Danuta Hübner
Chair of the Committee on Regional Development

"Analysis of the Single Resolution Mechanism (SRM) compromise"

Article for the website, 31 March
European Parliament, Brussels

EU policymakers reached a compromise agreement on the Single Resolution Mechanism (SRM) regulation, the second pillar of the banking union, on 20 March 2014. The deal will be subject to a final vote during the second April plenary session.

The European Parliament has contributed a great deal to the final compromise and has had a decisive say on the shape of the regulation.

While the European Parliament had from the very beginning asked for a faster build-up of the single fund (ideally within five years) and for a direct mutualisation of the banking sector contributions, the Council had pushed for a build-up of the fund over 10 years and a progressive mutualisation, which would also only be completed within 10 years. The final compromise leans more in favour of the European Parliament. It entails a build-up of the fund over eight years and a 40% mutualisation of the banking contributions from the different member states already in the first year. The remaining 60% would be mutualised by the end of the second year.

The European Parliament has also pushed for and obtained an enhanced dose of democratic accountability in the regulation. According to the final text, the Board will be accountable to the Parliament, Council and Commission. It will also have to keep the aforementioned institutions, as well as the national parliaments of participating member states and the European Court of auditors informed of its activities on a regular basis. For the same accountability reasons, the Board will also participate in hearings with the European Parliament.

It is also worth mentioning that the European Parliament had some reservations about a too enhanced role of the Commission in the triggering of the resolution, as envisaged by the original SRM proposal. In the compromise agreement, this worry has been addressed. Triggering the resolution is now a competence of the ECB and of the single resolution board. More specifically, resolution is initiated either by the ECB or by the board following a

request for resolution initiation made to the ECB. Even if the ECB declines to do so, the board can make its decision to start resolution.

Moreover, the European Parliament had also been concerned that the resolution decision-making process put forward by the Council would be too time consuming. The final deal reflects this as the time for decisions to be taken on the establishment of a resolution scheme has been reduced. A resolution scheme could therefore be approved within a weekend, from the closing of the US markets to their opening in Asia.

Additionally, the European Parliament had also been in favour of giving the single fund a borrowing capacity. This has been now put in place and will provide the fund with an important backstop, which will make turning to national resources less likely. Details about how borrowing will work in practice will be decided later on in the Intergovernmetnal Agreement.

Finally, the compromise deal on the SRM also puts in place a number of safeguards for non-euro member states, opt-ins and non-opt-ins alike.

So-called opt-ins (non-euro member states which decide to opt-in to the banking union) are protected in the SRM in virtue of the fact that they have a say in the decision-making process when banks on their territory are concerned (whether their own institutions or subsidiaries of other home member states). More specifically, when cross-border resolution decisions are taken, the national resolution authority of the member state where the home authority is based, as well as the national resolution authorities of the hosts, which have a subsidiary or entity covered by consolidated supervision on their territory, will also participate in decision-making. If the aforementioned members cannot reach a joint agreement by consensus, then the decision will be taken by simple majority by the executive director and the other four permanent members of the Board only. Thus homes and hosts are not allowed to vote anymore in the second round, making the process fair to the extent that the homes do not get to have a potentially biased vote in favour of the institutions based on their territory.

A serious worry throughout the negotiations, from the perspective of potential opt-ins, was also the fact that they do not have a backstop in case the money in the single fund runs out (their euro counterparts could have potentially resorted to the European Stability Mechanism,

the ESM). The fact that the fund will be able to borrow addresses this worry to a certain extent and creates a level playing field between euro and non-euro member states.

Finally, ember states which are not participating in the banking union are also protected. The SRM regulation contains a non-discrimination clause, which stresses that banks should not be discriminated on account of nationality or place of business. Moreover, the text also asks that due consideration be given to non-participating member states when cross-border resolutions are taking place.

All in all, the SRM compromise represents a balanced deal, which, in the long-run, should make a significant contribution to EU financial stability.