

TEN YEARS OF BANK RESOLUTION IN EUROPE: DEVELOPMENTS, LESSONS LEARNED AND FUTURE CHALLENGES

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This article is the sole responsibility of the authors and does not necessarily reflect the opinion of the Banco de España or of the Eurosystem.

Abstract

This article examines developments in the European bank resolution framework over the last decade, since the creation of the Single Resolution Mechanism and the Single Resolution Board in 2015. Its origins lie in the weaknesses exposed by the major financial crisis of 2008 and in the need to establish a uniform, predictable and sector-funded regime for tackling banking crises. We review the main milestones achieved since then, including most notably the creation of the Single Resolution Fund and institutions' compliance with the minimum requirement for own funds and eligible liabilities. Also, we analyse recent banking crises, both within and outside the Banking Union, highlighting the main lessons learned. Furthermore, we identify outstanding challenges, such as the need to improve the liquidity support mechanism in resolution, implement the European deposit guarantee scheme and harmonise national insolvency regimes. Lastly, we highlight the key new developments of the new European legislative package on crisis management and deposit insurance (CMDI), which improves the current resolution regime and enables national deposit guarantee schemes to play a more significant role in the management of banking crises.

Keywords: resolution, Single Resolution Mechanism, banking crises, MREL, CMDI.

1 Bank resolution: origins and foundations

The Great Recession, which took place in 2008-09, was triggered by a severe financial crisis with drastic consequences for the real economy. The excessive accumulation of risks on banks' balance sheets led to massive losses for institutions, exacerbated by the rapid deleveraging processes they were forced to undertake. The limited loss-absorbing capacity of some institutions caused numerous bank failures, which had a major direct impact on the global economy and on the fiscal capacity of governments worldwide, and resulted in financial instability and a deep sovereign debt crisis. This was particularly significant in the European Union (EU), especially following the bail-out of credit institutions using public funds.

The banking sector offers products and services that are essential to the functioning of the economy, through the granting of loans and credit, the provision of payment services and, above all, the taking of deposits. Thus, the failure of a credit institution can have a significant impact on the economy. This is why, when no private alternative has been found, banking crises have traditionally been resolved through a public bail-out, as resolving them through ordinary insolvency proceedings can, at times, lead to greater instability in the financial system, a contagion effect on the other institutions and, ultimately, a larger increase in the direct and indirect economic costs generated by the banking crisis and a greater spillover of its effects into the real economy.

The use of public funds has been particularly pronounced in systemic crises, when it was not possible to find solvent buyers or buyers with sufficient appetite to purchase troubled institutions, or when there was a widespread lack of confidence in the market and with regard to the true scale of the crisis. However, one of the fundamental problems with public bail-outs is that they exacerbate the vicious circle between banking risk and sovereign risk. State funding for the bail-out of a financial institution, whether by absorbing losses or supporting its recapitalisation, has a significant impact on the public finances, thereby increasing the public deficit. This also creates disparities in the way in which each crisis is resolved and, therefore, generates greater market uncertainty, particularly among creditors, including depositors.

In Spain, the effects of the Great Recession manifested themselves in the bursting of the property bubble and a sharp rise in unemployment, and had a severe impact on the banking sector, especially savings banks, which had considerable exposure to the property sector and suffered from governance shortcomings; this brought to light the vulnerabilities that had built up over the years of economic expansion. Public intervention in the financial system involved the disbursement of substantial amounts of taxpayers' money, but it prevented the greater financial instability that would have resulted had the failing credit institutions been wound up through ordinary insolvency proceedings, which could have caused the crisis to spread to sound institutions. Furthermore, this could have generated heavy losses for depositors and exacerbated the already low level of market confidence, thereby further impacting the financing of economic activity and the prevailing unemployment situation.

Against this backdrop of financial instability in Spain and across the EU, where the fiscal capacity of certain Member States and even the very future of the euro were being called into question, in 2012 the European Council¹ agreed on a roadmap for the completion of the Economic and Monetary Union. This included the adoption of a single supervisory mechanism and new rules on bank bail-outs and resolution (see Figure 1) and on deposit guarantee schemes in the euro area countries. Thus, the three pillars of what is known as the Banking Union were first established.

2 Single Resolution Mechanism: milestones and developments in the second pillar of the Banking Union

The establishment of the Single Resolution Mechanism (SRM) was inspired by the standards published by the Financial Stability Board (FSB) in 2011 ("**Key Attributes of Effective Resolution Regimes for Financial Institutions**"), applicable to institutions deemed to be systemically important; these standards provided a set of rules and safeguards for establishing an orderly resolution regime in each jurisdiction, so as to avoid a taxpayer-funded bail-out. The SRM was to have the necessary powers and appropriate tools to carry out the resolution of any credit institution established within the Banking Union, and was to be funded by contributions from

¹ Conclusions of the European Council of 13 and 14 December 2012 (EUCO 205/12).

Figure 1

Glossary on bank resolution

Resolution	Process whereby the resolution authorities intervene in a failing institution, where there are no private or supervisory measures to prevent its failure and where it is established that there is a public interest.
Winding-up	Alternative process to resolution, in which the institution would be wound up in accordance with normal national insolvency proceedings, where it is established that there is no public interest.
Public interest assessment	Assessment of whether resolution enables any of the resolution objectives to be better achieved than would be the case if the institution were wound up under normal insolvency proceedings.
Resolution objectives	- To ensure the continuity of the activities, services and operations the discontinuance of which could lead to the disruption of services that are essential to the real economy or disrupt financial stability. - To avoid adverse effects on the stability of the financial system, by preventing the contagion of one institution's difficulties to the system as a whole and by maintaining market discipline. - To ensure the most efficient use of public funds, by minimising any extraordinary public financial support which it may be necessary to grant. - To protect depositors whose funds are guaranteed by the Credit Institutions' Deposit Guarantee Scheme and investors covered by the Investment Guarantee Fund. - To protect repayable funds and other assets belonging to the institutions' customers.
Resolution principles	- Shareholders or partners, as applicable, shall be the first to bear losses. - Creditors shall, where applicable, bear losses stemming from the resolution after the shareholders or partners and in accordance with the order of priority of their claims under insolvency legislation. - Creditors of the same rank shall be treated equally. - No shareholder or creditor shall incur greater losses than would have been incurred if the institution had been wound up under insolvency proceedings (the "no creditor worse off" principle). - Directors and chief executives shall be replaced, unless, in exceptional circumstances, their retention is considered strictly necessary for the achievement of the resolution objectives. - Directors and chief executives must provide all necessary assistance to achieve the resolution objectives. - Directors of the institutions and any other natural or legal person shall be liable for damages caused in proportion to their shareholding and the severity of such damages. - Guaranteed deposits shall be fully protected. - Resolution action taken shall be accompanied by the corresponding guarantees and safeguards provided for in this Law and its implementing regulations.
Resolution tools	- Sale of business: transferring the shares (share deal) or all or part of the assets and liabilities (asset deal) of the institution to a buyer. - Bridge bank: transferring the shares or all or part of the assets to a bridge institution, controlled by the resolution authorities and set up on a temporary basis to maintain the critical functions carried out by the institution. - Asset separation: separating the institution's problematic assets so that they are managed by another company. - Bail-in: writing down and converting equity instruments and certain liabilities to absorb the institution's losses and recapitalise it.

SOURCE: Devised by the authors.

the financial sector itself. The aim, therefore, was for the costs of an institution's crisis to be borne by its shareholders and creditors and, ultimately, by the financial system itself.

To this end, it was necessary to equip the European regulatory framework with a set of uniform and appropriate provisions to manage the failure of a credit institution, which would

Figure 2

Pillars of the Banking Union

The Banking Union has three pillars, designed to ensure that institutions in the euro area are subject to a single supervisory system, thereby strengthening their solvency and establishing a single mechanism for managing banking crises.

