EU BANK CRISIS MANAGEMENT FRAMEWORK

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MREL. A key tool to preserve financial stability and long-run competitiveness

The minimum requirements for own funds and eligible liabilities, or MREL, is a critical tool for ensuring resolvability at bank level and financial stability at global level, and is intimately linked to the ins-and-outs of the EU resolution framework.

In the wake of the Great Financial Crisis, global policymakers at the Financial Stability Board (FSB) worked to solve a twofold problem – ensuring the end of expensive banks' bailouts while putting in place industry safety nets in preparation of the next inevitable crisis. To this end, the FSB developed the Total Loss-Absorbing Capacity (TLAC) standard for global systemically important banks (G-SIBs). The TLAC requirement protects taxpayers by ensuring that bank shareholders and certain creditors are first in line to absorb losses.

Then, the FSB members implemented these standards at home. MREL is the European Union's implementation of the TLAC standard.

Naturally, MREL is tailored to the specificities of the European framework. MREL differs from TLAC in two ways. First, MREL requirements extend to all banks earmarked for resolution and not only the G-SIBs. Second, MREL is much more tailored to the specific resolution strategies and characteristics of each bank. In practice, this approach means that requirements for G-SIBs in the EU look on average higher when comparing to their US peers. Crucially, EU banks can cover a large part of MREL, unlike TLAC, with cheaper non-subordinated liabilities.

Nevertheless, some European banks have been complaining about international level playing field. We need to be cautious here. Comparing only the percentage requirements in different jurisdictions is not enough. The wider picture matters. In fact, the prudential metrics that underpin MREL and TLAC – risk-weighted assets (RWAs) and leverage – are computed differently in the Banking Union and the US. With these factors at play, also coming from the macro-prudential framework – plus the key differences between MREL and TLAC – comparing between countries is anything but straightforward.

Also, MREL in Europe needs to cater for the rigidities of our framework. In the EU, in fact, shareholders and creditors must absorb losses for the equivalent of 8% of total liabilities and own funds (TLOF) before an institution can receive solvency support from the Single Resolution Fund. In contrast, other jurisdictions, such as the US, have the flexibility to invoke a systemic risk exception in certain situations – allowing them to bypass such burden-sharing requirements, as seen during the recent US regional banking turmoil. This is why, in Europe, a right amount of MREL is critical to underpin the credibility of a resolution decision without fostering moral hazard.

The situation should evolve further with the implementation of the Basel III regime. Basel III introduces stricter RWAs thus increasing capital requirements. MREL will mechanically go in the same direction. Though the interplay with other already existing requirements, such as the leverage requirement and the link to 8% TLOF, implies that MREL should increase less than proportionally with respect to capital.

Regardless of the possible changes in the prudential framework, we should remember that one of the key lessons from the 2023 crisis is that when resources like MREL are absent, or not sufficient, the cost of intervention can be steep. Recognising this, the FDIC last year moved to expand TLAC-like requirements to more banks through its long-term debt proposal. The new US administration has not yet announced its plans for this reform. Meanwhile, European banks are at this point MREL compliant—putting us a few years ahead of the curve.

Reaching full MREL compliance in the Banking Union, in fact, took a whole decade. MREL buildup was one of the key items of a broader risk reduction agenda, devised and monitored by the Eurogroup, with the ultimate aim of breaking the risk of taxpayer funded bail-outs. Now that the MREL targets are met, it is not the time to backtrack. MREL targets serve us well. MREL, and the broader resolution framework, acts as an insurance policy for future growth, ensuring financial crises don't derail progress. This hard-earned gain deserves recognition, but the focus must now shift to banks' ability to deploy these resources in a crisis—a central theme of the SRB's strategy.

Our system's credibility hinges on banks having enough loss-absorption capacity in all scenarios.

In conclusion, the credibility of our system hinges on banks having enough loss-absorption capacity in all scenarios. A credible and well-equipped crisis management framework, in turn, is the foundation of a dynamic and resilient banking sector. A stable and predictable crisis management framework makes the banking sector more resilient, which, in turn, drives competitiveness in the long run.

