

**House of Lords, European Union Committee, Economic and Financial Affairs Sub-Committee A: The Commission's proposals for the Single Resolution Mechanism**

Written submission, Ruth Lea, Economic Adviser and non-Executive Director, Arbuthnot Banking Group, acting on an individual basis; 4 September 2013

1. The European Commission published its proposals for a Single Resolution Mechanism (SRM), the second pillar of Banking Union, on 10 July 2013.<sup>1</sup> The SRM would complement the Single Supervisory Mechanism (SSM), the first pillar, which will be operational in late-2014. The SRM's function would be to manage efficiently the resolution of those banks subject to the SSM which faced serious financial difficulties. A Single Resolution Board (SRB) would supervise the national resolution authorities, which would be in charge of the execution of the resolution. A Single Bank Resolution Fund (SBRF) would be set up under the SRB to ensure the availability of medium-term funding support while the bank was restructured. It would be funded by contributions from the banking sector, replacing the national resolution funds of the Eurozone Member States and of Member States participating in the Banking Union, as set up by the highly significant draft Bank Recovery and Resolution Directive (BRRD). Crucially, the Commission would decide whether and when to place a bank into resolution and set out a framework for the use of resolution tools and the fund.

2. At the June 2013 European Council, EU leaders set a target of reaching agreement on the SRM by end-2013 so it can be adopted before the end of the current European Parliament term in 2014. This would enable it to apply from January 2015, together with the BRRD.

3. The proposals seem eminently reasonable and are in line with the Commission's previous announcements on the SRM.<sup>2</sup> And the SRM, as part of the proposed Banking Union, should spread financial sector risk and be a positive integrationist step in underpinning the Eurozone.

4. However, there have to be doubts as to whether certain Member States, notably Germany, are prepared to make the necessary political commitments. The SRM is facing much opposition, not least of all concerning the shared financial implications for the banks of the Single Bank Resolution Fund. Well-run banks could well object to supporting poorly-run banks in financial trouble, albeit through the SBRF. Moreover, it can be argued that, as banks are strategically vital to a country's economy, a country cannot be in charge of its own economy if it does not control them. Arguably, therefore, national governments should have the final say in the possible closing down one of its dominant banks – not the Commission.

5. More specifically:

- The current German Government has questioned the legality of the proposed SRM, suggesting that there is a need for changes to the treaties.<sup>3</sup> The Bundesbank has also expressed the need for treaty changes.<sup>4</sup> The German authorities are well aware that any such treaty changes would take years to accomplish. The Commission insists however that the legal basis for the proposal is Article 114 of the Treaty on the Functioning of the European Union (TFEU), which allows “the adoption of measures for the approximation of national provisions aiming at the establishment and functioning of the Single Market”.<sup>5</sup>
- A recent Franco-German statement made reference to a rather non-committal Single Resolution Board “involving” national resolution authorities, based on the current treaties.<sup>6</sup> Reading between the lines, there seemed to be some back-tracking on the Commission's notion of the SRM.

6. Germany's reluctance to push ahead with the proposed SRM may just be a reflection of political sensitivities ahead of the Federal Elections on 22 September, when any suggestions from the political leaders of further financial support, albeit through the banks, for the Eurozone is deeply unpopular. And after the election whoever leads the next Government will return to the negotiating table with renewed zeal for Eurozone integration, or at least be

prepared to agree to the Commission's proposals for the SRM. (On current polling Angela Merkel seems almost certain to be returned as Chancellor – though possibly as head of a Grand Coalition with the SPD, rather than in coalition with the FDP.) We shall see. But there has to be a fair chance that the Eurozone's progress towards Banking Union will finish here.

### **References**

1. *European Commission*, "Proposal for a regulation of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending Regulation", 10 July 2013.
2. *European Commission*, "A Blueprint for a deep and genuine Economic and Monetary Union: launching a Europe debate", 28 November 2012.
3. *Reuters*, "Germany may file complaint against EU banks plan - newspaper", 25 July 2013.
4. *EUObserver*, "Bundesbank wants treaty change for banking union", 23 July 2013.
5. *European Commission*, "Proposal for a Single Resolution Mechanism for the Banking Union – frequently asked questions", 10 July 2013.
6. "France and Germany – Together for a stronger Europe of Stability and Growth", 30 May 2013, available from [www.bundesregierung.de](http://www.bundesregierung.de).