Pillar 1. Single Supervisory Mechanism (SSM)

This is the EU's supranational banking supervision system, made up of the ECB and the national supervisory authorities, which apply the same prudential rules.

Pillar 2. Single Resolution Mechanism (SRM)

Its aim is to ensure the resolution of failing institutions, while safeguarding the continuity of critical functions, thereby preserving financial stability and minimising the use of public funds.

Pillar 3. Single European Deposit Insurance Scheme (EDIS)

It guarantees the protection of deposits (up to €100,000). A proposal to create a common scheme is pending approval.

A key objective was to create a single rulebook and a more integrated European financial market, thereby breaking the vicious circle between banking risk and sovereign risk.

SOURCE: Devised by the authors.

safeguard both the critical functions² it performs and the financial system itself. Until then, each Member State had managed banking crises independently, applying the rules laid down in their respective legal systems or, on numerous occasions, introducing specific legislation to deal with them, which led to considerable heterogeneity in the way banking crises were resolved. This caused fragmentation in European markets and even unequal treatment of creditors depending on where the institution was based.

A prime example can be found in the Spanish banking sector crisis following the Great Recession. Since 2008, a number of liquidity and capital measures have been introduced, including the creation of the Fund for the Orderly Restructuring of the Banking Sector (FROB by its Spanish acronym) and the reform of the savings bank sector, which ultimately led to Law 9/2012 on the restructuring and resolution of credit institutions. In response to domestic and international pressure to resolve the serious problems affecting the Spanish financial system, a law was drafted which, for the first time and in a comprehensive manner, established the regulatory framework for early intervention, restructuring and resolution procedures for credit institutions. Law 9/2012 was the precursor to the current resolution regime, insofar as it laid down the rules and regulations for intervening in credit institutions in difficulty, resolving credit institutions deemed to have failed and dividing the cost of the institution's failure among its shareholders and creditors.

Lastly, 2014 saw the adoption of Directive 2014/59/EU establishing the framework for the restructuring and resolution of credit institutions and investment firms, and of Regulation (EU) No 806/2014 of 15 July 2014 establishing the SRM and the regulatory framework for bank resolution (see Figure 2). A key factor in ensuring the credibility of the new system was the

² Critical functions are considered to be the activities, services or operations, the discontinuance of which is likely to lead in one or more Member States to the disruption of services that are essential to the real economy or to disrupt financial stability due to the size, market share, external and internal interconnectedness, complexity or cross-border activities of an institution or group, with particular regard to the substitutability of those activities, services or operations.

establishment of a European authority with the necessary powers and resources to dispel any doubts regarding the management of the crisis affecting credit institutions in the euro area. Thus, in January 2015, the Single Resolution Board was created, as the Banking Union's central resolution authority.

Since then, the work carried out by the resolution authorities has led to a number of achievements, which are highlighted below:

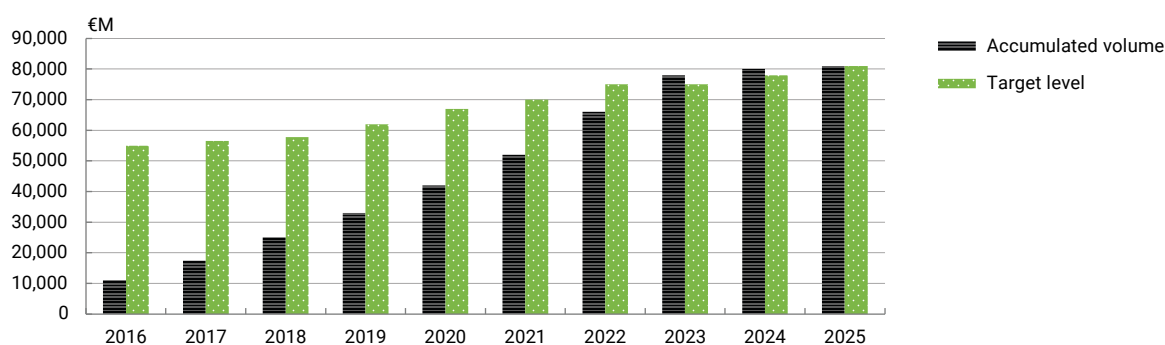
- **Institutions' compliance with the minimum requirement for own funds and eligible liabilities (MREL).** The most significant milestone of the past decade has probably been the institutions' accumulation of a substantial volume of own funds and eligible liabilities. This is an essential step towards ensuring that institutions contribute directly to guaranteeing that there is sufficient loss-absorbing capacity and, where appropriate, recapitalisation capacity, in the event of a hypothetical resolution, thereby facilitating the effective implementation of the measures set out in the resolution scheme.

Requiring all institutions with a resolution strategy, not just global systemically important institutions, to comply with the MREL means that they must bear the cost of their own failure, which ensures greater adequacy of the resources available to fund the institution's potential resolution and considerably reduces the likelihood of having to resort to public support. In the standards published in 2011, the FSB itself recognised that resolution planning work could be relevant for those institutions which, while not currently considered systemic, might become so in the event of a crisis, and that the authorities should consider the need for them to have a certain loss absorbing capacity. Recent banking crises have confirmed the relevance of this, as the FSB itself recently acknowledged again (Financial Stability Board, 2024).

At the end of the first half of 2025, institutions within the Banking Union held approximately €2.67 trillion in own funds and eligible liabilities for MREL compliance. Consequently, since these requirements were introduced, they have undertaken a major programme of issuing equity and debt instruments, for which they have had to adjust their balance sheets and bear the associated financing costs. The creation of the MREL and its gradual implementation have made the euro area banking sector more resilient and better prepared to handle the various crisis scenarios that may arise in the future.

- **Establishment and build-up of the Single Resolution Fund (SRF).** This represents another of the most significant milestones since the creation of the SRM. To ensure the effective application of the resolution tools, a mechanism was needed to finance resolution in those exceptional cases where the capacity of the institution's shareholders and creditors to absorb losses and, potentially, recapitalise the institution was insufficient. And, to ensure that the use of public funds was minimised, it was essential for this mechanism to be funded by the industry itself.

Chart 1
Assets of the Single Resolution Fund



SOURCE: Devised by the authors.

The SRF has, therefore, been funded by *ex ante* contributions from credit institutions and, by the end of 2023, it had met the target set at the outset: 1% of the covered deposits across the entire Banking Union. At the end of 2025, this figure stands at approximately €81,000 million, providing a substantial volume of funds with which to adopt the measures designed to ensure the effectiveness of the resolution (see Chart 1).

Specifically, the SRF can be used to strengthen both the resolution institution's liquidity position and its solvency.³ It will, therefore, be able to provide guarantees for an institution's assets and liabilities following its resolution, grant loans or purchase assets from an institution under resolution, finance the establishment of a bridge bank and adopt other measures to facilitate its sale. A contribution from the SRF may only be made for the purpose of absorbing losses or recapitalising the institution under resolution in cases where a liability or class of liabilities is excluded from the internal recapitalisation, provided that the institution's shareholders and creditors have already borne losses totalling not less than 8% of the institution's own funds and liabilities. In such cases, the maximum contribution from the SRF may not exceed 5% of these own funds and total liabilities.

- **Increase in the level of readiness and in the resolvability of institutions through resolution planning work.** Another of the most significant developments has been the progress in the resolvability of credit institutions, stemming from an ongoing and increasingly detailed resolution planning process undertaken by the resolution authorities and the institutions themselves.⁴ Preventive resolution has been one of the main drivers behind the increase in the structural resilience of the banking system.

³ It may also be used to pay compensation to shareholders and creditors who incurred greater losses in resolution than they would have incurred had they been wound up.

