European Council and Parliament Agreement on the Bank Recovery and Resolution Directive (BRRD)

The EBF welcomes the news that agreement has been reached between the European Council and Parliament late last night on the Bank Recovery and Resolution Directive (BRRD). The BRRD has been long awaited as the missing link in the prudential and financial stability framework to apply to all banks in all Member States by 2015.

The Directive puts in place a clear mechanism and common toolkit for banks to plan for and act in stress situations with emphasis on early intervention and recovery while also putting a framework in place that would anticipate the worst case scenario of a systemically important bank failure.

EBF Chief Executive, Guido Ravoet said: "The Bank Recovery and Resolution framework will go a long way to further bolster confidence in banking supervision to minimize the fall-out from bank failures while providing the foundation for the next step in the Banking Union –the Single Resolution Mechanism."

The EBF particularly welcomes the agreement on bail-in of shareholders and creditors which will be the primary tool to absorb losses in a failed bank to finance the resolution of that bank. This tool will allow banks to continue their vital operations to support payments and access to deposits while it undergoes restructuring without impacting the wider financial and economic system.

The EBF has been vocal in achieving clear rules in terms of the hierarchy of shareholders and creditors that would be subject to bail-in and is pleased that this principle has been largely upheld. Even given the so called 'framed flexibility' framework, which would give Member States the ability to make exemptions for systemically important liabilities in extreme situations, resolution authorities will have to bail-in at least 8% of total assets of a failing bank.

According to calculations by the industry a bail-in threshold of 8% of total liabilities would have been enough to absorb the losses in the most recent cases of bank failures experienced in the last crisis. Thus, the EBF is confident that the bail-in regime will be effective and minimise the likelihood to impose further losses on senior creditors, resolution funds or to require further government support.

However, with entry into force of the bail-in regime being brought forward already to 1 January 2016, more work will have to be done to educate investors and depositors regarding the implications for them, whilst banks will be under pressure to provide for these bail-in buffers under an accelerated timetable.

The EBF remains somewhat concerned with regard to the demand for banks to build-up at Member State level a separate ex-ante financed resolution fund of 1% of covered deposits, which combined with the deposit guarantee funds (if calibrated at the same level) is estimated to amount up to EUR 155 billion worth of bank financing over the next 10 years. The Federation is hopeful that the European Council and Parliament will agree on some flexibility for the industry to make payment commitments backed by collateral and allowing existing bank tax levies to make up (partially) their duties to finance both these funds.

12/12/2013