improve the resolution framework so that any possible bank failures are effectively managed, irrespective of size, model and location.

"In particular, we note the proposals for more harmonisation through amendments to the Public Interest Assessment (PIA) and Least Cost Test (LCT). This will increase predictability and credibility, ensuring a coherent application of rules across Member States. We therefore consider this essential for ensuring a level playing field.

Nevertheless, we note that the proposal broadens the framework to enable wider use of the Deposit Guarantee Scheme (DGS). Here we would caution that such funds should not be used to finance institutions that are not viable. It is welcome that the European Commission has stipulated conditions and safeguards to ensure this is not the case, and these are critical to minimising moral hazard. It is also important that banks' loss-absorbing capacity remains the first line of defence. Furthermore, in keeping with the 'polluter-pays' model, the wider use of DGS compounds the need for contributions to the scheme to be proportionate with the risk a bank poses to the fund.

"Other elements of the proposals, such as changing the creditor hierarchy, will need to be considered carefully to ensure they do not give rise to any unintended consequences, and to ensure that any reforms to the resolution framework do not prejudice the extensive progress made so far.

"At AFME we have always supported the development of effective recovery and resolution framework in Europe and look forward to actively engaging with the European Commission and the co-legislators on these latest proposals."

AFME believes that the co-legislators should focus, in particular, on the following elements in the upcoming negotiations:

1. Enhancing the credibility, predictability and consistency of the CMDI framework, further enhancing financial stability, without adversely impacting the progress made to date on resolution.
2. Not increasing contributions to mutualized funds, but better aligning contributions with the risk that an individual institution poses to the fund.
3. Minimizing risk to taxpayers and moral hazard by ensuring a consistent, harmonized and careful approach across EU member states to the use of common or mutualized funds to absorb losses, subject to the Least Cost Test, supporting market discipline and avoiding competitive distortions.

4. Being consistent in the tools and application of the framework at EU level in order to ensure that all banks regardless of their size or country of origin can fail in an orderly manner, have a plan in place to provide for this and have the resources to support it.
5. Supporting strong cross-border cooperation and minimize fragmentation both within the EU and with third countries.

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About AFME

AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu. Follow us on Twitter [@AFME_EU](https://twitter.com/AFME_EU)