⁴ Unlike in other jurisdictions, such as the United States, within the Banking Union it is the resolution authorities that draw up the resolution plans, rather than the institutions themselves. In any case, the institutions provide the resolution authorities with all the information they need to draw up the plans.

International bodies such as the International Monetary Fund and the FSB have stressed that the Banking Union is currently one of the world's most advanced jurisdictions in terms of resolvability assessment, precisely due to its resolution planning tasks (Croitoru, Dobler and Molin, 2018; Financial Stability Board, 2026).

In recent years, with the aim of operationalising plans, the Banking Union resolution authorities have moved towards a more practical approach, focusing their efforts on testing, both by institutions and by the resolution authorities themselves. The initial predominantly conceptual focus has given way to a more detailed system, with verifiable capabilities and more tangible expectations, enabling institutions to develop and consolidate their governance and operational continuity in resolution procedures, as well as their information and communication systems. This new testing phase involves carrying out tests such as real-time resolution simulations, deep dives and, from 2026, inspection visits. The aim is to check, in practice, the applicability of the plans and to identify areas for improvement in order to continue increasing the level of resolvability and the authorities' capacity to manage banking crises.

- **Successful management of banking crises.** In total, since 2015, the resolution authorities making up the SRM have dealt with the failure of two significant credit institutions and several less significant credit institutions by applying the resolution regime.⁵ Of particular note are the resolution cases of Banco Popular Español and Sberbank Europe AG, which will be discussed in the following section, alongside other resolution cases related to less significant institutions.

Although the achievement of these milestones has undoubtedly helped strengthen the banking crisis management framework, the first ten years of the SRM have also highlighted existing weaknesses, which will require regulatory changes or further action going forward, some of the most important of which will be addressed in the fifth section of this article.

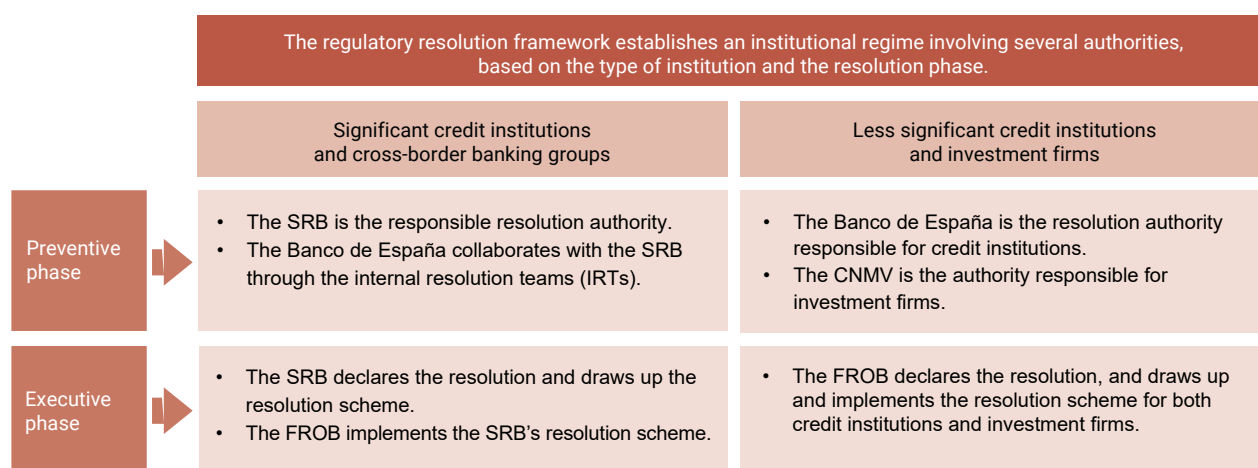
In any case, the progress made must be given due credit. The very idea of having uniform rules to deal with a banking crisis in a homogeneous manner across the euro area countries was difficult to imagine during the great financial crisis of 2008, given the political consensus it required. Likewise, having a resolution plan for each banking group or credit institution, which sets out the instruments to be applied should it fail, and the resolvability assessment work carried out annually, represent significant progress as compared to the level of readiness at that time.

3 The Banco de España as the preventive resolution authority

In Spain, Law 11/2015 of 18 June 2015 transposed Directive 2014/59/EU (Bank Recovery and Resolution Directive, BRRD) into Spanish law. The main aim of this Directive was to provide the

⁵ For further information, see Annex 9 of the [European Commission Staff Working Document of 18 April 2023 on the impact assessment report for the CMDI proposal](#).

Figure 3

Institutional resolution architecture in Spain

SOURCE: Devised by the authors.

authorities with effective tools to prevent and manage banking crises, bringing the national regulatory framework into line with European standards on bank resolution. This Law was implemented by Royal Decree 1012/2015.

Law 11/2015 assigned the Banco de España the role of preventive resolution authority for credit institutions and the FROB the role of executive resolution authority for both credit institutions and investment firms (see Figure 3). This arrangement is exceptional within the Banking Union, insofar as Spain is the only jurisdiction in which a distinction is drawn between the preventive resolution authority and the executive resolution authority. In fact, in most European countries, all resolution functions (i.e. preventive and executive resolution functions) related to credit institutions are assigned to the authority responsible for banking supervision, which generally forms part of the corresponding central bank.

The main functions assigned to the Banco de España and the key work carried out to date are set forth below:

- **Drawing up and updating resolution plans for all credit institutions within its remit.** Since 2020, all Spanish credit institutions have had a resolution plan, which is updated periodically and which analyses whether the institutions perform critical functions, carries out the relevant public interest assessment to determine whether a resolution or wind-up strategy should be adopted, identifies a single point of entry (SPE) or multiple points of entry (MPE) strategy, and sets out the preferred resolution tool in the event of failure. In the case of Spanish significant credit institutions and foreign banking groups with Spanish significant subsidiaries, the Banco de España actively collaborates with the Single Resolution Board (SRB) to draw up their resolution plans.

It forms part of 15 internal resolution teams (IRTs) and is a member of 7 resolution colleges and 1 crisis management group (CMG)⁶ for credit institutions, as well as 5 resolution colleges for central counterparties.

- **Determining the minimum requirement for own funds and eligible liabilities (MREL) for all credit institutions within its remit.** The Banco de España periodically determines the MREL that each less significant credit institution must meet, calibrating its various components on the basis of the financial characteristics and proposed resolution strategy for each institution. Thus, the MREL is established for institutions with a resolution strategy, and this enables them to cover both a level of losses equivalent to the capital required by the supervisor – the loss-absorption amount (LAA) – as well as a sufficient volume to enable the institution to meet prudential requirements after resolution – the recapitalisation amount (RCA). In institutions with a liquidation strategy, however, the MREL is equivalent to the LAA, since, in the event of failure, this would be managed through the application of ordinary insolvency proceedings. Furthermore, the Banco de España is responsible for implementing the MREL decisions laid down by the SRB for credit institutions within its remit.
- **Assessing the resolvability of institutions within its remit and adopting measures to remove obstacles that prevent resolvability.**⁷ Following an intensive initial phase, focused on drawing up resolution plans and identifying areas for improvement across the various dimensions of resolvability, work is now centred on increasing the level of operational readiness through testing. In recent years, the Banco de España has participated in the real-time resolution simulations of two significant banking groups and one less significant credit institution, as well as in nine deep dives, alongside other domestic and foreign resolution and supervisory authorities. As from 2026, participation in this type of test will increase significantly, following the approval of a multi-annual testing programme, drawn up on a bank-by-bank basis.
- **Monitoring MREL compliance across all Spanish credit institutions.** The Banco de España is responsible for ensuring that all institutions maintain a robust financial structure and have a sufficient and appropriate base of eligible instruments to meet the MREL regulatory requirements. This work involves not only verifying compliance with the minimum requirements, but also periodically assessing the quality and composition of these instruments, as well as their loss-absorbing capacity in crisis situations.

