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Taxpayers and savers last in line to save banks

Committees Committee on Economic and Monetary Affairs [21-05-2013 - 13:02]

Taxpayers and savers must be the last people called upon to bail out banks, says Parliament's negotiating position, approved by the Economic and Monetary Affairs Committee on Monday, on draft rules on saving struggling banks. The text rules out using deposits below €00,000 and says that even deposits above €00,000 should be the last to be called in. The committee voted against using deposit guarantee funds for resolution actions and also set out strict conditions for using taxpayer's money.

The negotiation position was approved with 39 votes in favour, 6 against and no abstentions.

"I am very happy that the committee has given its broad support in clarifying the responsibility of shareholders and investors as well as for the tools which will provide stability to the financial markets in times of systemic crises", said rapporteur rapporteur Gunnar Hokmark (EPP, SV).

Protecting depositors

Under the draft rules, a struggling bank's own assets and liabilities would be the first used to resolve a crisis or wind it down (the "bailing-in" system). The recent Cyprus case clearly demonstrated the need for clear procedures to ensure that shareholders, bondholders, and only then depositors, foot the bill.

The approved position broadly retains the Commission's proposed order of bank creditors to take a hit.. However, it also inserts clauses stipulating that insured deposits of below €00,000 can never be used, and that uninsured ones, i.e. those above €00,000, may only be used as a last resort.

The text also deletes the possibility, suggested by the Commission, of diverting funds from deposit guarantee schemes to help pay for bank resolution measures.

The "bail-in" scheme should be up and running by January 2016 at the latest, says the text, i.e. two years earlier than the Commission proposed, but one year later than the directive's other provisions, so as to allow some time for adaptation.

Using public money

The approved text details on how and when taxpayers' money could be called upon. The rules stipulate that this would be a last resort measure, to be taken only after all capital has been written down to zero and taxpayer intervention is necessary either to prevent "significant adverse effects on financial stability" or "to protect the public interest where the bank would have previously received extraordinary liquidity assistance from the central bank".

Taxpayers' money may be used in three specific ways: to guarantee liabilities or assets, to take a stake in the bank, or to institute temporary public ownership.

Strong resolution funds



Press release

Each country is to set up its own resolution fund, financed by the banks themselves. Within 10 years of the directive's entry into force, each fund must have a capacity equal to 1.5% of the amount of deposits of the participating banks. The text also stipulates that resolution funds will not be duty bound to lend to each other.

Next steps

The Council must now adopt its position, after which MEPs and the Council Presidency will begin negotiations to hammer out a deal.

Meanwhile, the Commission is expected to table a further proposal supplementing this system with an EU recovery and resolution authority and fund.

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