

# **Response to the IADI Consultation on Core Principles (2025 Revision)**

**July 2025**

## **Question 1:**

**"Does the revised version of the Core Principles adequately promote a holistic view of the financial safety-net and effective interaction among deposit insurance, resolution, and supervision, while acknowledging the different architectures and diverse institutional structures of deposit insurance systems across jurisdictions?"**

EFDI welcomes the revised Core Principles' emphasis on the holistic perspective of the financial safety net, particularly the strengthened focus on effective coordination, information-sharing and interaction among deposit insurers, resolution authorities, and supervisors. This approach is essential for effective crisis preparedness, including simulation exercises, joint contingency planning, and recovery and resolution planning.

EFDI supports the promotion of a more integrated view of the financial safety-net, as set out particularly in CP-17 and CP2.4, **In order to reinforce even more the coordination and information sharing among FSN participants** we suggest considering the following minor amendment in CP2.4d): "d) obtaining timely, accurate, and comprehensive information needed to fulfil its mandate directly from its members, from third parties holding the relevant information on behalf of a member, **AND OR** from other financial safety net players".

At the same time, EFDI underscores the importance of explicitly **acknowledging and accommodating the significant institutional and organizational diversity of deposit insurance schemes**, which is a highly effective factor in bringing them closer to the prevailing financial culture in the various jurisdictions, without prejudice to the operational and regulatory standards that ensure fair competition between intermediaries.

Deposit insurers in different jurisdictions vary widely in their institutional frameworks, funding mechanisms, and operational arrangements, including public, private, and hybrid models. With specific reference to the possible mandates of deposit insurers, for example, the presence of Institutional Protection Schemes (IPSs) is a typical element of differentiation within the banking system and promotes its financial stability, playing a role that is definitely recognised in many jurisdictions. **The revised Core Principles should**

**more clearly reflect and explicitly respect this diversity, allowing for tailored implementation aligned with legal mandates and local institutional realities.**

Moreover, EFDI highlight the importance of cross-border cooperation and coordination, especially within highly interconnected markets, where banking groups operate across jurisdictions. Provisions in CP-18 that promote cross-border information exchange are essential and should be upheld.

**Question 2:**

**"Does the revision provide sufficient clarity on the interaction between deposit insurance and resolution to effectively achieve the public policy objectives of depositor protection and financial stability?"**

EFDI welcomes the relevance given to the role of DIs in non-payout resolution. In addition to the call for the early involvement of DIs in the process, **EFDI specifically supports that the Least Cost Test is kept as a historically established and universally recognised principle guiding the determination of the amount to be contributed by DIs in a balanced and legally consistent way.** In our view, the LCT is not only a key safeguarding for DIs in financial terms, but it also ensures a consistency between the different functions and mandates they can perform and the resources to be devoted to each of them.

EFDI appreciates the revisions aiming to clarify interactions between deposit insurers and resolution authorities. More particularly, EFDI welcomes the insertion made in CP-13 rightly acknowledging that "*relevant recovery and resolution planning information should be shared with the deposit insurer and other financial safety-net participants in a timely and appropriate manner.*"<sup>1</sup>

In fact, effective coordination and timely information sharing between deposit insurers and resolution authorities —both in peace and crisis times— are critical for maintaining financial stability and depositor confidence. EFDI emphasizes the necessity for deposit insurers to be closely involved in crisis management and resolution planning processes early on. In that vein, **there is insufficient clarity in the amended version of CPs regarding the way the deposit insurer should be involved in the decision-making process governing resolution (CP16.3a).**

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<sup>1</sup> According to a recent EFDI study "public DGS with representatives from other Financial Safety-Net (FSN) participants in their Board receive more detailed supervisory and resolution related information, while private DGSs with no other FSN participants in their Board may have limited access to these pieces of information". EFDI Position Paper "Cooperation of DGSs with other Financial Safety Net Participants", June 2025, publicly available on EFDI website. The paper is based on the results of a Survey involving 25 respondent DGSs.

Besides that, on the implementation of such coordination and cooperation among FSN players, it would be advisable that the CPS would explicitly recommend formalising **written agreements on cooperation and information exchange** between the various actors in the financial safety net. Thus, CP-17, EC 1. should better clarify the need to establish **specific operational memoranda of understanding** between the various actors involved in the FSN, **capable of better detailing any generic references to cooperation existing in primary legislation**, but which have not always resulted in the effective involvement of deposit insurers in the preparatory and decision-making processes relating to resolution.