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Resolution funding: finding the balance

The resolution framework that was put in place following the great financial crisis aims to provide credible alternatives to bail-out of failing firms. Banks' loss absorbing capacity (LAC) is core to the effectiveness of the framework. G-SIBs must maintain TLAC of at least 18% risk weighted assets (RWA) or 6.75% of total leverage (whichever is the higher). However, these are not the only banks that would be systemic in failure.

In the EU, LAC requirements apply to all banks in the form of MREL. Unlike the FSB TLAC Standard, MREL is adjusted for each bank based on its expected resolution strategy and considerations of resolvability. While TLAC is the baseline for EU G-SIBs, they are subject to an MREL add-on to align with the general EU approach to resolvability.

This approach has resulted in EU systemic banks being subject to higher LAC requirements than similar banks in other jurisdictions. It has been estimated that the EU requirements result overall in a surcharge of roughly 4% RWA for systemically important EU banks compared to those in the US.[1] Moreover, the scope of application of MREL requirements is wider than resolution-related LAC requirements in many other jurisdictions. Approximately 300 EU banks, including more than 80 large banking groups in the Banking Union (BU), must meet MREL. In the US, only the 8 G-SIBs are subject to TLAC requirements.

Yet, the US regional bank failures of 2023 highlighted the importance of adequate LAC for banks other than G-SIBs, and, indeed, there have been moves in the US to expand that scope with a proposal to require banks with $100 billion or more in assets to issue long-term debt sufficient to recapitalise the bank in resolution.[2]

However, it is valid to ask as well whether the EU implementation of LAC requirements poses burdens on EU banks that should be alleviated by reducing MREL or simplifying how it is set. It is impossible to calibrate LAC requirements with scientific precision, and simplification is always desirable provided that the ultimate objective is not compromised.

To answer this question, we need to look at the broader framework. Resolution is not credible or feasible without funding, but that funding can come from a range of sources which include resolution funds, deposit guarantee schemes (DGS) and governments, in addition to banks' LAC. The balance between LAC, that pushes the costs of failure management on to the bank's creditors and shareholders, industry-sourced funding, which mutualises those costs across the banking sector, and public backstop funding is a policy decision that is made in the wider institutional context.

Less stringent MREL requirements would need more flexible external funding in resolution.

The BU framework for the resolution of significant banks contains conditions for the provision of external support that are more restrictive than in other jurisdictions: thus, the framework includes possible funding from national deposit guarantee schemes and the single resolution fund (SRF). However, to the funding available from the national DGS in resolution is severely restricted by a stringent least-cost constraint. Moreover, access to the SRF is subject to conditions, including loss-sharing through the prior write down of at least 8% of the failing bank's liabilities and own funds. Furthermore, there is no such a thing as a systemic exception that could enable the above constraints to be overridden to make external funding available for resolution in appropriate cases. Finally, there is no public backstop that could be used if other funding sources cannot achieve the resolution objectives.

While the current EU framework is unlikely to be optimal, it is internally consistent. The tight restrictions for external support certainly justify relatively stringent MREL requirements to facilitate bail-in. However, this is not to say that change should not be considered. There is certainly scope for enhancing the use of DGS funding in the resolution of mid-sized and small banks, and it is to be hoped that the CMDI package can achieve this.

However, any material reduction in MREL would probably need to be compensated by other sources of funding. It could imply, for example, relaxing the conditions of access to the SRF, but this in turn could mean greater costs are mutualised across the national banking sectors. Or lower MREL could be balanced by greater flexibility in public funding, such as the government stabilisation tools, but this could be inconsistent with efforts to break the nexus between banks and sovereigns. Although MREL calibration may appear to be a technical exercise, any material adjustment would require sensitive political choices.

