# Press release

## GBIC: Improving crisis management at banks is a good idea, but the approach proposed by the European Commission is flawed

**Berlin, April 18, 2023** – Today, the European Commission published its proposal for reforms to amend legislation governing the handling of banks in financial distress. The reform package seeks to implement far-reaching changes to the Bank Recovery and Resolution Directive, the Single Resolution Mechanism Regulation, and the Deposit Guarantee Schemes Directive. German Banking Industry Committee (GBIC) generally supports the European Commission's objective of optimizing the existing legal framework. However, Germany's banks and savings banks reject the European Commission's plans to establish the bank resolution mechanism as a new standard for small and medium-sized institutions. "Far from promoting the goal of greater financial market stability, the European Commission's proposal outlines a fundamental paradigm shift that would achieve exactly the opposite effect," explains Daniel Quinten, member of the Board of Managing Directors of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks], on behalf of GBIC. "The 'resolution mechanism for all' comes at a high price for national deposit guarantee schemes," he adds. "An approach that consciously endangers the protection provided by existing national deposit guarantee schemes in order to expand a resolution mechanism that was specifically designed for large banks so that it covers all banks and savings banks is unacceptable to us," emphasizes Quinten.

In Germany, tried-and-tested guarantee schemes are in place that – amid recent developments in the US and Switzerland – proved highly effective in preventing the erosion of trust in the security of deposits from spilling over to Germany. In the upcoming legislative process, GBIC will therefore advocate for fundamental changes to the proposed reforms. It regards this as the only way to really achieve the goal of strengthening the crisis management framework for banks without unnecessarily weakening the confidence of depositors and investors in the existing level of protection.

Deposit guarantee schemes currently have the most senior claim in the event of an insolvency. This means that they are swiftly reimbursed for the compensation they pay out to depositors, receiving funds ahead of any other creditor. The proposed amendments would abolish this seniority in order to make resolution a more favorable alternative to an insolvency and lower the deployment threshold for the resolution mechanism.

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Last but not least, GBIC wants to see a decision made to end the requirement to make regular contributions to the Single Resolution Fund (SRF) when the target funding level of around €78 billion is reached at the end of this year. This volume already represents a 40 percent uplift on the target funding level that had originally been envisaged and deemed satisfactory.