EUROPEAN COMMISSION

STATEMENT

Brussels, 20 March 2014

European Parliament and Council back Commission's proposal for a Single Resolution Mechanism: a major step towards completing the banking union

President of the European Commission, José Manuel Barroso said: *Today's political agreement on the single resolution mechanism completes our banking union. This will strengthen confidence and stability in the financial markets and help restore lending to the economy. We promised to do this before the European Parliament elections. I'm delighted we have delivered.*

Internal Market and Services Commissioner Michel Barnier said: *"Today's compromise allows us to complete the architecture of the banking union for the eurozone. This would not have been possible without the assiduous work and spirit of compromise demonstrated by both co-legislators.*

It represents a major step towards the alignment of both banking supervision and banking resolution at a central level, whilst involving all relevant national players. Backed by an appropriate resolution funding arrangement, and an acceptable decision-making process, this second pillar of the banking union will allow bank crises to be managed more effectively. In case of cross-border failures, it will be much more efficient than a network of national resolution authorities and will help to avoid risks of contagion. The Single Resolution Mechanism might not be a perfect construction but it will allow for the timely and effective resolution of a cross border bank in the eurozone thus meeting its principal objective.

Together with the reforms to the financial sector for all 28 countries, the completed banking union will put an end to the era of massive bailouts. It will further contribute to the return to financial stability thus creating the right conditions for the financial sector to once again lend to the real economy which is essential to consolidate the economic recovery and to create jobs.

This political agreement is just in time to allow the current European Parliament to confirm the trilogue agreement in April's final plenary session. I would like to thank all those involved in the negotiations, in particular the rapporteur Elisa Ferreira and the shadow rapporteurs - Corien Wortmann-Kool, Sylvie Goulard, Sven Giegold, Philippe Lamberts, Vicky Ford, Thomas Händel - and Sharon Bowles, Chair of the ECON Committee; the Council, the Greek and Lithuanian Presidencies, especially Greek Minister for Finance Yannis Stournaras, and Eurogroup President, Jeroen Dijsselbloem, for this major achievement.

Thanks to the strong sense of responsibility demonstrated today, Europe is living up to its commitments."

Background

The European Parliament and the Council have reached a provisional agreement on the proposed Single Resolution Mechanism (SRM) for the Banking Union ([IP/13/674](IP/13/674)). The mechanism complements the Single Supervisory Mechanism (SSM) ([IP/12/953](IP/12/953)) which, once fully 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 – not withstanding stronger supervision - if a bank faced serious difficulties, its resolution could be managed efficiently with minimal costs to taxpayers and the real economy.

The Single Resolution Mechanism will be governed by two texts: an SRM regulation covering the main aspects of the mechanism and an intergovernmental agreement related to some specific aspects of the Single Resolution Fund (SRF).

Key elements of the trilogue agreement:

The SRM Regulation builds on the Rulebook on bank resolution set out in the Bank Recovery and Resolution Directive (BRRD, see IP/12/570) and establishes the following:

Scope: The SRM would apply to all banks supervised by the SSM. The Board would prepare resolution plans and directly resolve all banks directly supervised by the ECB and for cross-border banks. National resolution authorities would prepare resolution plans and resolve banks which only operate nationally and are not subject to full ECB direct supervision, provided that this would not involve any use of the Single Fund. Member States could opt to have the Board directly responsible for all their banks. The Board would decide in any case for all banks, including those that operate nationally and are not subject to full ECB direct supervision, if resolution involved the use of the Fund.

Decision-making: Centralised decision-making would be built around a strong Single Resolution Board (the 'Board') and would involve permanent members as well as the Commission, the Council, the ECB and the national resolution authorities. In most cases, the ECB would notify that a bank is failing to the Board, the Commission, and the relevant national resolution authorities. The Board would then assess whether there is a systemic threat and any private sector solution. If not, it would adopt a resolution scheme including the relevant resolution tools and any use of the Fund. The Commission, is responsible for assessing the discretionary aspects of the Board's decision and endorsing or objecting to the resolution scheme. The Commission's decision is subject to approval or objection by the Council (silence procedure) only when the amount of resources drawn from the Single Fund is modified or if there is no public interest in resolving the bank. Where the Council or the Commission object to the resolution scheme, the Board would have to amend the resolution scheme. The resolution scheme would then be implemented by the national resolution authorities. If resolution entails State aid, the Commission would have to approve the aid prior to the adoption by the Board of the resolution scheme.

Governance of the Board / voting modalities: In its plenary session, the Board in its plenary session would take all decisions of a general nature and the individual resolution decisions which involve the use of the Single Resolution Fund above €5 billion. In its executive session, the Board would take decisions in respect of individual entities or banking groups where the use of the Single Resolution Fund remained below this threshold. The composition of the executive session of the Board would include the Chair, the Executive Director, three other permanent members, while the Commission and the ECB would be permanent observers. In addition, to ensure that the interests of all Member States on which the resolution had an impact were considered, further members would be part of that session according to the institution that was being resolved. None of the participants in the deliberation would have a veto.

Fund: A Single Resolution Fund would be constituted to which all the banks in the participating Member States would contribute. The Fund has a target level of €55 billion and can borrow from the markets if decided by the Board in its Plenary Session. The Fund would be owned and administrated by the Board. The Single Fund would reach a target level of at least 1% of covered deposits over a 8 year period. During this transitional period, the Single Fund, established by the SRM Regulation, would comprise national compartments corresponding to each participating Member State. The resources accumulated in those compartments would be progressively mutualised over a period of 8 years, starting with 40% of these resources in the first year. The establishment of the Single Fund and its national compartments and the decision-making on its use would be regulated by the Regulation, while the transfer of national funds towards the Single Fund and the activation of the mutualisation of the national compartments would be provided for in an inter-governmental agreement established among the participating Member States in the SRM.

Next steps

In order to become law, the Commission's proposal needs to be adopted jointly by the European Parliament and by the EU Member States in the Council (which votes by qualified majority). It is expected that the European Parliament will vote this legislation in plenary in April, while the Council will formally adopt it subsequently.

The SRM would enter into force on 1 January 2015, whereas bail-in and resolution functions would apply from 1 January 2016, as specified under the Bank Recovery and Resolution Directive.

More information:

http://ec.europa.eu/internal_market/finances/banking-union/

http://europa.eu/rapid/press-release_MEMO-14-57_en.htm

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