

## BRIEFING

# Single Resolution Mechanism Main Features, Oversight and Accountability

*The Single Resolution Mechanism (SRM) is the new European system for the orderly resolution of failing banks, which complements the Single Supervisory Mechanism (SSM) for the supervision of banks in the Euro area. The SRM was established by Regulation [No 806/2014](#) of the European Parliament and of the Council of 15 July 2014.*

One of the key lessons learned from the crisis is that in order to reduce the direct and indirect costs of bank failures for national governments, one has to have a credible resolution framework in place, including clear rules as to the allocation of losses and the conditions attached to the use of common resources, to provide strong incentives for taking measures of precaution in good times and minimise losses in times of crisis. The **mission** of the SRB is thus to ensure that banks which get into serious trouble can be resolved with minimal costs to taxpayers and the real economy.

The functioning of the SRM is based on a close cooperation between the national resolution authorities of participating Member States on the one hand and the [Single Resolution Board \(SRB\)](#) on the other hand. The SRB became operational on **1 January 2015**. The scope of the SRM is basically aligned to the supervision of banks: the SRM automatically applies to all banks (including financial holding companies and investment firms) in the Banking Union (Euro area and Member States that have entered into a **close cooperation** with the ECB in its supervisory capacity).

Supervision and resolution are deemed to be two complementary aspects of the establishment of the Banking Union. In particular, in the exercise of their respective responsibilities, the SRB and the ECB have agreed to cooperate closely in resolution planning, early intervention and resolution phases of credit institutions. The specific modalities of this **cooperation**, including the exchange of confidential information in compliance with existing legislations, are laid down in a [Memorandum of Understanding](#) signed on 22 December 2015.

## Tasks

The **main tasks** of the SRB are related to:

- **Planning & prevention:** the assessment of banks' resolvability, adoption of resolution plans, setting the individual minimum requirements for own funds and eligible liabilities (MREL), which is the amount of bail-in instruments a bank must hold at any time;
- **Early intervention:** preparatory work undertaken prior resolution, when ECB or national competent authorities act to prevent a possible failure, so that resolution, if needed, can be swiftly executed;
- **Resolution:** decision whether conditions for resolution are met, adoption of resolution schemes, including choice of resolution tools and potential use of the Single Resolution Fund (SRF), so that critical functions be preserved and costs minimized; and
- **Cooperation and coordination:** with national resolution authorities both within the EU and with third countries.

The **division of tasks** between the SRB and the national resolution authorities is similar to the system of bank supervision, in which the ECB directly supervises the most significant credit institutions whereas all other credit institutions are supervised by the national competent authorities (see [Article 6\(4\) of Regulation \(EU\) No 1024/2013](#)).

On 8 January 2016, the SRB published the list of banks and banking groups under its direct remit, which includes (i) those that are directly supervised by the ECB and (ii) other [cross-border groups](#).

**National resolution authorities** are responsible for all other, less significant entities. National resolution authorities shall assist the SRB in resolution planning and the preparation of resolution decisions, provide information, and implement resolution schemes, based on instructions of the SRB. The SRB bears in any case ultimate responsibility for all banks in the Banking Union, and may at any time decide to exercise its powers in respect of any bank.

### Resolution tools

When the Board adopts a resolution scheme, it will also determine which resolution tools will be applied. The four resolution tools mentioned in the regulation are:

- the sale of business tool (parts or all of a bank is sold to a suitable buyer)
- the bridge institution tool (parts or all of a bank is transferred to a transitory entity controlled by the SRB)
- the asset separation tool (some assets, rights or liabilities are transferred to one or more asset management vehicles in charge of winding them down over time)
- the bail-in tool (equity and debt must be written down or converted before any use of the SRF)

### Structure

The SRB's executive management body is composed of a Chair, a Vice Chair, and four Board members. The Chair, supported by a secretariat, is entrusted with all aspects of day-to-day administration and staff matters.

The SRB operates either in an executive session or in a plenary session:

The **executive session** is basically thought to deal with the SRM's day-to-day operations and standard decisions, for example related to the preparation, assessment and approval of resolution plans for significant banks, and the determination of the minimum requirements for own funds and eligible liabilities of significant banks. In its executive session, comprising the Chair, the four full-time members and the representatives from those Member States in which a troubled bank is located, the SRM may also decide on the use of the financial resources (of up to EUR 5 billion) in individual resolution cases.

In its **plenary session**, which is convened at least twice a year, with representatives from national resolution authorities of all Member States participating, the SRB decides upon matters of general importance, for example the annual work programme, annual budget, internal rules and procedures, cooperation agreements with the national resolution authorities, investments, funding issues and other administrative aspects.