1. *Resolution of banking crises: what are the loss absorbency requirements in Europe and the United States?, Bulletin de la Banque de France, May-June 2024.*
2. *See M Gruenberg, "Remarks by Martin J Gruenberg, Chairman of the FDIC, on the resolution of large regional banks – Lessons Learned", August 2023 and FSB, 2023 Bank Failures – Preliminary lessons learnt for resolution, October 2023.*

Disclaimer: The views are those of the author and not necessarily of the Bank for International Settlements.

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Strengthening EU bank crisis management: A test of the EU's ability to deliver

The EU's single market is its most valuable economic asset, essential for stability and prosperity. However, progress in strengthening it has stalled. Increasingly complex EU regulations interact with national rules, creating barriers that make it difficult for businesses—especially small ones—to trade across borders. IMF estimates suggest that these trade barriers equate to tariffs of over 40% for goods and 100% for services.

A more integrated financial market would allow capital to flow where it is most needed, particularly in key areas such as defence, productivity, and decarbonisation. It would also help diversify risks, lower regulatory costs, and enhance financial stability. However, reluctance among member states to advance financial integration has stalled the Banking Union for over a decade, blocking initiatives such as DEBRA, which could boost equity financing in the EU economy.

Expanding the resolution scope to small and medium-sized banks

Extending resolution tools to medium-sized banks is crucial, given their regional economic importance. These banks require additional tools for crisis management to ensure financial stability, protect depositors, and reduce the economic impact of financial crises. Expanding rule-based resolution mechanisms would create a more resilient and integrated financial system.

Inconsistent resolution approaches and national ring-fencing

The lack of harmonised resolution practices across member states leads to uncertainty, regulatory fragmentation, and weakened trust between national and EU authorities. Instead of following a clear and predictable framework, many member states continue to rely on ad hoc state aid for crisis management. This undermines market stability and creates inconsistent outcomes for banks facing similar challenges. The absence of uniform rules also weakens the level playing field, which is crucial for healthy competition across the single market.

Additionally, ring-fencing measures, intended to safeguard the domestic financial stability of individual member states, further fragment the internal market and limit banks' ability to operate efficiently across borders. While national interests are legitimate, excessive ring-fencing contradicts the goals of a single financial market and reduces the competitiveness of European banks compared to their global counterparts. It also prevents efficiency gains that should be achievable for pan-European banks. Addressing these concerns requires greater harmonisation of resolution mechanisms and a more coordinated EU approach to financial stability, underpinned by mutual trust between regulators and the entities they oversee.

Better EU bank crisis management is key to strengthening financial stability and integration.

Completing the Banking Union with a European Deposit Insurance Scheme

A crucial missing component of the Banking Union is the European Deposit Insurance Scheme (EDIS). Without full implementation, depositor protection remains uneven across member states, increasing uncertainty during financial crises. A unified deposit insurance scheme would enhance market stability, reduce the need for national bailouts, and minimise risks associated with fragmented crisis management approaches. While EDIS is not part of the CMDI proposal, it is worth noting that the European Parliament's ECON Committee recently reached an agreement on the gradual build-up of EDIS.

CMDI as an important evolution

The proposed Crisis Management and Deposit Insurance (CMDI) framework aims to strengthen EU banking crisis policies by extending resolution tools to medium-sized banks, reducing reliance on taxpayer money through industry-financed safety nets like Deposit Guarantee Schemes (DGSs) and the Single Resolution Fund (SRF). Eligible banks that meet specific conditions could access these funds to protect depositors and maintain financial stability.

However, the CMDI proposal has faced significant resistance. Large banks oppose medium-sized banks gaining access to the SRF, despite financial stability concerns affecting institutions of all sizes. Some member states resist harmonised EU-wide rules, preferring discretionary national interventions. Additionally, proposed adjustments to MREL requirements for medium-sized banks using transfer strategies have sparked concerns about regulatory advantages for certain institutions.

These obstacles illustrate why progress on the Banking Union—and broader efforts to deepen the single market—has been slow. Overcoming these challenges would send a strong signal that deeper financial market integration, including initiatives such as the 28th regime, can advance, strengthening EU competitiveness and economic resilience. If these issues remain unresolved, Mario Draghi's warning that the current model is unsustainable could materialise sooner than expected.

