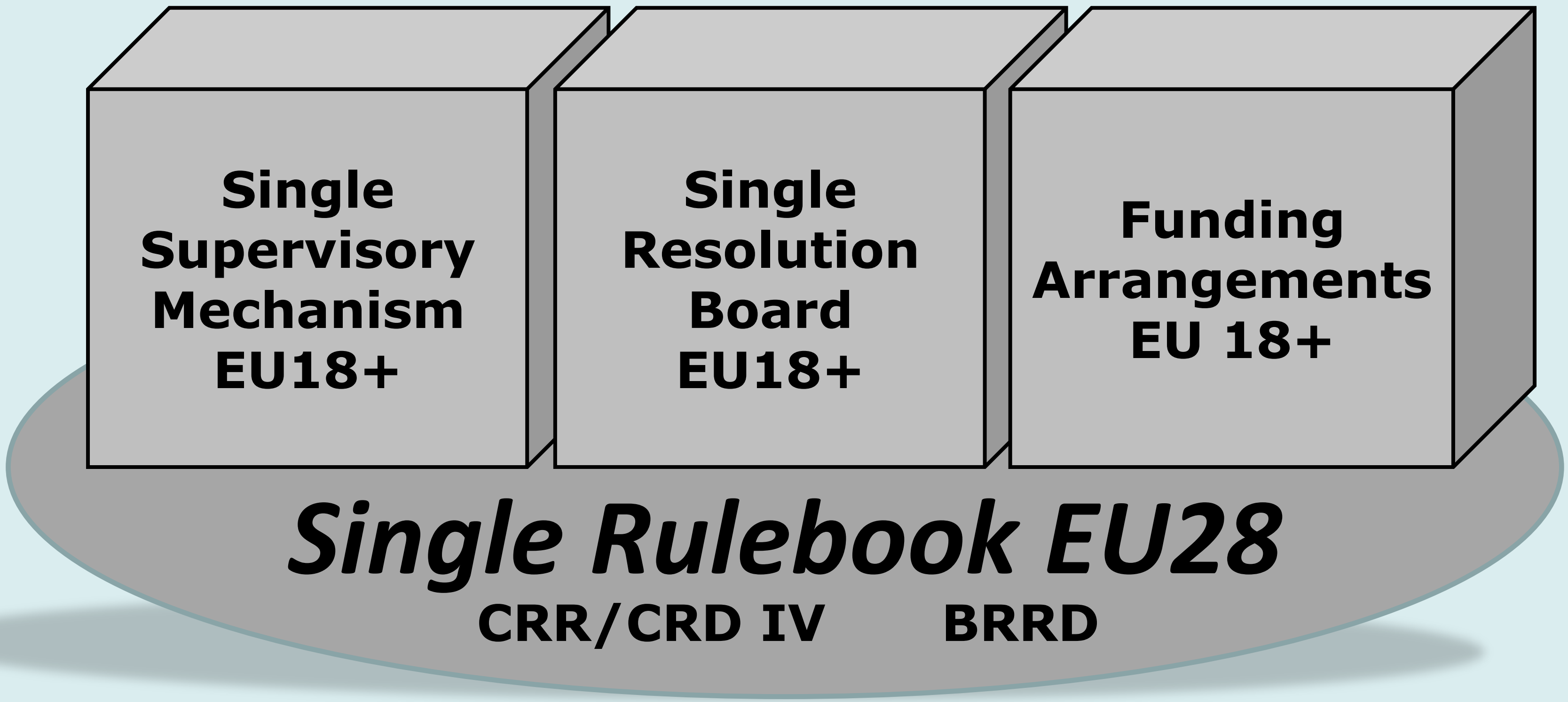
European Commission

A Single Resolution Mechanism for the Banking Union

Internal Market and Services

21/05/2014

Key elements of the Banking Union



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Political Agreement

The European Parliament and the Council reached a political agreement on the Single Resolution Mechanism **on 20 March 2014.**

The SRM is the **second pillar** of the Banking Union.

The SRM will ensure that potential future bank failures in the banking union are managed efficiently, with **minimal costs to taxpayers** and the real economy.

