EUROPEAN COMMISSION

MEMO

Brussels, 12 December 2013

Commissioner Barnier welcomes trilogue agreement on the framework for bank recovery and resolution

"I welcome the trilogue agreement reached tonight between the European Parliament and EU Member States on the Bank Recovery and Resolution Directive. This is a fundamental step towards the completion of the Banking Union.

This law, which applies to all 28 Member States, is an essential piece of the financial regulatory framework that we are building piece by piece for all banks of the European Union in order to draw the lessons from the crisis. Ensuring that failing banks can be wound down in a predictable and efficient way with minimum recourse to public money is fundamental to restoring confidence in Europe's financial sector. The Single Resolution Mechanism, once in place, will be the authority applying these new rules in the context of the Banking Union.

With these new rules in place, massive public bail-outs of banks and their consequences for taxpayers will finally be a practice of the past.

The new rules provide authorities with the means to intervene decisively both before problems occur and early on in the process if they do. If, despite these preventive measures, the financial situation of a bank deteriorates beyond repair, the new law ensures that shareholders and creditors of the banks have to pay their share. If additional resources are needed, these will be taken from the national, prefunded resolution fund that each Member State will have to establish and build up so it reaches a level of 1% of covered deposits within 10 years. All banks will have to pay in to these funds but contributions will be higher for banks which take more risks.

I would like to warmly congratulate the European Parliament, in particular the rapporteur Gunnar Hökmark and his shadow Rapporteurs, the Council, and the EU Presidencies (successively Denmark, Cyprus, Ireland and Lithuania), for this major achievement.

The EU Heads of States and Governments have repeatedly recalled the necessity to agree these rules, as well as the reinforced framework for national deposit guarantee schemes, before the end of the year. I trust that tonight's agreement will be followed in the next few days by a final agreement on the new rules on deposit guarantee schemes and, last but not least, a Council general approach on the proposed Single Resolution Mechanism on which we made substantial progress last night."

Background:

Key elements of the proposal:

1. A comprehensive and credible framework

All banks will have to prepare plans for times of distress and authorities will have to ensure that all preventative steps are taken to deal with bank failure. Authorities will have a broad range of powers and tools to ensure that any failing bank can be restructured and resolved in a way which preserves financial stability and protects taxpayers. Critically, a harmonised rulebook is agreed for how the costs of bank failure are allocated – starting with bank shareholders and creditors, and backed by financial support from resolution funds sourced from the banking sector and not taxpayers. Deposits under EUR 100.000 will be entirely exempt from any loss, and deposits of natural persons and SMEs above EUR100.000 will benefit from a preferential treatment ensuring that they are do not suffer any loss before all other secured creditors' claims are absorbed. The bail-in tool will apply as from 1 January 2016.

2. Integrity and unity of the Single Market

Banks in all Member States will be subject to harmonised provisions governing how resolution is carried out and how the costs are shared. The link between the viability of banks and sovereign fiscal strength will significantly weaken and differences in funding conditions for banks operating in different Member States will decrease. A degree of flexibility in case of possible systemic crises to spare some creditors from losses has been kept, but this will apply only in cases of extreme circumstances and after a minimum amount of claims have been bailed in, so that legal certainty and the integrity of the Single Market are not undermined.

3. A strong regime for financing resolution

The final trilogue discussions dealt with the all-important details of who pays in the event of bank failure. The result is one the Commission supports as it maintains the clear objective of a regime which, to the furthest extent possible, places the responsibility of covering bank losses on private investors in banks and the banking sector as a whole. The necessary flexibility to depart from this principle in case of systemic crises has been appropriately framed and does not detract from the need for banks to develop sufficient capacity to allocate losses to their shareholders and creditors. This will apply in all circumstances, with privately funded resolution funds and public funds being exposed only in a minority of extreme and duly justified cases. Resolution funds financed by the banks themselves will have to be established and funded up to a level of 1% of covered deposits within 10 years.

Today's agreement sets the stage for completing work on the Single Resolution Mechanism. With the rulebook for how bank resolution across the EU should work, the institutional mechanism necessary to carry it out in the most effective way for Member States participating in the Banking Union can be finalised.

4.The political agreement reached tonight is subject to technical finalisation and formal approval by the co-legislators.

More information:

http://ec.europa.eu/internal_market/bank/crisis_management/