Commission proposes Single Resolution Mechanism for the Banking Union

The European Commission has today proposed a Single Resolution Mechanism (SRM) for the Banking Union. The mechanism would complement the Single Supervisory Mechanism (SSM) (IP/12/953) which, once operational in late 2014, will see the European Central Bank (ECB) directly supervise banks in the euro area and in other Member States which decide to join the Banking Union. The Single Resolution Mechanism would ensure that – notwithstanding stronger supervision - if a bank subject to the SSM faced serious difficulties, its resolution could be managed efficiently with minimal costs to taxpayers and the real economy.

Commission President José Manuel Barroso said: "With this proposal, all the elements are on the table for a banking union to put the sector on a sounder footing, restore confidence and overcome fragmentation in financial markets. We have already agreed common European supervision for banks in the euro area and other Member States who wish to take part. Today's proposal complements that with a strong and integrated single system for dealing with failing banks. We cannot eliminate the risk of future bank failures, but with the Single Resolution Mechanism and the Resolution Fund it should be banks themselves – and not European taxpayers – who should shoulder the burden of losses in the future."

Internal Market and Services Commissioner Michel Barnier said: "We have seen how bank crises can quickly spread across borders, sending confidence into a downward spiral throughout the euro area. We have also have seen how the collapse of a major cross-border bank can lead to a complex and confusing situation: the cumbersome decision-making process which led to the orderly resolution of Dexia is not an example to follow.. We need a system which can deliver decisions quickly and efficiently, avoiding doubts on the impact on public finances, and with rules that create certainty in the market. That is the point of today's proposal for a Single Resolution Mechanism: by ensuring that supervision and resolution are aligned at a central level, whilst involving all relevant national players, and backed by an appropriate resolution funding arrangement, it will allow bank crises to be managed more effectively in the banking union and contribute to breaking the link between sovereign crises and ailing banks."

The reinforced supervisory framework of the SSM, as well as enhanced prudential requirements (see MEMO/13/272), will bolster the safety of banks. However, the risk of a bank experiencing a severe liquidity or solvency problem can never be totally excluded. Bank supervision and resolution need to be aligned and exercised at the same central level in order to curb uncertainty and prevent bank runs and contagion to other parts of the euro area.
The proposed SRM would apply the substantive rules of bank recovery and resolution (see IP/12/570) – due to be adopted shortly - in the banking union. The EU’s Council of Finance Ministers reached agreement on a general approach on these new rules on 27 June (MEMO/13/601) and the Committee on Economic and Monetary Affairs of the European Parliament adopted its report on 20 May. Negotiations between the Council and the European Parliament are about to start and final agreement on the Bank Recovery and Resolution Directive should be reached this autumn.

The Single Resolution Mechanism would work as follows:

• The ECB, as the supervisor, would signal when a bank in the euro area or established in a Member State participating in the Banking Union was in severe financial difficulties and needed to be resolved.

• A Single Resolution Board, consisting of representatives from the ECB, the European Commission and the relevant national authorities (those where the bank has its headquarters as well as branches and/or subsidiaries), would prepare the resolution of a bank. It would have broad powers to analyse and define the approach for resolving a bank: which tools to use, and how the European Resolution Fund should be involved. National resolution authorities would be closely involved in this work.

• On the basis of the Single Resolution Board’s recommendation, or on its own initiative, the Commission would decide whether and when to place a bank into resolution and would set out a framework for the use of resolution tools and the fund. For legal reasons, the final say could not be with the Board.

• Under the supervision of the Single Resolution Board, national resolution authorities would be in charge of the execution of the resolution plan.

• The Single Resolution Board would oversee the resolution. It would monitor the execution at national level by the national resolution authorities and, should a national resolution authority not comply with its decision, it could directly address executive orders to the troubled banks.

• A Single Bank Resolution Fund would be set up under the control of the Single Resolution Board to ensure the availability of medium-term funding support while the bank was restructured. It would be funded by contributions from the banking sector, replacing the national resolution funds of the euro area Member States and of Member States participating in the Banking Union, as set up by the draft Bank Recovery and Resolution Directive.

The Commission's role would be limited to the decision to trigger the resolution of a bank and the decision on the resolution framework, thereby ensuring its consistency with the Single Market and with EU rules on state aid, and safeguarding the independence and accountability of the overall mechanism.

At the 27-28 June European Council, EU leaders set themselves the target of reaching agreement on the mechanism by the end of 2013 so that it can be adopted before the end of the current European Parliament term in 2014. This would enable it to apply from January 2015, together with the Bank Recovery and Resolution Directive.

Before the proposed rules enter into force, any bank crises would continue to be managed on the basis of national regimes. However, these regimes are set to converge increasingly towards agreed principles of resolution, namely the allocation of bank losses to shareholders and creditors instead of taxpayers. This is achieved on the one hand by the revised guidelines on state aid to banks also adopted today (see IP/13/672) and on the other, the possibility of direct recapitalisation of banks by the European Stability Mechanism. Both require appropriate “burden-sharing” by private investors in a bank as a condition of public support by national and European Stability Mechanism resources.
Background

The Single Resolution Mechanism was announced by the Commission in the Communication on A Roadmap Towards a Banking Union (September 2012) and in the Blueprint for A Deep and Genuine Economic and Monetary Union (November 2012).

The European Council in December 2012 recognised the need to set up a Single Resolution Mechanism to accompany the Single Supervisory Mechanism in the Banking Union. In March 2013, it committed to complete the Banking Union via a series of steps and confirmed that the Commission’s proposal for a Single Resolution Mechanism should be examined as a matter of priority with the intention of adopting it before the end of the current European Parliament term in 2014.

The European Parliament has consistently called for greater integration in the arrangements for resolving banks, and in a Resolution adopted on 13 June 2013 urged the Commission to adopt as quickly as possible the proposal establishing the Single Resolution Mechanism.

See MEMO/13/675 and MEMO/13/679

More information:
http://ec.europa.eu/internal_market/finances/banking-union/index_en.htm

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