Scope of Single Resolution Mechanism

- ***Mirrors the SSM:*** *all banks established in the Euro Area and other participating Member States*
  - *Single Supervisor requires Single Board and Fund*

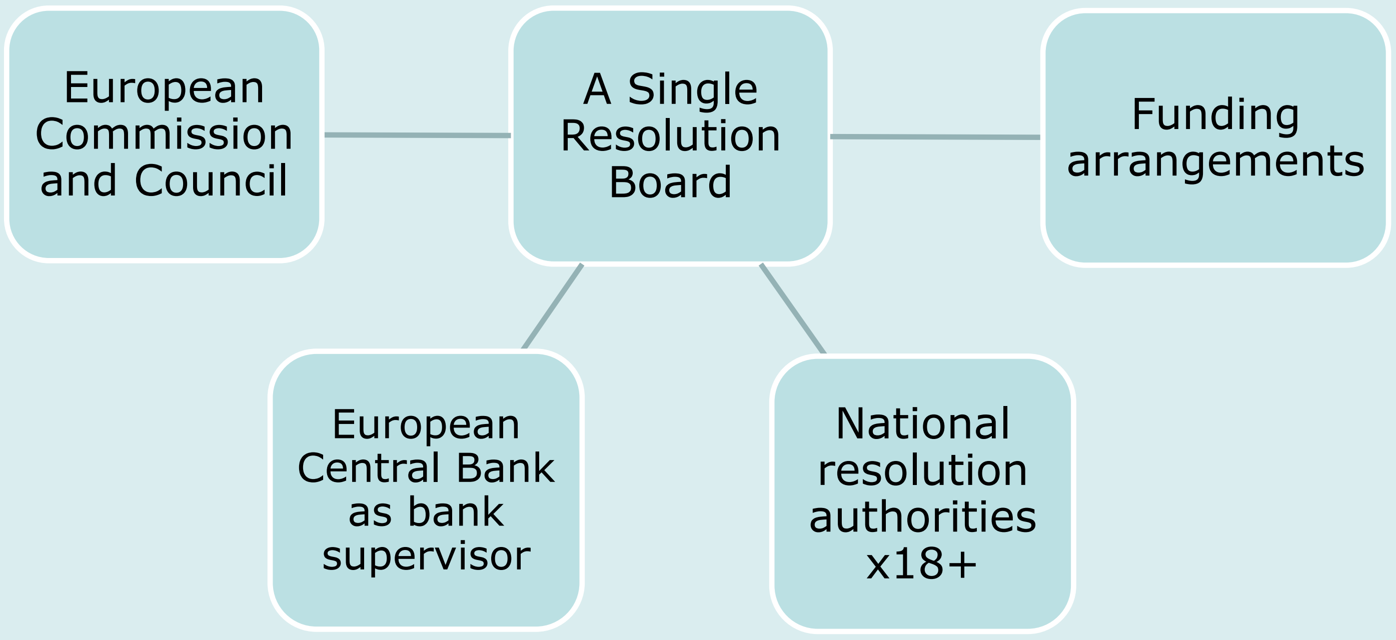
- *As for the SSM, there is a* ***distribution of tasks between the Board and the NRAs****:*
  - Board is directly responsible for cross-border and significant banks (›30bn)
  - NRAs are responsible for all other banks (*also to adopt resolution decisions, provided no use of the Fund is required*).