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Strengthening bank crisis management through transparency and cooperation

The EU's bank crisis management and deposit insurance (CMDI) framework has enhanced system resilience, as evidenced by the 2023 crisis. However, remaining loopholes create uncertainty and impede further market integration. The lack of a European Deposit Insurance Scheme (EDIS) and insufficient resolution funding arrangements are key structural gaps. Such an incomplete architecture leads to uneven depositor protection across jurisdictions and undermines the banking union's objectives. Moreover, regulatory inconsistencies persist; addressing these through the CMDI reform would improve flexibility and predictability in managing crises, boost confidence, and promote harmonisation in areas essential for an orderly wind-down of troubled banks, ensuring an effective interplay of rules.

In the absence of a unified safety net, ring-fencing restricts the movement of capital and liquidity within cross-border banking groups. As a result, banking groups need to maintain extra resources at local level and ensure that subsidiaries can continue operations independently in times of stress. However, this fragmented approach hinders integration, reduces efficiency in capital and liquidity allocation, and weakens the EU's ability to manage financial crises effectively. Ultimately, it weakens the ability of European banks to compete effectively on a global scale.

Funding in resolution remains a key gap. The Single Resolution Fund (SRF) and the European Stability Mechanism (ESM) backstop could provide essential funding, but the delayed ratification of the ESM Treaty creates uncertainties about the suitability of the framework in place. Moreover, without a reliable liquidity in resolution (LiR) mechanism, concerns over large bank failures and contagion persist, reinforcing home-host tensions and complicating cross-border crisis resolution. The EU's unique characteristics make the search for a solution more complex. Member States and EU institutions need to renew their efforts towards cooperative approaches.

Reforms should ensure that key elements, specifically EDIS and LiR, are credible, consistently applied, and backed by strong coordination. This requires decisive top-down action. Ratifying the ESM Treaty is essential to ensure swift access to resolution funding. In parallel, cooperation, transparency, and pre-emptive crisis management must improve to prepare the ground for broader reforms. Alert mechanisms should evolve to capture emerging risks and trigger timely interventions. Greater transparency through enhanced public disclosures can help build trust. Initiatives such as the European Banking Authority's centralised Pillar 3 disclosure hub could help boost market confidence by providing clearer insight into banks' financial positions. Although this is a good step forward, additional measures are necessary. Improved coordination between national and EU authorities is critical to boosting confidence. Cross-border crisis simulations and joint exercises can ensure that host and home authorities align expectations, thereby reducing the likelihood of unilateral defensive actions.

An incomplete bank crisis management framework impedes further market integration.

Further mechanisms are needed to reassure host countries. Trust-building requires legally binding intra-group support mechanisms for parent banks to support distressed subsidiaries under clear supervisory triggers, reducing host authorities' concerns. Additionally, a LiR facility should ensure access to critical funding, preventing market panic and depositor uncertainty. Clearer guidelines for protecting depositors and critical functions during and after resolution would ease fears of disadvantaging local economic agents. Enhanced coordination and a more consistent application of macroprudential tools across Member States would be beneficial, with a stronger role of the European Systemic Risk Board to promote policy convergence.

A resilient banking union needs a stronger crisis management framework; we encourage progress on this front as highlighted in the Eurogroup Work programme. Key priorities include establishing EDIS, securing fully predictable resolution funding, and introducing legally enforceable intra-group support. On top, macroprudential policy convergence, early-warning mechanisms for emerging risks (including climate shocks, cyber threats, and geopolitical instability), improved data transparency, and cross-border coordination, would provide stakeholders with greater confidence in the shared framework. Stronger crisis management through coordinated action is increasingly critical to ensure financial and operational resilience, in the face of new global challenges. Trust is the foundation of financial stability: rebuilding trust requires closing structural gaps in bank crisis management to be able to move towards a fully integrated banking union, where all depositors are protected equally, and systemic risks are mitigated effectively.

