

# Regulation Flash

Madrid, 13 March, 2014  
Economic Analysis

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## No deal on Single Resolution: final agreement in suspense until 19 March

Hope was placed on this week's negotiations at Council level (10-11 March) and the trilogue meeting held on 12 March, but albeit with much closer positions than in previous weeks, co-legislators failed to reach agreement due to lack of consensus on certain key issues. As time passes, the next trilogue (19 March) marks the definitive date for finding a solution to this conundrum. We remain positive, essentially because if a deal is not closed, it will be virtually impossible for the SRM to get passed on time, holding banking union in abeyance.

### What are the three issues that are blocking the deal on the SRM Regulation?

After two months of failed negotiations the co-legislators attended the latest trilogue meeting (12 March) with revised positions (see [Parliament](#) and [Council](#)).<sup>1</sup> Although including important concession from both sides they still don't match in a number of key aspects:

- 1. Ultimate Resolution Authority and decision making at the Board.** Parliament stands firm that it should be the Commission (EC) which triggers resolution whereas the Council insists on keeping a potentially decisive role in the process (with the possibility of vetoing or amending any Board decision within 24 hours at the request of the EC). On the other hand, an agreement might have been reached on the general rule to give the Executive session (in which only concerned Member States vote) the power to take specific resolution decisions (as supported by Parliament) but to give the Plenary Session (in which all Member States have a vote) the right to decide when there is a material use of the Single Fund (i.e. defined with higher thresholds).
- 2. Time profile for the build-up and mutualisation of the Single Resolution Fund.** Parliament still wants to build up the €55bn Fund over ten years (2016-2026) but would accept reaching full mutualisation in three years (instead of from 2016). As for the Council (which initially saw 2026 as the deadline for both the build-up and full mutualisation), it remains reluctant to significantly accelerate the transition path towards full mutualisation. It seems that a shortening of the path to eight years could be borne by Germany, but in exchange for a similar shortening in the build-up path.
- 3. Boosting the liquidity of the Single Resolution Fund.** Co-legislators are discussing how to enhance the financial firepower of the Single Fund. Parliament is demanding that a loan facility, preferably a public and European one, should be provided as a backstop which would certainly reinforce the strength and credibility of the Single Fund; but the Council has strong reservations. The uncertainty is exacerbated by the lack of agreement on the final rules for the ESM direct bank recapitalisation tool, for which a draft had already been agreed on June 2013. The Eurogroup has officially committed to reaching agreement on this new ESM tool in its May meeting. Depending on the final rules agreed, this could open the door for the use of direct recapitalisation as a very last resort: a public European backstop for bank resolution purposes under the SRM regime (and even in the AQR context if this is agreed).

### Progress at the Council level on the Intergovernmental agreement (IGA)

Member States agreed on (i) a symmetric distribution of resolution costs in cross border resolution, (ii) respect for the bail-in rules as a pre-condition for the use of the Single Fund, (iii)

<sup>1</sup> The Parliament issued its revised position on 4 March. The Council revised its position after its latest ECOFIN meeting (11 March) and gave the Greek Presidency a new mandate for concluding negotiations with Parliament as soon as possible.

mandatory loans between compartments upon a Resolution Board decision (although countries will be able to object under very limited conditions).

### Assessment

Despite the lack of agreement and the absence of details about the specific issues which blocked the deal, we remain positive about the prospect of having an agreement on 19 March as positions have been brought closer. This would be the last chance for co-legislators to pass the SRM text on time.

### Next steps

- **Next trilogue meeting:** 19 March (agreement expected on SRM Regulation)
- **Parliament vote on SRM Regulation:** Plenary of 17 April (positive vote expected)
- **Council endorsement of SRM regulation text:** date to be defined (expected: May)
- **Final IGA:** once an agreement is closed on the SRM Regulation (expected: late March).
- **Final ESM direct recapitalisation rules:** May's Eurogroup (agreement expected)

**Entry into force of SRM Regulation:** January 2015, with Resolution Fund and resolution functions (bail-in and resolution decisions) operative from January 2016 onwards.

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