6 CMGs are cross-border fora made up of regulatory, supervisory and resolution authorities, set up to manage the failure of global systemically important institutions.

7 An institution is resolvable if, should it meet the conditions for resolution, it can be wound up under insolvency proceedings or resolved by making use of the various resolution instruments and powers. The resolvability assessment assesses seven dimensions, each comprising different levels and principles with which institutions must comply: governance, loss absorption and internal recapitalisation, funding and liquidity in resolution, operational continuity and access to market infrastructures, management information systems, communication in resolution, and separability and business reorganisation after resolution.

- **Advising on resolution policies and, in particular, assessing the impact of regulatory proposals and changes.** The Banco de España assesses the various resolution initiatives proposed at the international level, prepares technical reports and proposals for improvement and carries out in-depth analyses of key aspects, such as institutions' liquidity and market access, as well as the level of interconnectedness within the banking system.
- **Collaborating with Spanish or international bodies in the field of financial stability and resolution.** In addition to the necessary day-to-day coordination with the other resolution authorities, particularly the SRB and the FROB, collaboration with Spanish and international bodies, such as the European Banking Authority (EBA) and the Financial Stability Board, is essential to ensure a coordinated and consistent approach to crisis management.

4 A decade of implementation: lessons learned from the most recent banking crises

Since the establishment of the Single Resolution Mechanism, the failure of several credit institutions in the EU has been declared. Within the Banking Union, several of these institutions were dealt with by applying resolution procedures. There have also been major banking crises outside the EU, including one involving a global systemically important bank (G-SIB). While these crises have been both idiosyncratic and systemic in nature, and have been triggered by a variety of causes, it has been possible to identify common patterns that highlight the need to continue improving the regulatory framework.

The most significant characteristics of each of these crises and the main lessons learned are set forth below.

4.1 Banking crises in the Banking Union

Banco Popular Español

The resolution of Banco Popular has been widely regarded as a landmark case within the then fledgling Banking Union resolution framework, both because of when it took place – just two years after the creation of the SRB – and because of its scale, as Banco Popular was the sixth-largest institution in the Spanish financial system in terms of the size of its balance sheet. However, beyond its symbolic significance, the case served to test the mechanisms designed to handle a banking crisis without resorting to public funds, passing on the losses to shareholders and creditors and without resorting to public support.

The financial difficulties the institution was facing had already progressively weakened its capital position, requiring substantial provisions to be set aside in response to the impairment

of assets. Nevertheless, the pressing liquidity problems the institution had been facing in the preceding months ultimately led to its failure. On 6 June 2017, the European Central Bank (ECB), in its capacity as the competent supervisor, determined that the institution was failing or, in any event, it was likely to fail in the near future, due to its inability to meet its payment obligations.

Banco Popular was resolved in a single day, which required coordinated action by all the authorities involved (basically the SRB, the ECB, the Banco de España, the FROB and the European Commission).⁸ It was sold to Banco Santander following the relevant process of write-down and conversion of the equity instruments, which made it possible to safeguard financial stability in Spain and Portugal, ensure the continuity of the critical functions carried out by the institution, protect all depositors, senior debt holders and the institution's customers, and prevent contagion to other institutions, without resorting to public support or resources from the Single Resolution Fund (SRF).⁹

One of the most valuable lessons learned was the importance of operational readiness work to ensure that all the information needed to carry out an accurate valuation of the institution under resolution is available and to apply the most appropriate resolution tool, taking into account the nature of the banking crisis. In this regard, it was noted that, in banking crises caused by liquidity problems, the internal recapitalisation tool alone cannot stem the outflow of deposits caused by a loss of confidence, and it is therefore necessary for the resolution to provide for the injection of liquidity by a potential buyer or, if none is available, by the SRF. In these cases, transfer tools (sale of business, bridge bank) have proved to be more effective.

Sberbank

The resolution of the Sberbank banking group was prompted by the significant outflow of deposits from its European subsidiaries, as a result of the invasion of Ukraine and the sanctions imposed by the European authorities. The group's parent company, based in Russia, decided not to take any measures to stem the liquidity deterioration of its European subsidiaries, which led the ECB to declare their failure on 28 February 2022.¹⁰

The SRB decided to impose a temporary moratorium, with the aim of halting the rapid significant deterioration in the liquidity situation, while it designed the resolution scheme and coordinated with the other national resolution authorities to adopt a joint strategy. The adoption of this measure involves imposing a suspension of payments, including limits on customers' deposit withdrawals, for a maximum period of 48 hours. Accordingly, this type of measure must always

8 Banco Popular had a subsidiary in Portugal, so coordination with the Banco de Portugal was also necessary to ensure the effective application of the resolution scheme and guarantee the success of the procedure.

9 Following the acquisition of Banco Popular, Banco Santander carried out a capital increase of approximately €7,000 million to meet the capital needs arising from the transaction.

10 A resolution strategy (sale of business) was determined for the subsidiaries based in Croatia, Slovenia, Serbia and Bosnia and Herzegovina. In contrast, in the absence of any public interest, the subsidiaries in Austria, the Czech Republic and Hungary were wound up in accordance with national insolvency proceedings.

be properly weighed up, as the benefits achieved must be balanced against the need for additional time to devise the resolution scheme, particularly in the event of rapidly spreading banking crises, and the risk of triggering bank runs that could exacerbate deposit outflows. The presence of subsidiaries in several European countries, each with its own specific characteristics, highlighted that cooperation among cross-border resolution authorities is essential, not only for banking groups with a multiple points of entry (MPE) strategy, but also for those with a single point of entry (SPE) strategy, as the legal and operational realities of each institution may differ, both in terms of their inherent nature and on the basis of the point in time at which failure occurs.

Other cases

In addition to the two resolution cases mentioned above, there have been other crisis cases within the Banking Union which have been managed without resorting to resolution proceedings. One example is the case of ABLV Bank and PNB Banka, two Latvian less significant credit institutions (with balance sheets totalling around €3,600 million and €550 million, respectively), the failure of which was declared on 23 February 2018 and 15 August 2019, respectively, due to solvency problems in both cases. The institutions were wound up in accordance with ordinary insolvency proceedings, with no need, therefore, to initiate resolution proceedings, as it had been determined that there was no public interest, since they did not perform critical functions and their winding up did not jeopardise financial stability. It was thus demonstrated that, in certain cases, particularly those involving very small institutions, insolvency proceedings enable the resolution objectives to be met at least to the same extent as under bank resolution proceedings.

In fact, only a small number of banks within the Banking Union have been subject to a resolution process to date. This is generally because their crises have not been of such public interest as to justify the application of the resolution mechanism. However, in certain cases, the failure has been managed through national initiatives with public support. In 2017, the failure of two medium-sized Italian banks, Banca Popolare di Vicenza and Veneto Banca, was declared. The SRB determined that their resolution was not necessary given the absence of public interest and, therefore, both institutions were wound up in accordance with Italian law. This wind-up received broad support from the Italian State: an emergency decree was adopted to provide public capital, mobilising around €4,800 million and up to €12,000 million in guarantees. This support made it possible to transfer these institutions' sound assets to the bank Intesa Sanpaolo for the symbolic price of one euro.

Similarly, another Italian bank, Monte dei Paschi di Siena, took a different approach to resolution that year: following the identification of a significant capital shortfall in stress tests, the institution was recapitalised as a precautionary measure with public support. It was considered that the bank was still solvent and could be restructured without the need to activate the resolution process and, therefore, the Italian authorities, with the approval of the European Commission, injected public capital as a preventive measure.

