

European deposit insurance scheme (EDIS)

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This Communication, which accompanies the Commissions legislative proposal to establish the European Deposit Insurance Scheme (EDIS), is placed in the broader context of completing the [Banking Union](#) and the necessary additional measures of risk sharing and risk reduction in the banking sector.

Completing Banking Union: the Banking Union was established primarily in response to the financial crisis that evolved into a sovereign debt crisis in particular in the euro area. The crisis was driven by the link between banks and their respective national sovereign.

To this end, the [Single Supervisory Mechanism](#) (SSM) and the [Single Resolution Mechanism](#) (SRM) the first two pillars of the Banking Union have been established. The SSM became operational in November 2014 and is already delivering independent and uniform prudential supervision. The SRM will be fully operational from January 2016, when contributions to the Single Resolution Fund (SRF) will also begin.

However, while some components of the Banking Union are already or will soon become operational, the overall construction is clearly incomplete. One of the missing elements, as underlined in the [Five Presidents Report](#) and set out in this Communication, is a common deposit insurance scheme.

The Commission therefore proposes a common deposit insurance scheme (EDIS) for Banking Union, based on a reinsurance approach that will be progressively converted to a full insurance scheme over a number of years.

EDIS would increase the resilience of the Banking Union against future financial crises by reducing the vulnerability of national deposit guarantee schemes to large local shocks and further reducing the link between banks and their home sovereign. In such circumstances, EDIS could help to reassure depositors across the Banking Union and so reduce the risk of bank runs and increase financial stability.

Bridging finance for the Single Resolution Fund (SRF) and provision for a common fiscal backstop: in the context of establishing Banking Union, Member States should also begin work to reinforce the agreed bridge-financing arrangements for the SRM and on developing a common fiscal backstop:

1) Bridging finance: bank contributions to the SRF will begin in 2016, but the SRF will not reach its steady state size of approximately EUR 55 billion until 2024. Contributions will be mutualised on a progressive basis over an eight-year period. These features, during the transition to full mutualisation, will limit the borrowing capacity of the SRF in the coming years.

To address the risk of inadequate SRF capacity, the participating Member States are discussing the establishment of national credit lines to support their respective compartments. Member States credit lines would be supporting a declining share of the total SRF over time. The Commission considers it essential, therefore, that Member States (i) take the necessary steps to put these national credit lines in place before 1 January 2016 when the Single Resolution Board becomes fully operational, (ii) begin discussion of a more robust mutualised credit line via the European Stability Mechanism (ESM).

2) A common fiscal backstop: even this extensive menu of prudential and crisis management measures cannot eliminate entirely the risk that public funding may be required to enhance the financial capacity of resolution funds. For this reason, Member States have agreed that the Banking Union requires access to an effective common fiscal backstop to be used as a last resort. Such a backstop would imply a temporary mutualisation of possible fiscal risk related to bank resolutions across the Banking Union. However, use of the backstop would be fiscally neutral in the medium term, as any public funds used would be reimbursed over time by the banks (through ex-post contributions to the SRF).

Risk reduction measures: the Commission considers that the risk sharing implied by these measures must be accompanied by measures to reduce risk in the banking sector by weakening the link between banks and their national sovereigns. From this point of view, the first priority is to ensure that Member States deliver full transposition of the [Bank Recovery and Resolution Directive](#) (BRRD) and the [Deposit Guarantee Scheme Directive](#).

(DGSD). The Commission has begun infringement proceedings against several Member States. It has also called on Member States to ratify the Inter-Governmental Agreement on the SRF.

Furthermore, additional risk-reducing measures will be needed in parallel with work to establish EDIS:

- to ensure that the SSM can function effectively, it is necessary to reduce national options and discretions in the application of prudential rules, e.g. in the Directive and Regulation on own funds ([CRD IV](#) and [CRR](#)) that apply to banks under the responsibility of the SSM. Significant progress has been made in this respect;
- the harmonisation of national deposit guarantee schemes will need to advance in parallel with the establishment of EDIS;
- the Single Resolution Board must be enabled to operate as effectively as possible so that it might respond in a timely and effective manner in the event that a bank(s) is failing or likely to fail. In addition, the TLAC (total loss absorbing capacity) requirement has been developed at the international level by the Financial Stability Board. The Commission will bring forward a legislative proposal in 2016 so that TLAC can be implemented by the agreed deadline of 2019. The operation of the SRF should also begin smoothly;
- it is essential that the use of public funds to sustain a solvent and resilient banking sector be minimised and be available only as a last resort. To this end, there must be a consistent application of the bail-in rules under BRRD so as to ensure that the costs of resolving banks that are failing or likely to fail are borne primarily by their shareholders and creditors;
- as identified in the [Commissions action plan](#) on building a capital markets union of 30 September 2015, there is a need for greater convergence in insolvency law and restructuring proceedings across Member States;
- lastly, a number of further targeted prudential measures addressing weaknesses identified should be put in place. These measures include the remaining elements of the regulatory framework agreed within the Basel Committee, and in particular measures to limit bank leverage, to assure stable bank funding and to improve the comparability of risk-weighted assets.

The Commission will work to ensure that further measures to reduce risk are taken in parallel with ongoing work to establish EDIS, including

any necessary regulatory changes.

It will continue the dialogue on the overall package of EDIS and risk reduction measures with the European Parliament, Member States and all interested parties.