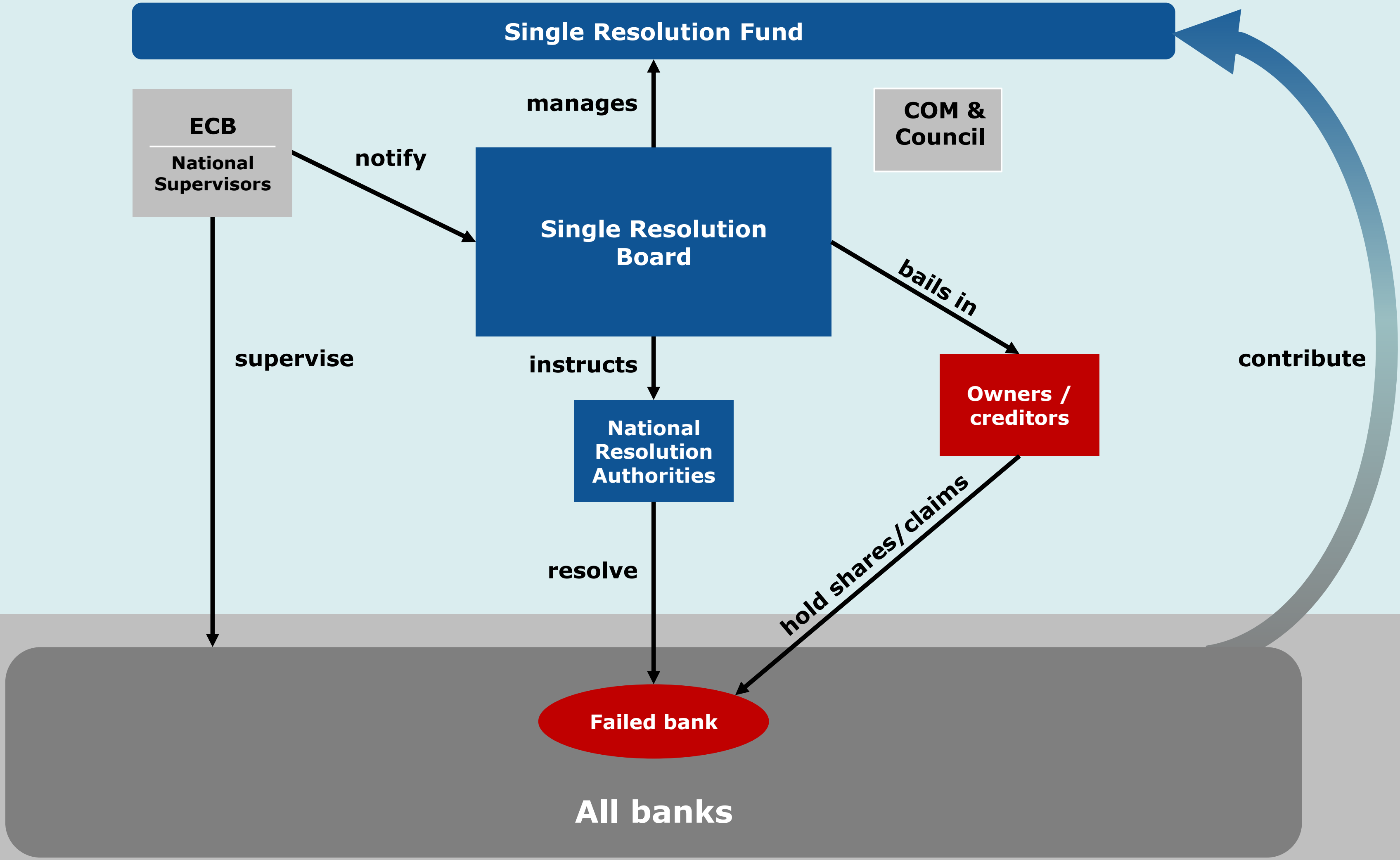
- *But the Board is ultimately responsible for* ***all banks****.*

Key principles for the SRM

- *Decisions are European, but <u>involve NRAs</u> in view of significance of bank resolution for national economies*
- *Responsibility for supervision, resolution and funding is <u>aligned</u> at EU level*
- *Funding arrangements are <u>not funded by taxpayer</u>*

Components of the Single Resolution Mechanism





Internal Market

The Single Board: Tasks of the Plenary and Executive Board

- *As a rule, the* ***Executive Board*** *decides in <u>specific resolution cases</u>*

- ***Plenary Board*** *decides:*
  - *By silent procedure*, if <u>specific resolution case</u> requires more than 5bn (10bn for liquidity support) – (*by simple majority + 30%*)
  - On guidance to the Executive Board, if the <u>net accumulated use of the Fund</u> in the prior consecutive 12 months reaches 5bn (*by simple majority + 30%*)
  - On ex-post contributions and borrowing of the Fund (*by 2/3 majority + 50%/30%*)

Triggering Resolution in practice

- Determination that the **(i) bank is failing/likely to fail** is generally made by ECB
  - Board may also if it has informed ECB, and the latter has not reacted within 3 days

- Board assesses if there is a **(ii) systemic threat** (public interest) and there is **(iii) no alternative private solution**

- If so, it adopts a **resolution scheme** in which it sets out the necessary resolution and funding measures

- Resolution scheme is submitted to **Commission** for *endorsement* or *objection*.

Role of the EU Institutions:

Commission and Council (Meroni functions)

- The **Commission** is in most cases the last instance deciding on resolution on the basis of the resolution scheme adopted by the Board

- The **Council** is also involved in some cases.

- Within 24 hours, the Commission shall either **endorse** or **object** to the resolution scheme (*except in the cases where Council is competent*)

Role of the EU Institutions: *Commission and Council (Meroni functions)*

- The **Council** may *approve* or *object* to a resolution scheme, on a Commission proposal:
  - on the ground that the resolution scheme does not fulfil the **criterion of public interest**
  - where there is a **material modification** of the amount of the Fund
- Resolution scheme may enter into force only if **no objection** has been expressed by the Council or the Commission within a period of 24 hours
- **If the Commission or the Council object**, Board shall incorporate reasons into the scheme

Resolution Scheme: Implementation

- Resolution scheme sets out the **resolution tools** and provides, where necessary, for the **use of a certain amount of the Fund**.