These national interventions – through precautionary recapitalisations or through orderly wind-ups with public funds – were carried out in accordance with the European State aid Regulations of the European Commission’s Directorate-General for Competition. However, they have sparked debate as to the consistency of the resolution framework within the Banking Union. In this regard, it is worth recalling that the 2013 European Commission Communication (*Official Journal of the European Union*, 2013) on State aid to the financial sector remains in force. This was originally conceived as an exceptional measure during the financial crisis and, as such, it contains criteria that could be considered obsolete or difficult to reconcile with the philosophy of the current resolution regime, which is based on the premise that institutions should be resolved without recourse to State funds. Accordingly, the review and harmonisation of these rules, initiated by the European Commission with a view to ensuring consistency across the regulatory framework, is considered timely.

4.2 Banking crises outside the Banking Union

The 2023 US regional banking crisis

In March 2023, the US regional banking sector was plunged into severe financial turmoil as a result of a loss of market confidence, leading to bank runs and sharp falls in share prices. Silicon Valley Bank (SVB), a medium-sized bank (\$209,000 million), suffered an unprecedented outflow of deposits: more than \$40,000 million were withdrawn within 24 hours, largely as a result of the impact caused by social media messages warning of the extent to which these deposits were covered by the Federal Deposit Insurance Corporation (FDIC). The contagion of other institutions with a similar funding structure (Signature Bank, First Republic Bank) was immediate, prompting the US authorities to invoke the systemic risk exception, which allows all bank deposits to be guaranteed.¹¹ We will revisit this in the next section.

Beyond shortcomings in the institutions’ own risk management, this scenario highlighted once again that banking crises tend to be associated with solvency or governance weaknesses, but that failure is, in general, ultimately triggered by liquidity problems. It is therefore essential to have sufficiently robust liquidity mechanisms in place to resolve any crisis, particularly systemic or large-scale crises, which may require resources beyond those available in the SRF.

These banking crises were resolved by means of the use of transfer tools, either through the sale of business or – more commonly – through the establishment (and subsequent sale) of a bridge bank, thus highlighting the prevalence of this type of instrument as a natural means of resolving a financial institution. This is largely due to the need to instil confidence in creditors and, most particularly, in depositors. Furthermore, it became clear that even institutions considered to be of medium size could cause a significant contagion effect and influence

11 Generally speaking, deposit guarantee schemes must comply with the least cost test rule, meaning that they cannot take resolution measures that are more costly than those that would have been taken in the event of wind-up. In the case of the United States, the systemic risk exemption allows the FDIC to be exempt from this rule where there are serious adverse effects on economic conditions or financial stability.

financial stability, which highlighted the importance of working on resolution planning for non-systemic institutions and confirmed that the Banking Union's decision to require institutions to meet the minimum requirement for own funds and eligible liabilities in order to ensure the financing of resolution increases the resilience of the banking system.

The newest aspect was probably the impact of bank digitalisation and social media on the mass exodus of depositors. While the banks in crisis in the United States were not subject to the liquidity requirements set out in Basel III, there are doubts as to whether the current regulatory ratios required of all EU institutions would have enabled them to manage a deposit outflow of such magnitude.¹² The role that resolution authorities' communication policies can play in a banking crisis is now crucial in seeking to contain bank runs and prevent adverse effects on the markets, given that maintaining confidence is essential to resolving the crisis and preventing contagion.

Credit Suisse

Credit Suisse was a Swiss bank, classified as a G-SIB (with a balance sheet totalling around €513,000 million), which was sold to its main domestic competitor, UBS, on 19 March 2023, coinciding, therefore, with the crisis in the US regional banking sector. One of the most controversial measures adopted was the write-down of all Additional Tier 1 (AT1) capital instruments without first writing down Common Equity Tier 1 (CET1) capital. In fact, the initial market reaction was negative, with sharp falls in the price of debt instruments qualifying as AT1 capital. However, it is important to clarify that no resolution proceedings were ever actually opened and the Swiss supervisor (FINMA) never formally declared the failure of Credit Suisse in the terms required for resolution proceedings to be initiated.¹³

The case of Credit Suisse shows that compliance with capital requirements does not always prevent uncertainty about an institution's situation or a loss of confidence. This is a fundamental issue to be taken into account in future banking crises when considering the implementation of the bail-in tool, since, although the tool can enable an institution under resolution to meet its solvency requirements, it cannot address liquidity problems unless accompanied by other measures.

Getin Noble Bank (GNB)

GNB was a medium-sized Polish bank (with assets of around €9,000 million) that was facing a prolonged deterioration in profitability and capital, primarily due to losses arising from litigation

12 Basically, the liquidity coverage ratio, which measures an institution's capacity to withstand short-term liquidity outflows, and the net stable funding ratio, which aims to ensure that institutions maintain a stable funding structure over the medium and long term.

13 FINMA stated that a "viability event" – as defined in the terms and conditions of the AT1 instruments – had occurred, as the institution required extraordinary public support. This is what made it possible to write down the entire AT1 without having previously written down the CET1, which is what would have happened had the institution entered into resolution.

related to a substantial portfolio of foreign-currency mortgage loans, and the refusal of its main shareholder to recapitalise the bank. The Polish supervisor declared the bank's failure on 29 September 2022 and established a bridge bank (VeloBank) as the resolution tool, which was funded both by the banking sector itself and by the Polish resolution authority.

This case demonstrated the usefulness of the bridge bank in preserving an institution's critical functions without affecting depositors or borrowers. However, it also entails risks related to potential deposit outflows following resolution. Another notable feature of the case was the direct support for the resolution by the country's banks,¹⁴ as a means of avoiding systemic contagion that could have resulted in greater losses in the short and medium term. This support took the form of extraordinary contributions to finance the high payments that Poland's deposit guarantee scheme would have had to make had GNB been wound up under ordinary insolvency proceedings.

5 Challenges and strategic priorities

Recent banking crises have shown that there is room for improvement and that priorities must be set in order to complete the regulatory framework and resolve the problems identified. Some of these issues have already been addressed in the recent reform of the Crisis Management and Deposit Insurance Framework (CMDI), which will be discussed in the following section.

Set forth below, as a complement to the lessons learned outlined in the previous section, are the main areas where the current European resolution framework needs to be improved, indicating which of these are expected to be addressed with the entry into force of the CMDI.

- **Potential extension of the resolution regime to a greater number of institutions.**

Although there have been several cases of resolution since the Single Resolution Mechanism (SRM) came into force, there have also been some cases of crisis management involving small and medium-sized institutions, where their failure was addressed through processes which, exceptionally, involved some form of public support. This situation, which the SRM was intended to prevent when it came into force, prompted a review of whether it was necessary to reform the current framework in order to extend resolution processes, with greater safeguards, to a larger number of small and medium-sized institutions (primarily the least significant institutions, for which it was previously more difficult to demonstrate their public interest) without the need for any form of public support. While this is an issue that will need to be assessed in each EU country on the basis of the specific characteristics of its institutions, the CMDI reform and its transposition into the various countries' legislation will make it possible to address this issue and broaden the possibilities for dealing with crisis

¹⁴ The leading Polish private banks contributed 51% of the required funding, whilst the remaining 49% was contributed by the resolution authority.

cases affecting this type of institution, as will be detailed in the relevant section, while increasing the funds available for resolution at the same time.

- **Financing the minimum requirement for own funds and eligible liabilities (MREL) for small and medium-sized institutions.** Partly linked to the previous point, it has been noted that in certain jurisdictions, small and medium-sized institutions do not always have access to markets to comply with the MREL through instruments other than share capital (Ibáñez, Kruse, Pollos, Serena and Tarí, 2024). Although this situation does not arise in all jurisdictions, in those affected by shallower markets and/or limited opportunities to issue debt instruments, the institutions' share capital has loss absorbing capacity, but would not be able to contribute to recapitalising the institutions should the need arise.

