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"Deal reached on the Single Resolution Mechanism"

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EU policymakers reached a compromise agreement on the Single Resolution Mechanism (SRM) regulation, the second pillar of the European banking union, in the early hours of Thursday, 20 March 2014.

The compromise agreement will now be subject to a plenary vote in April 2014, capitalizing on the remaining window of opportunity before the May European elections.

The SRM follows the establishment of the single supervisory mechanism (the SSM). The SSM sets up a supervisory body within the ECB, in charge of overseeing eurozone banks as well as the banks of those non-euro member states which wish to opt-in to the supervision of the ECB. The preparatory work for the SSM is already in progress, with the new body expected to become operational in the fall of 2014.

The SRM comes as a complement to the SSM and aims to ensure that the necessary funding and decision-making arrangements are in place at the European level to enable swift action, should a bank or banking group run into difficulties.

The set-up of the SRM is split into two parts: a regulation establishing the functioning of the SRM, agreed between the European Parliament, the European Commission and the Council, and a text establishing the functioning of the single resolution fund (SRF) set up through an inter-governmental agreement (IGA), without the direct involvement of the European Parliament (although Parliament participates as an observer during meetings on the IGA).

The agreement on the SRM regulation envisages the following principles:

-the SRM applies to all member states falling under the scope of the SSM and thus includes both eurozone banks as well as the banks of those non-euro member states which decide to opt-in to the single supervisor

-the key component of the SRM regulation is the single resolution fund (SRF), a financing pool composed of contributions from the banking sector of each participating member state

-within eight years, the means of the fund will reach at least 1% of the amount of covered deposits of all banks from participating member states, amounting to 55bnEUR. At the start of the fund, national compartments, corresponding to the contributions of the banking sector of each member state, will be in place. These contributions will then be progressively

mutualised, with 40% of available resources already mutualised within the first year of the fund's lifespan

-the possibility of raising extraordinary ex-post contributions is also envisaged, should the financial means needed to cover losses not suffice

-moreover, to ensure an effective and adequate financing of the SRF, the Board is enabled to contract alternative funding means for the fund, while ensuring that the creditworthiness of the fund is preserved. Necessary steps will therefore be taken to allow for an enhanced borrowing capacity of the SRF

-further details about the functioning of the SRF, including the use of the enhanced borrowing capacity, are governed by the IGA. An agreement on the latter is expected shortly among member states

-at the heart of the single resolution mechanism is also the single resolution board

-the Board will have a permanent membership, comprised of an executive director and four other full time members, adopted on the basis of merit, skills, knowledge of banking and financial matters and of experience relevant to financial supervision and regulation

-additional members of the board include a representative of the national resolution authorities of the member state concerned by a resolution decision (these members will join the board depending on the decision being taken)

-the ECB and the Commission will also designate a representative entitled to participate in the meetings of the board as observers

-the European Banking Authority (EBA) may also participate as an observer in the meetings of the board

-the Board can trigger the resolution of the banks or groups under its scope

-within 24 hours of the adoption of a resolution scheme by the Board, the Commission can either endorse or object to the scheme

-should the Council approve the request for modification of the resolution scheme by the Commission, then the Board shall implement the changes

-the Board will be accountable to the European Parliament, Council and Commission; it will 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

-the Board will come together in two types of sessions: plenary and executive

-in plenary sessions, a range of decisions will be taken, including those of an administrative nature (adopting the Board's annual work programme, monitoring the annual budget, adopting an annual activity report, financial rules etc.)

-the plenary session will however also decide on the adoption of resolution schemes in case the financial support required from the SRF exceeds 5bn EUR; if the net accumulated use of the fund in the last consecutive 12 months reaches 5bn EUR per year, the plenary will be tasked with only evaluating the application of resolution tools, and will provide guidance which the executive session will then follow in subsequent resolution decisions

-during the plenary session, decisions on the necessity to raise extraordinary ex-post contributions, on voluntary borrowing between financing arrangements, as well as on the mutualisation of national financing arrangements will also be made

-in the executive session, decisions on resolution matters, not covered by the plenary session, will be made

-if an entity from a specific member state is subject to a resolution deliberation, then the board member appointed by that member state shall also participate in the decision-making process; if a joint agreement by consensus cannot be reached, then the decision will be taken by simple majority

-when cross-border resolution decisions are taken, then 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 permanent members of the board, together with 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

The position of non-euro member states is well safe guarded in the compromise agreement on the SRM regulation. This concerns both the case of potential opt-ins to the banking union, as well as that of member states deciding to stay outside the new system.

The rights of the so-called opt-ins are protected by giving them 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).

Non-participating member states 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.

Under the condition of a successful adoption by the European Parliament in April 2014, the SRM is due to enter into force on 1 January 2015, with bail-in functions applicable as of 1 January 2016, in line with the BRRD.

The SRM is the second, yet not the final component of the European Banking Union. To be complete, the Union still requires a single deposit guarantee scheme (SDGS). No concrete proposals for a Union wide system have been put on the table thus far.