- Board **instructs** NRAs to implement the scheme.

- Board adopts **general instructions** to the attention of NRAs.

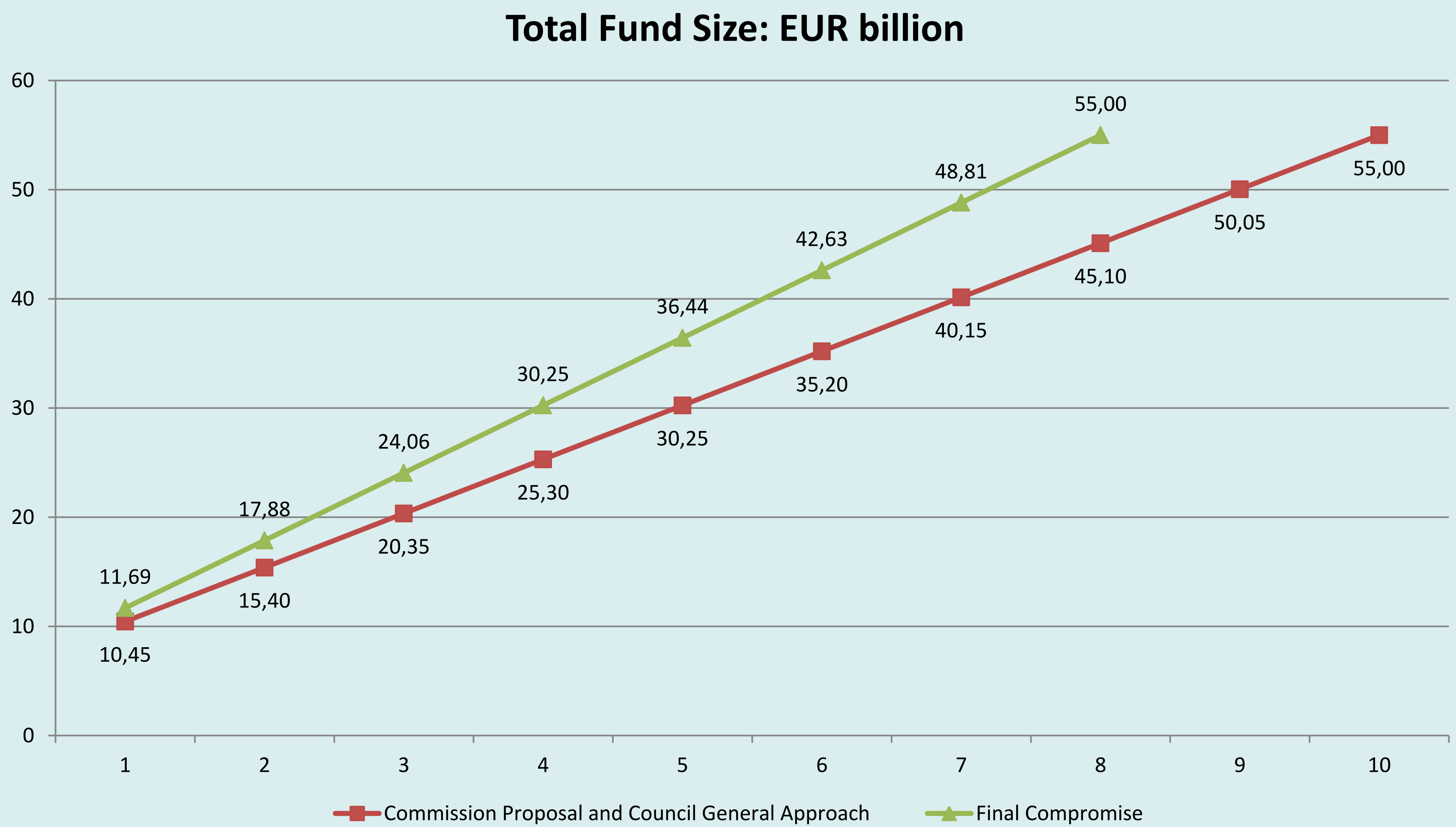
European Commission

Funding arrangements

- A **Single Resolution Fund** sourced from the banking sector – not the taxpayer – can provide mid-term funding if needed
- A single fund creates **economies of scale**, boosts credibility, and is instrumental in breaking the sovereign-bank link
- The fund could **borrow from the market**
- Outside the EU budget
- During a transitional period of 8 years, the Fund comprises **national compartments** corresponding to each participating MS in the SRM