This is exacerbated by the fact that, although the funding structure of many small and medium-sized institutions consists mainly of own funds and deposits, it is not desirable for these deposits to be converted during resolution proceedings, given their potential for indirect contagion. Faced with this dilemma, the CMDI will enable the use of industry funds available in each national Deposit Guarantee Scheme, in order to support resolution processes and/or bridge any potential *gaps* that may arise between the sum of the institutions' financial instruments that are eligible for MREL and those that are not eligible for MREL which can absorb losses and/or contribute to their recapitalisation and the minimum threshold required to access the Single Resolution Fund (SRF) should the need arise, which is set by the regulations at 8% of the institution's total liabilities and own funds (TLOF) for solvency crises.

- **Completion of the Banking Union through the implementation of the third pillar.** The European Deposit Insurance Scheme (EDIS) has not yet been implemented or approved. As mentioned in the preceding paragraph, the CMDI allows national guarantee schemes to be used to support resolution. While this option represents a clear improvement with respect to the current situation, the capacity to support resolution will be limited in practice by the amounts available to each national Deposit Guarantee Scheme. The creation of the third pillar of the Banking Union, the EDIS, would allow for the mutualised use of the funds available in the deposit guarantee schemes of all the Banking Union countries, thereby removing national capacity limits and helping achieve greater protection and a better chance of maintaining financial stability, regardless of the country in which the crisis occurs.

Therefore, it is important to overcome current political reluctance and make progress towards establishing the third pillar, especially at a time when it is clear that institutions are increasingly expanding their international activity, to the point where they have a significant presence in several Banking Union countries, which would need to coordinate their efforts to manage their failure should it arise (Laboureix, 2025). Maintaining an approach based on national borders is far removed from the reality of banking in the current context and may lead to greater difficulties in managing crises

in the future. In fact, in a broad-based system in which supervisory and resolution responsibilities are centralised, deposit insurance should also be mutualised, which would also help to further reduce fragmentation in the banking market.

- **Improving the framework for the provision of liquidity in resolution.** In numerous crisis cases, including the most recent episodes in the United States and Switzerland, it has been observed that, regardless of their origin, institutions' problems manifest themselves as liquidity crises, and the speed at which these unfold has increased alarmingly due to advances in digitalisation and social media. Within the Banking Union, the SRF, which could provide liquidity support if necessary, has already reached its target level; however, it does not yet have the backing of the European Stability Mechanism (ESM),¹⁵ which could provide additional funds if necessary. If ratified, the ESM could provide a revolving credit facility of up to €68,000 million, which would almost double the SRF's capacity to act in the event of a severe systemic crisis. Any funds lent to the SRF by the ESM should be repaid through subsequent contributions from the banks themselves, in order to maintain fiscal neutrality for Member States.

In this context, there is a risk that, should it be necessary to deal with a liquidity crisis of a large institution or several simultaneous crises of medium-sized institutions, the funds available in the SRF might not be sufficient to address the crises with assurance. Although progress is being made in parallel with the European Central Bank to ensure that institutions have access to liquidity (subject to certain conditions) after resolution (European Central Bank, 2026), it is still necessary to develop a more ambitious mechanism so that large-scale liquidity crises can be addressed with sufficient assurance. This aspect is particularly important, as the very design and availability of such a system can provide bank customers with the confidence and peace of mind required to prevent mass withdrawals of deposits in crisis cases, without it ever actually being necessary to use it. Until a new mechanism capable of providing the necessary safeguards is in place, the sale of business resolution tool has proved useful in tackling liquidity crises, as larger acquiring institutions with a comfortable capital and liquidity position help to swiftly restore confidence in the institution under resolution.

- **Improving the current framework to be able to handle failure caused by operational factors.** While the recent adoption of the Digital Operational Resilience Act (the DORA Regulation) (*Official Journal of the European Union*, 2022) undoubtedly helps strengthen the operational resilience of banking institutions, it cannot be entirely ruled out that some cases of failure might arise solely as a result of operational shortcomings. Current resolution legislation focuses primarily on providing options

15 The ESM is an intergovernmental organisation established by member states of the euro area in 2012. Its mission is to enable the countries of the euro area to avoid and overcome financial crises and to maintain long-term financial stability and prosperity. It carries out this mission by providing loans and other types of financial assistance to member states. In other words, the ESM acts as a "lender of last resort" for euro area countries when they are unable to refinance their government debt in financial markets at sustainable rates.

for addressing liquidity and solvency crises and, therefore, it is necessary to continue making progress on regulatory developments and resolution planning in order to clearly establish the possible courses of action available to resolution authorities, in cases where failure might stem exclusively from operational shortcomings, regardless of their origin (cyber attacks, internal shortcomings in institutions' systems, etc.).

- **Introduction of a systemic risk exception.** As mentioned above, in the 2023 US regional banking crisis, the US authorities were able to invoke a special provision ("systemic risk exception") which allowed them, in their response to the crisis, to disregard the traditional limits imposed by what is known as the "least cost test". Under this rule, the funds that resolution authorities may use in the event of a crisis must not exceed the amount it would have cost to repay covered deposits in the event of the winding up of the institutions concerned. The activation of this special measure provides more room for manoeuvre for dealing with exceptional cases in which a large institution or a number of medium-sized institutions may be affected, giving rise to concerns that the crisis could spread uncontrollably to the rest of the financial system. In any event, any funds used would subsequently be recovered through *ex post* contributions raised from the banking sector. This option does not currently exist under European legislation, and its introduction would provide additional safeguards for taking action to address cases of exceptional gravity or magnitude.

It is also worth noting in this regard that the International Monetary Fund's latest assessment of the euro area, as part of the euro area financial system stability assessment programme, explicitly recommends introducing a financial stability exemption for access to the SRF (International Monetary Fund, 2025), so that it can be drawn upon in circumstances of systemic risk, without requiring compliance with the specified limits of 8% of the TLOF, thereby protecting certain creditors beyond what would ordinarily be envisaged.

- **Harmonising national insolvency frameworks across the EU.** While the adoption of Directive 2014/59/EU (Bank Recovery and Resolution Directive, BRRD) and its subsequent updates, including the future adoption of the CMDI, enables a high degree of harmonisation of resolution regulations at the European level, insolvency legislation remains a national matter, with significant differences between countries. Its harmonisation would enable greater homogeneity to be achieved at the European level on such key issues as determining the public interest of institutions, as this must be done by comparing whether the resolution objectives are best achieved by applying the resolution framework (with a high degree of harmonisation at the European level) or the liquidation framework (which is not harmonised). Furthermore, it would help provide investors with greater clarity regarding the likely treatment they would receive in the event of a crisis affecting financial institutions in any European country and, indirectly, support progress towards the long-awaited single European capital market.

- **Continuing to strengthen cooperation among authorities for banking groups with an international presence**, so that not only the authorities responsible for the main jurisdictions in which each international banking group operates, but also authorities in jurisdictions that could be affected by a crisis in the group, even where they are not members of the relevant Crisis Management Group (CMG), can be engaged sufficiently early. This could be the case if there are groups present (through subsidiaries or branches) that require the relevant authorities to recognise the resolution actions taken by the resolution authority responsible for the group, or in cases where, even without such branches or subsidiaries being present, the interconnections with the affected banking group may be significant and may lead to indirect contagion to other banking groups.
- **Recognition of resolution measures in third countries.** To continue the ongoing work to ensure the applicability and recognition, with full guarantees, of resolution implementation decisions adopted in the EU in third countries where subsidiaries and branches are affected. In this regard, joint work in the CMGs is once again essential, as is close cooperation among the authorities to promote actions that can reconcile the differences between the various legal frameworks.

6 Implications of the European legislative package on crisis management and deposit insurance

In June 2025, following a lengthy period of negotiations among the EU member states, a political agreement was reached on the adoption of the reform of the Crisis Management and Deposit Insurance Framework (CMDI).