In case that an individual resolution case requires financial resources exceeding EUR 5 billion, any member of the plenary session may within three hours after submission of the resolution draft call a meeting of the plenary session which would then be commissioned to take a decision on that draft.

### **Selection Procedure for the SRB**

The Chair, Vice Chair and the four full-time members were to be appointed via an **open selection procedure** on the basis of their merits, in particular knowledge of banking and experience with bank resolution, with due respect to gender balance.

The European Parliament was kept **duly informed** at every stage of that procedure.

The Chair, a Vice Chair, and four Board members were finally appointed, following the approval of the proposed candidates by [vote](#) of the European Parliament on 16 December 2014.

### **Main features of the SRF**

In case that a resolution requires financial resources, the **basic principle** is that losses should be borne first by shareholders and next by creditors (via loss-absorption, i.e. "bail-in"; however, the bail-in shall in any case not lead to a situation in which a creditor is worse off than under normal insolvency proceedings). The same principle is also enshrined in the [Bank Recovery and Resolution Directive](#).

In the case of those contributions being insufficient, the resolution may draw on additional resources provided by the **Single Bank Resolution Fund** ("SRF") which is primarily financed by **ex-ante contributions** raised at national level from the banking sector.

The co-legislators empowered the Commission to set out in a Delegated Act how to calculate the precise amounts that individual financial institutions have to pay each year according to their size and risk profile. Under the [Delegated Act](#) adopted by the Commission on 21 October 2014, contributions are calculated at the level of the individual bank; to avoid double counting, intragroup liabilities are excluded from the basis for calculation. There is furthermore a special treatment for small credit institutions which only contribute with a lump-sum payment that is proportionate to their size.

All bank contributions are **pooled** at Union level in accordance with an [intergovernmental agreement](#) on the transfer of those contributions. During a transitional period, the contributions will be allocated to different compartments corresponding to each participating Member State (**national compartments**). Those compartments are subject to a progressive merger so that they will cease to exist at the end of the transitional period.

Within an initial period of eight years from 1 January 2016, the SRF shall reach a **target level** of at least 1% of the amount of deposits covered by a deposit insurance scheme of all credit institutions in all of the participating Member States, which will be roughly equal to an amount of EUR 55 billion. On [4 February 2015](#) the SRB announced that 2015 ex ante contributions had been transferred from national resolution funds to the SRF for a total amount of EUR 4.3 billion.

In any case, the **pre-conditions for the use** of the SRF are that losses totalling not less than 8 % of total liabilities (including own funds) have already been absorbed by shareholders and creditors. Moreover, the additional funding that can be provided by the SRF is limited to a maximum of 5% of the bank's total liabilities.

## Oversight and Accountability

According to the regulation, the SRB is **accountable to the European Parliament and the Council**; its Chair will therefore in public present its annual report to both institutions and publish a non-confidential version of that on its own website.

At the request of the European Parliament, the Chair shall participate in a **hearing** by the competent committee of the European Parliament on the performance of the resolution tasks by the SRB. [An agreement](#) has been concluded between the European Parliament and the SRB on the detailed modalities for organising such discussions, with a view to ensuring full confidentiality in accordance with the requirements of professional secrecy imposed by the applicable regulation.

The Chair of the Board shall present its annual report to Parliament at a public hearing. Two **ordinary public hearings** on the execution of the resolution tasks will be held annually, and the Chair of the Board may be invited to additional **ad hoc exchange of views** with the competent committee, as well as **special confidential meetings** with the Chair and the Vice-chairs of the competent committee. Such **confidential discussions** shall be held upon request and behind closed doors, where such discussions are required for the exercise of the European Parliament's powers under the TFEU.

The SRB shall furthermore reply in writing to Parliament's written questions within at most five weeks of receipt of a question.

### Regular reporting to the European Parliament

The SRB will regularly submit to the EP the following documents:

- the SRB Annual Report (7 days in advance of the public hearing),
- the SRB's annual **work programme** (by 30 November),
- the annual report on budgetary and **financial management** (by 31 March),
- the SRB's **provisional accounts** (by 31 March),
- and the **final accounts** for the preceding financial year (by 1 July).

## Review

By 31 December 2018, and **every three years** thereafter, the Commission shall publish a report on the functioning of the SRM, its cost efficiency, as well as the impact of its resolution activities on the interests of the Union as a whole and on the coherence and integrity of the internal market for financial services.

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