It is also important to make explicit within CP-17 the **mutual recognition of confidentiality arrangements** between the relevant FSN participants to avoid confidentiality acting as barrier to the sharing of information in a timely manner.

**In peace time**, it seems hardly credible, even for the purposes of the deposit insurer's stress tests, that resolution authorities would not share any information with the deposit insurer on resolvability of member banks. Currently, the design for different types of exercises for resolution processes is often led by the Resolution Authorities, with limited DGS involvement. Increasing DGS participation, including joint training sessions, webinars, and tabletop exercises, would improve crisis coordination. On the other side, a two-way cooperation model —where DGSs participate in Resolution Authority-led tests and vice versa— would foster a holistic approach to crisis preparedness.

**In crisis time**, as soon as there is a credible risk of intervention or fund use, deposit insurers must be given access to timely and sufficient information and be included in preparatory discussions, enabling it to prepare adequately and respond effectively in the event of a crisis.

EFDI underscores that while close interaction, cooperation **and coordination** are essential, the distinct mandates and functions of deposit insurance and resolution should remain clearly defined and preserved as each pursues different public-policy objectives and carries distinct responsibilities within the financial safety net. Deposit insurers primarily aim to safeguard covered deposits in idiosyncratic banking crises, facilitating prompt payouts and promoting the values of market discipline and burden sharing. Resolution authorities are called upon to manage the systemic financial stability dilemma, i.e. ensuring an appropriate balance in the trade-off between extensive protection of failing institutions and prevention of moral hazard.

In strict accordance with this clear and crucial allocation of tasks and mandates, EFDI is of the opinion that the core principles should clearly highlight that **Depositor preference** reinforces depositors' protection, enhances deposit insurers' potential recovery in crisis management, and significantly contributes to the **sustainability and credibility** of deposit insurance funding arrangements. This is of particular relevance at a time where deposit insurers roles are broadening to include more responsibility in the funding of

resolution measures. CP-6 should be amended in this direction, **adding an Additional Criteria** which clarifies that covered deposits (and subrogating deposit insurers) should have a higher rank in creditor's hierarchy, in order to ensure adequate recoveries and prompt replenishment of deposit insurers' financial means in case of pay-out (even more in the perspective of possible multiple pay-outs).

**Question 3:**

**Are the revised Core Principles sufficiently forward-looking and aspirational to address emerging risks, trends, and challenges in the global financial sector, while remaining practical for implementation?**

EFDI recognizes that the revised Core Principles contains several forward-looking elements. The inclusion of additional (aspirational) criteria can be a meaningful step to guide deposit insurance systems toward evolving best practices. For this approach to be effective, ambition and practicality must be balanced, encouraging continuous system improvement. Practical feasibility and legal certainty must remain foundational.

EFDI recommends strengthening the emphasis on specific risk management areas relevant to Deposit Guarantee Schemes (DGS). Of particular relevance are ICT-related risks such as system failures, cyberattacks, data breaches, and disruptions in third-party services, which are critical to ensuring the integrity and continuity of DGS operations, including payouts.

Moreover, EFDI highlights the importance of managing reputational risks by establishing robust communication strategies. Effective communication, especially during crisis situations, is essential to maintain public confidence in DGSs and avoid reputational damage, thus enhancing overall financial stability.

**Question 4:**

**Does the updated framework ensure that the Core Principles remain adaptable to technological advancements in deposit-taking and protection systems, while maintaining a technology-neutral approach?**

EFDI supports the Core Principles' recognition of the need for adaptability to technological innovation, while maintaining a neutral stance on specific technologies. This balance is crucial in ensuring consistency across jurisdictions with differing levels of digital transformation.

EFDI encourages continued attention to digital and cyber risks.

In the view of EFDI members, efforts to introduce crypto assets into the regulatory space, such as the Markets in Crypto-Assets Regulation (MiCA) in the EU, warrant further consideration of implications for deposit insurance coverage frameworks.

Finally, EFDI notes the potential use of Artificial Intelligence (AI) in payout processes, fraud detection, and risk assessment. While such tools offer efficiency, they also introduce new risks that merit regulatory attention and safeguards.

In summary, EFDI supports the adaptability of the revised Core Principles while encouraging continued refinement in areas relating to digitalisation, cyber resilience, and emerging technologies.

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