The CMDI reform involves updating Directive 2014/59/EU (Bank Recovery and Resolution Directive, BRRD), Regulation (EU) No 806/2014 (SRMR) and Directive 2014/49/EU (DGSD). The final texts were published on 20 April 2026.

This reform aims to improve the effectiveness of the current framework for managing banking crises, especially for medium-sized and smaller institutions. The current framework provides that, in the event of failure, the institutions' shareholders and creditors, in accordance with their rank in the hierarchy of claims, will contribute to absorbing losses and to financing the implementation of the institution's resolution strategy. The use of funds provided by the banking sector is subject to fairly strict limits under current regulations, for example: there are conditions governing the use of deposit guarantee schemes (DGSs), and a minimum bail-in of 8% of the institution's total liabilities and own funds (TLOF) is required in order to access the Single Resolution Fund (SRF), which, particularly in the case of small and medium-sized institutions, with greater difficulties in accessing the market to issue debt, could, in extreme scenarios, result in uncovered deposits being used to contribute to recapitalisation.

This situation could lead to financial instability, generate a loss of confidence amongst depositors and, consequently, prompt the adoption of national crisis management measures

to prevent such effects from requiring the use of taxpayers' money. Furthermore, although there have already been several cases of resolution in various EU countries, it has been observed that, in certain institutions' crises, solutions have been chosen which have indirectly entailed some form of public support, an issue that the new resolution framework sought to avoid.

To address this situation, the CMDI:

- **Provides for the possibility of increasing the number of institutions to which resolution could be applied in the event of a crisis**, thereby extending the assessment of whether institutions perform critical functions to the regional level, as opposed to the national level to which this assessment was previously confined. Critical functions carried out by credit institutions are considered to be the activities, services or operations whose discontinuance, due to the institution's failure, is likely to lead to the disruption of the real economy or financial stability.
- **Facilitates access to additional sources of funding beyond those available to institutions** – the minimum requirement for own funds and eligible liabilities (MREL) and non-MREL-eligible instruments with loss absorbing and recapitalisation capacity – to address resolution and, more specifically, to national DGSs, which would in turn facilitate access to the SRF should the need arise. This aspect is crucial, since, should there be an increase in the number of institutions subject to resolution, additional sources of funding will be required in order to deal effectively with this expanded scope, particularly as these will be institutions that do not always have access to markets to issue debt and meet the MREL, or the instruments required to ensure their resolution is carried out with assurance (Restoy, 2025).
- **Ensures the availability of effective and consistent measures** (preventive and alternative measures), in addition to those already available under the resolution framework. As in the previous case, it is essential to have access to additional sources of funding, beyond the resources directly available to institutions, in order to effectively implement preventive measures that avoid a resolution scenario, or alternative measures that allow at least the covered deposits to be transferred to another institution.
- **Increases the possibilities and expectations for the timely declaration of situations of failure by the authorities**, promotes better cooperation among them, fundamentally between supervision and resolution authorities, and helps clarify the possibilities for applying early intervention measures (EIMs) by supervisors.

The CMDI reform will entail an enhanced role for the DGSs in the management of credit institutions' crises, given their capacity to intervene in order to adopt crisis prevention measures, to provide funding in resolution and/or to use their own funds to complement the adoption of alternatives to traditional liquidation, which will necessitate greater cooperation

and interaction between the resolution authorities and the authorities responsible for the DGSs, provided that these two responsibilities fall to different institutions.

Preventive measures consist of financial support provided by the DGSs which must be used early to prevent the credit institution's financial situation from deteriorating. Alternative measures consist of financial support that may be provided in the event of failure, although in this case, the DGS may only be used to finance the transfer of non-covered deposits and other unsecured liabilities to a recipient if the transfer is strictly necessary and proportionate to prevent contagion, if the transfer maximises the value of the assets at the time of sale, or if the preservation of customer relationships maintains confidence.

The possibility of using DGS funds to implement preventive measures, which would be taken prior to a potential failing or likely to fail (FOLTF) declaration, is subject to a number of conditions, including the application of the least cost test rule, which, under the CMDI, will mean that any DGS funds used for resolution must not exceed the cost to the DGS of paying out the covered deposits (guaranteed up to €100,000) in a winding-up process. These conditions include most notably:

- the beneficiary institution must submit a programme of measures to secure compliance with the supervisory authorities' requirements, actions to mitigate the risk of deterioration and an exit strategy for repaying the support received;
- the institution must submit a business reorganisation plan within six months of receiving the initial financial support; and
- if the institution fails to fulfil the commitments undertaken in the programme referred to in the first point or in the business reorganisation plan, it must submit a remediation plan. If the remediation plan is not credible or feasible, or if the institution fails to comply with it, no further preventive measures can be taken and an assessment must be performed as to whether the institution is in an FOLTF situation.

Furthermore, the possibilities for using DGSs in relation to the various resolution tools under CMDI, while always respecting the least cost test rule, include:

- if the bail-in tool is applied, DGSs could contribute to recapitalisation in lieu of covered deposits; and
- if transfer tools are applied, DGSs could help bridge the gap between transferred assets and the amount of covered deposits, thereby ensuring the neutrality of the impact on the acquiring institution's capital requirements. In principle, this contribution would be capped at 62.5% of the DGS target level.

The use of DGSs in resolution may be considered to facilitate access to the SRF where necessary (known as "bridge the gap") following the contribution of at least 8% of the TLOF to

loss absorption and recapitalisation by the institution's shareholders and creditors, provided that this is necessary in order to protect the depositors (covered and uncovered depositors not eligible for MREL) of the affected institution. However, in order to help bridge the gap, it is essential to always respect the least cost test rule in the use of DGS funds and to meet a number of conditions, such as:

- the institution has been earmarked for resolution in the resolution plans in the last two years;
- the institutions for which the transfer tools are proposed must be subject to minimum MREL levels, which within the Banking Union will be 16% of risk-weighted assets and 4.75% of the total exposure measure, and, in addition, they must have met these requirements for a minimum period prior to the FOLTF declaration;
- all instruments eligible for MREL must have previously contributed to the institution's loss absorption and recapitalisation and, in order to access the SRF, uncovered depositors who are not eligible for MREL would also need to contribute;
- the use of DGS funds for the bridge the gap mechanism must lead to the market exit of the institution under resolution, in order to mitigate any knock-on effects that might affect competition and/or give rise to moral hazard;
- the use of DGS funds for the bridge the gap mechanism is restricted to institutions with a balance sheet total of less than €80,000 million (small and medium-sized institutions), in order to avoid the SRF having to make large contributions; and
- limits are also imposed on contributions to the DGS, as a percentage of its target level (62.5%) and a proportion of the TLOF of the institutions affected (2.5%), although this latter requirement would apply only if the size of the institutions was between €30,000 million and €80,000 million.

The CMDI framework also provides for the possibility of using the DGSs if the SRF has already contributed an amount equivalent to 5% of the TLOF and further contributions are still required so that depositors are not affected, although this would only occur in very extreme cases.

Another possibility provided for by the CMDI is the use of DGSs to implement alternative measures in the case of institutions deemed to be FOLTF, for which there are no alternative measures to prevent their failure and which have a negative public interest assessment. However, in such cases, the use of DGSs should not be counted towards eligibility for the SRF, i.e. they cannot be used to bridge the gap. In this case, the conditions to be observed stipulate that the relevant national authority must justify the use of DGSs to finance a transfer of liabilities other than covered deposits on the basis of the need to prevent contagion, maximise value and preserve the bank-customer relationship in order to maintain confidence. Moreover, the transfer of own funds, subordinated debt and senior non-preferred debt cannot be financed by the DGS.