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Credibility is key for the future of EU bank crisis management framework

It has been over 10 years since the EU introduced the Single Rulebook and 2 of the 3 pillars of the Banking Union. While the Single Supervisory Mechanism (SSM) was implemented fairly smoothly, the Single Resolution Mechanism (SRM) continues to face challenges, and the European Deposit Insurance Scheme (EDIS) is yet to be regulated.

Since 2015, EU countries have dealt over 30 failing banks. Most were fairly insignificant in size, with no critical functions, and were resolved through national insolvency proceedings. However, even in cases involving larger banks, national regulators have tended to avoid applying the EU resolution framework. This reluctance prompted EU to propose the Crisis Management and Deposit Insurance (CMDI) package, with objective to:

1. Enhance the resolution framework and broaden its scope.
2. Strengthen the role of deposit guarantee schemes (DGS) in bank crisis management.
3. Harmonise crisis management approaches across the EU.

While there is broad consensus that the EU bank crisis management framework needs enhancements, opinions on the best solutions for CMDI package vary widely. In the pursuit of compromise, efforts to accommodate the concerns of different stakeholders have led to increasingly complex structures and processes being proposed. As the head of the Polish resolution authority (BFG), which carried out four resolutions so far, I believe that adding further complexity to the crisis management framework is not the right approach.

To enhance the EU resolution framework, we need to build trust, between home and host nations, between Member States and EU authorities, and trust that the CMDI will make the resolution a practical solution for failing banks. To build trust, the CMDI package must be credible. Perhaps it is worth to take a step back and reassess the regulations from a broader perspective. In my opinion, resolution framework should be simple, flexible, and effective.

CMDI should prioritise simplified procedures. Resolution decisions are often taken within a short timeframe and under high uncertainty. An overly complex framework would be difficult to implement over a so-called "resolution weekend". High complexity also increases the burden on banks, particularly in resolution planning and operationalisation testing. Our experience at the BFG suggests that a highly complex resolution framework does not resonate well with the general public, which undermines some of the key objectives of resolution, particularly financial stability.

Resolution framework should be simple, flexible, and effective.

To build trust in resolution, we should allow for greater flexibility. I believe that stringent burden-sharing rules have been major obstacle in applying resolution rules. BFG has very negative experiance with bailing in uninsured deposits at a co-op bank in Sanok. It led to a loss of trust and liquidity crisis in the resolved bank. It prompted BFG to seek a private-sector solution, where the top 8 banks voluntarily contributed funds towards resolution of the systemic Getin Noble Bank to avoid any deposit bail in.

If safeguarding all deposits, became one of practical resolution goals, the framework would be simpler and more flexible. In my view, the possibility of bailing in deposits is one of the main reasons resolution have been avoided as it is both economically and politically challenging. Therefore, once a failing institution passes the public interest assessment, in my view its resolution should ensure the safeguarding of all deposits. Bank that fails PIA should be subject to insolvency proceedings with only the guaranteed deposit payouts.

Implicitly guaranteeing all deposits in resolution would also require a more flexible approach to the strict 8% TLOF bail-in rule. It is surprising that such rigidity is applied to an arbitrarily set threshold, leading to excessive CMDI complexity to ensure compliance. I believe it should be sufficient to bail in any outstanding capital instruments and (MREL) eligible liabilities—excluding deposits—before public funds can be used for recapitalisation. Greater flexibility in the 8% rule would make the resolution framework more practical and reduce the need for complex discussions on the role of DGS funds in resolution. It would also cut banks' regulatory burden—for example, IT systems would no longer be required to handle instant deposit bail-ins.

Finally, to make resolution more effective, MREL-setting rules should be reconsidered. Currently, many banks meet their MREL requirements primarily through core equity. However, by the time a bank is deemed failing or likely to fail (FOLTF), its equity has often been depleted. I believe that MREL should be set as a share of bail-inable debt or AT1 instruments only. This would ensure that at the time of resolution, an institution holds financial resources to be bailed-in.

In conclusion, a simple, flexible, and effective resolution framework is key to strengthening trust and ensuring resolution becomes the preferred solution for failing banks across the EU.

