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Press release | 12.12.2013

Banking resolution

Contradictory provisions mean taxpayers will continue to pay for failing banks

The European Parliament and the Council last night reached an agreement on new EU legislation on bank recovery and resolution in the context of banking crises. The new legislation includes provisions that troubled banks should primarily be saved by their shareholders and creditors (bail-in) rather taxpayers. However, the Greens are concerned that taxpayers will continue to be exposed to bank failures by provisions on preventative recapitalisation and crisis management of cross-border institutions. Commenting on the outcome, Green finance spokesperson **Philippe Lamberts** stated:

"The overarching goal of these new EU rules on bank resolution should be to limit the exposure of taxpayers and ordinary savers to future bank failures to an absolute minimum. To this end, the provision that troubled banks should primarily be saved by their shareholders and creditors (bail-in) is a major breakthrough. However, this breakthrough is tempered by contradictory provisions on preventative recapitalisation and crisis management of cross-border institutions, which will mean taxpayers will continue to pay for failing banks.

"In future, shareholders and creditors will be responsible for any bank losses up to 8% of total assets before a resolution fund - based on contributions from the banking sector - or the state can intervene. These rules would have prevented the devastating exposure of public exchequers and taxpayers in the 2008-9 financial crisis. This, combined with other preventive measures and new prudential rules adopted last spring, should strengthen the resilience of Europe's banking sector.

"The bail-in provisions are tempered, however, by provisions on preventative recapitalisation. EU finance ministers insisted that it should be possible for states to recapitalise their banks in a 'preventive' manner. If banking stress tests reveal problems with the creditworthiness or capitalisation of banks, public funds can be used to prop them up. While any request will be subject to an a priori approval by the European Commission, this is still setback.

"The final rules are also undermined by provisions on the crisis management of cross-border financial institutions. The EP had wanted to ensure the European Banking Authority could arbitrate on cases where

bank crisis management or resolution was subject to dispute among national authorities. However, this was not included in the final legislation. Instead, national authorities will be able to deviate from the burden sharing plans established in advance of resolutions."

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Responsible MEPs

Philippe Lamberts

Member

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