It should be noted that the use of DGSs will be subject to the State aid regime of the European Commission's Directorate-General for Competition, insofar as the decision on their use, albeit funds from the private sector, is deemed to be subject to a decision by the public administration. The current Banking Communication from the European Commission's Directorate-General for Competition stipulates that state aid is only permitted if it is necessary to prevent serious disruption to the economy, and its granting is subject to conditions regarding the sharing of losses and the contribution to recapitalisation by shareholders and subordinated creditors, and to the submission of restructuring and capital raising plans and restrictions on competition, among other matters.

Current legislation classifies even the use of private funds as state aid where the decision on their use is taken by the public administration, which is applicable in the case of the use of the SRF and, depending on how the DGSs are configured in the Member States, it could also be applicable to the use of funds from these DGSs. In practice, this interpretation of what constitutes public aid may, depending on the case, entail additional practical and procedural complexity when seeking to mobilise funds from the DGSs and/or the SRF, given that the current resolution framework already includes a whole series of strict conditions governing their use, some of which overlap with or even go beyond the provisions set out in the aforementioned communication.

Following the adoption of the CMDI reform, this State aid regime is entering a period of adjustment, presumably with a view to bringing it more into line with the resolution framework. It would be desirable, insofar as it is possible, to limit its application strictly to the use of State funds – a remote possibility under the current resolution framework – rather than to the use of private funds at the discretion of public authorities, so as to streamline resolution-related procedures where DGS and/or SRF funds are used.

The broader scope for the use of DGSs in crisis management provided for by the CMDI has raised some specific concerns within the banking sector regarding the adequacy of their resources and the potential increase in costs for the banking system. However, in this regard, it should be noted that:

- the use of DGS funds for interventions beyond the payment of covered deposits in the event of institutions being wound up tends to minimise the cost of banking crises for all stakeholders involved, including possibly the DGS itself;
- to ensure the efficient use of funds contributed by the banking sector to the DGSs, a whole series of conditions must be applied, as mentioned above, including most notably the least cost test rule. CMDI standardises the method for calculating this rule, in view of the complexities of the current calculation, by setting the figure for covered deposits as the maximum contribution amount for the DGSs, which provides greater *ex ante* visibility of the available scope for action; and
- in addition, the possibility of a greater use of DGS funds would clearly help to boost public confidence in credit institutions and maintain financial stability. Ultimately, this could even lead to a reduction in banks' funding costs.

The increased cooperation between supervisory and resolution authorities provided for under the CMDI also constitutes an additional safeguard to ensure that FOLTF determinations are made in a timely manner. This avoids delaying intervention in crisis situations, thereby avoiding the depletion of all or almost all of the institutions' capital, as this would increase the recapitalisation needs to be met subsequently by the creditors of the institution concerned and/or deposit guarantee schemes and/or resolution funds.

Other significant changes introduced by the CMDI reform concern the following areas:

- Changes to the hierarchy of deposits in insolvency. Currently, covered deposits and the DGS, where it is a creditor, rank *pari passu* at the highest level of priority, followed by uncovered deposits of natural persons and SMEs, and then by all other deposits. Under the CMDI, the following categories are distinguished, in descending order of priority: deposits covered by the DGS, ranking *pari passu* with DGS claims; uncovered deposits of SMEs, natural persons and non-sophisticated public authorities; and all other deposits. There could even be a fourth category comprising deposits that qualify for MREL. In the latter case, such deposits are required to meet a series of conditions, such as not belonging to *retail* customers or SMEs; the traditional requirement that they have a residual maturity of more than one year; that their terms and conditions clearly state that they are intended to meet the MREL and are not covered by the DGS; and, in addition, they must obtain prior authorisation from the resolution authorities in order to be included in the calculation.
- As regards the governance of the SRM, the Executive Session of the SRB must consult the Plenary Session before adopting guidelines, general instructions and other standards of general application within the SRM. Also, the Vice-Chair of the SRB will now have a vote.
- A list of cases of extraordinary public support outside of resolution is included in Article 32(c) of the BRRD and Article 18(a) of the SRMR. The CMDI reform clarifies that the preventive measures adopted with DGS funds that qualify as State aid do not trigger a FOLTF determination. It also details the conditions that precautionary recapitalisation must meet.
- As regards EIMs, the reform increases legal certainty and avoids overlaps between EIMs and the supervisory powers set out in Directive 2013/36/EU (CRD), while maintaining an escalation ladder of measures (see Articles 27-29 of the BRRD). It promotes and strengthens coordination between the competent supervisory authorities and the resolution authorities (see Article 30(a) of the BRRD and Article 13(c) of the SRMR). In addition, it introduces a new measure which grants the power to require the institution to draw up a voluntary wind down plan.
- It strengthens cooperation between supervisory authorities and resolution authorities to avoid a late FOLTF declaration and to ensure that resolution authorities can prepare for a potential resolution sufficiently early.

As regards the planned timetable for the adoption of the CMDI package, a transposition period is allowed until April 2028, although certain provisions related to the updating of the SRMR will apply from the second quarter of 2026.

The European Commission also intends to publish a report on the single banking market in 2026, which would include a roadmap for completing the Banking Union. This report is also expected to set out possible ways of simplifying the current regulatory framework, including matters related to resolution. With regard to this last point, it should be noted that, irrespective of that report, the resolution authorities within the Banking Union have been working for some time on measures to simplify the current framework, such as the simplification of resolution plans, institutions' reporting and certain procedures, amongst others.

7 Conclusions

Although the Single Resolution Mechanism (SRM) is relatively recent, it has made major progress in its first ten years. The joint work between resolution authorities and institutions in resolution planning has enabled institutions to make significant progress in terms of resolvability and to meet their minimum requirements for own funds and eligible liabilities during this period, as well as a considerable degree of readiness to deal with future crises, which helps to ensure financial stability, prevent significant impacts of crises on the real economy and safeguard taxpayers' money. Also, during this period, the Single Resolution Fund, which is financed by institutions' contributions, reached its target level, with total assets of approximately €81,000 million, which would reinforce the use of resolution tools should the need arise and provided that the relevant conditions are met.

During these first ten years, the SRM has been put into practice in two crisis cases involving significant institutions (Banco Popular and Sberbank), as well as in several crisis cases involving less significant institutions, and in all of these cases, the resolution objectives were achieved, thereby avoiding the historically negative consequences of public bail-outs. Even in other jurisdictions, recent crisis cases, such as those that occurred in the United States in 2023, have highlighted the importance of extending the resolution framework to institutions that in principle were not considered systemic, but which were ultimately determined FOLTF due to their capacity for contagion to the rest of the system.

Despite all these achievements, there is still room for improvement in certain areas, some of which will be addressed by the reform of the crisis management and deposit insurance framework; this represents an important step in the right direction, but is still not sufficient to ensure a truly robust resolution framework. Key outstanding issues include most notably the need to implement the third pillar of the Banking Union, the European deposit insurance scheme, and to continue working to strengthen the provision of liquidity in resolution where necessary, through the approval of the European Stability Mechanism's backstop and the development of potential alternatives to increase the funds available, especially in view of recent crisis cases. Also, the possibility of introducing a systemic risk exception to deal with

exceptionally serious cases should be assessed in depth, and work should be undertaken to harmonise national insolvency frameworks within the European Union. Lastly, progress must continue on the cooperation with third-country authorities and on securing greater legal certainty regarding the execution of resolution in third countries, and, finally, work must continue to strengthen prevention and readiness for all crisis cases that may be related to operational problems.

Although there is still considerable work to be done, a great deal has been achieved so far, in a relatively short space of time. As a result, we now have a more robust financial system and, with it, greater financial stability guarantees and support for the real economy, while protecting taxpayers' money – in stark contrast to what happened during crises prior to the establishment of the SRM. Let us hope that these achievements will inspire us to continue progressing in the above-mentioned areas.

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