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Geopolitics force Europe to change: impacts on Bank Crisis Management?

Resolution aims at protecting taxpayers from state bail-outs and promoting financial stability. In the EU, CMDI reform aims at widening the scope of resolution to small and medium banks characterized by a regional scope. Today, **geopolitics force Europe to change: what are the impacts on Bank Crisis Management?** In these times of heightened geopolitical instability and alleviation of the regulatory burden in the American banking system, the priority for Europe should be to ensure the banking crisis management system enables the reinforcement of banking union with strong resolution authorities, promotes financial stability within Europe and enables adequate balance sheet management at bank level.

At a global level, indeed, the SRB should consider being the spokesperson of the European banking system vis-à-vis other international resolution authorities. This would have precise applications on the details of bail-inability of instruments issued outside the EU. The scattered questions asked by European banks to the international authorities is counterproductive and paves the way for a fragmented approach within European banks, which is problematic in case of deterioration of relationship with international authorities, and notably American ones.

At European level, strong European authorities are key to enable the development of a true Banking Union. Thus, the competence and powers of the SRB Executive Session must be kept in order to avoid a diluted and fragmented oversight of resolution at national level, and prevent ring-fencing attitudes among member-states. The internal MREL requirements, systematically imposed to foreign subsidiaries, limiting the ability to freely allocate capital and impeding a free-flow of liquidity, are another key constraint that should be removed in a true banking union, thus fully acknowledging crossborder intra-group support, which would thus contribute to reduce the burden of the crisis management setup.

Then, **at banks level**, to ensure financial stability, the final version of CMDI should make sure that MREL remains the first line of defense in resolution, and restrict at a maximum the use of DGS to fund the MREL gap to access SRF. Indeed, bail-in has been promoted by BRRD to avoid state bail-outs, enabling the absorption of loss and recapitalization of banks by their shareholders and creditors.

In this context, minimum MREL ratios ensure shareholders and creditors bear the major share of the burden of resolution. A minimum MREL of 16% seems an adequate threshold, in line with the existing levels within EU.

> A fine-tuning of CMDI is key to protecting banks competitiveness.

Furthermore, the resort to DGS for small and medium banks going into resolution needs to be clearly framed and restricted, to stay in line with DGS' initial goal, protect covered depositors and not to absorb losses. To this extent the "super-preference" for DGS needs to be kept in the creditor hierarchy. Limiting the access to the DGS or SRF is a way to limit additional contribution post resolution of all other bank participants, which would eventually be invoiced to customers. In addition, vigilance should be paid to post SRF contribution requirements in the final version of CMDI. Their level should avoid procyclicality.

Some unexpected side effects of CMDI at bank levels should be carefully monitored, notably when materializing through additional costs eventually paid by customers. The list is extensive, three examples only here:

- the current accounting treatment by banks of Irrevocable Payment Commitments (IPCs) used for the contribution to the SRF may be reviewed if some provisions require a call of IPCs on return of a banking license, and may materialise through significant unexpected costs.

- any consideration of maturity in the creditor hierarchy would induce procyclical movements of creditors on their investments when a bank faces difficulties. This could lead to an unintended swift deterioration of liquidity coverage ratios, adding unnecessary trouble in a crisis situation.

- additional layers of constraints applicable to retail distribution of Senior Preferred and Senior Non-Preferred instruments do not seem appropriate. This type of concern is already dealt with in the MIFID rules and is totally alien to CMDI topics. The operational complexity induced may dry-up this source of retail refinancing, a useful diversification of banks funding.

Thus, a fine-tuning of CMDI is key to protecting EU banks competitiveness.

Finally, authorities should pay attention to **cross-effects of regulatory packages**. CRR 3 entering into force, and notably introducing an output floor on Risk Weighted Assets, will eventually impact MREL requirements calibration: for eligible liabilities requirements as for capital buffers, the EU authorities (ECB and SRB) should target together a neutrality and a stability in the amounts required in banks balance sheets, keeping in mind protecting EU banks profitability is key in the current political and regulatory global context.