Bank Contributions to the Fund:
Build up Period of 8 years

- **All banks** in the participating MSs contribute to the Fund
- **Target level of the Fu**nd is set at European level
- Individual contributions are calculated at European level but are **collected at national level under the IGA** and transferred to the Fund
- Contributions comprise a **flat part** and a **risk adjusted part**
- Method of calculation of contributions to be set out in a **Council implementing act**


Total Fund Size: EUR billion
60
50
40
30
20
10
0
1
2
3
4
5
6
7
8
9
10
11,69
17,88
24,06
30,25
36,44
42,63
48,81
55,00
10,45
15,40
20,35
25,30
30,25
35,20
40,15
45,10
50,05
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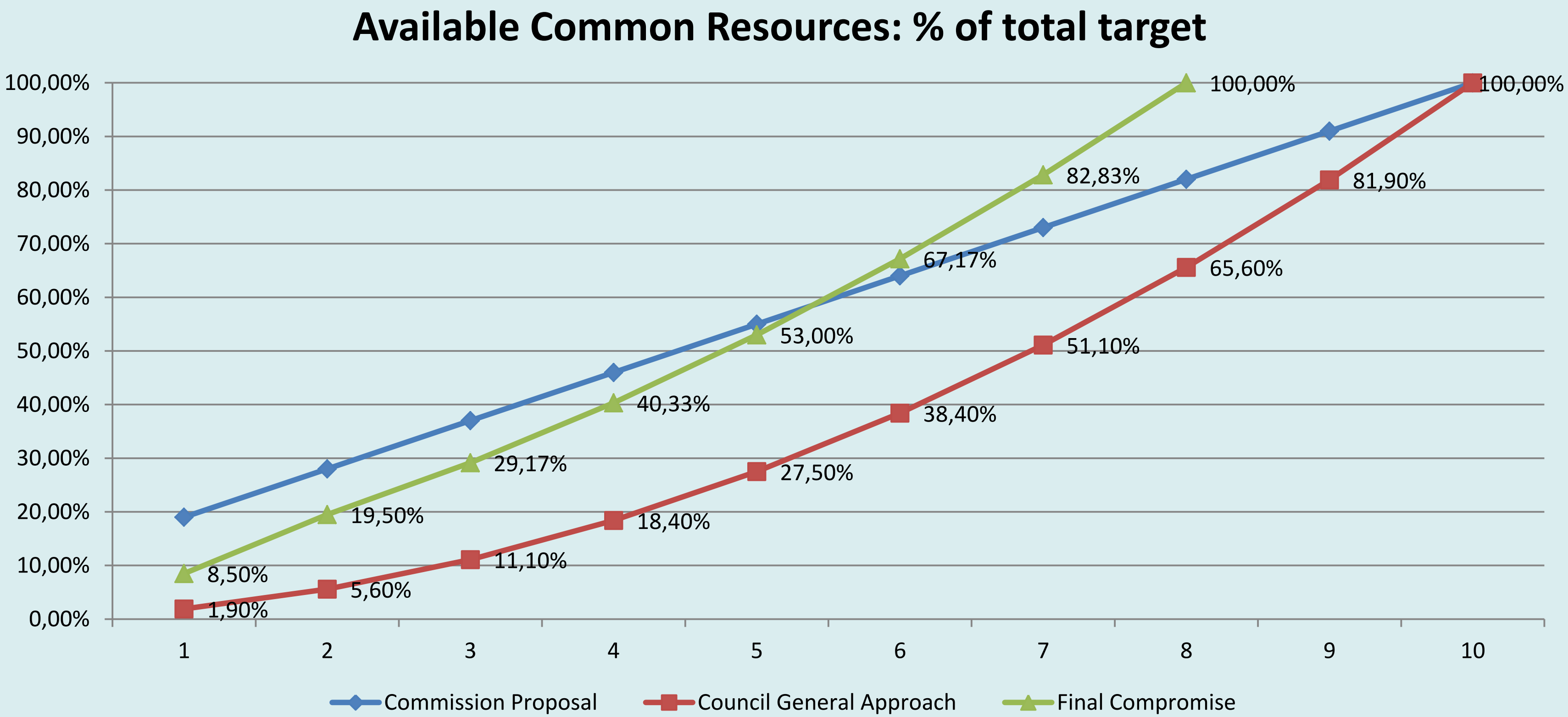
Commission Proposal and Council General Approach
Final Compromise

Final compromise: accelerated, non-linear mutualization - more resources in common from year 6.



Remaining steps

- *The Presidency should sign today the Coreper letter to the attention of the EP*
- *Vote in the plenary is foreseen for 15 April*