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Member states sign agreement on bank resolution fund

Representatives of 26 EU member states[1] today signed an intergovernmental agreement on the transfer and mutualisation of contributions to a single resolution fund that will be established as part of Europe's banking union.

The agreement will complement a regulation recently agreed with the European Parliament on the creation of a single resolution mechanism (SRM), which establishes the fund and also features a central decision-making board (see press release *8273/14*). The single resolution fund will be fully financed by bank contributions.

The SRM is aimed at ensuring the orderly resolution of failing banks without recourse to taxpayers' money. This will involve both a systematic recourse to the bail-in of shareholders and creditors, in line with a directive on bank recovery and resolution adopted earlier this month[2], and the possible recourse to the single resolution fund (SRF).

Under the intergovernmental agreement (IGA) signed today, the fund will be built up over eight years, reaching a target level of at least 1% of the amount of covered deposits of all credit institutions authorised in all the participating member states. It is estimated that this will amount to about €55bn.

Under the agreement, contributions by banks raised at national level will be transferred to the SRF, which will initially consist of compartments corresponding to each contracting party. These will be gradually merged over the eight-year transitional phase. This mutualisation of paid-in funds will be front-loaded, starting with 40% in the first year and a further 20% in the second year, and continuously increasing by equal amounts over the subsequent six years until the SRF is fully mutualised.

1 All EU member states except Sweden and the United Kingdom.
2 See press release *9510/14*.

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The individual contribution of each bank will be calculated pro-rata to the amount of its liabilities (excluding own funds and covered deposits) with respect to the aggregate liabilities (excluding own funds and covered deposits) of all the institutions authorised in the participating member states. Contributions will be adjusted in proportion to the risk profile of each institution.

Using an intergovernmental agreement to establish rules on the transfer and mutualisation of contributions is intended to provide maximum legal certainty. The Council decided on this approach in December, given legal and constitutional concerns in certain member states.

At the same meeting, ministers also adopted a statement specifying that bridge financing will be available during the initial build-up phase of the SRF. This will come from national sources, backed by bank contributions, or from the European Stability Mechanism in accordance with existing procedures. Temporary transfers between national compartments will also be possible. During the transitional phase a common backstop will be developed to facilitate borrowings by the SRF, which will ultimately be reimbursed by contributions from the banking sector.

In a declaration accompanying the IGA, the contracting parties commit to being bound by bail-in rules and principles as outlined in the bank recovery and resolution directive. This will be a precondition for accessing the fund.

The IGA will enter into force on the first day of the second month following the date when instruments of ratification have been deposited by signatories participating in the banking union (i.e. those that join the single supervisory mechanism and the single resolution mechanism) that represent at least 90 % of the aggregate of the weighted votes[1] of all participants. The signatories to the agreement adopted a declaration signalling that they will strive to complete the ratification process in time to permit the SRM to be fully operational by 1 January 2016.

Countries that have signed the IGA but are not yet part of the banking union (i.e. non-euro area member states) will only be subject to the rights and obligations stemming from the agreement once they become part of the SSM and SRM.

Text of the agreement:*(*8457/14*)*.

[1] As determined by the EU treaties.