Regulation Flash

SRM - Single Resolution Mechanism

Madrid, 21 May, 2014
Economic Analysis

Regulation and Public Policies Unit
María Abascal
maria.abascal@bbva.com
+34 91 3744015

Tatiana Alonso
tatiana.alonso @bbva.com
+34 91 3746167

Wojciech Golecki
wojciech.golecki@bbva.com
+34 91 4553438

Single Resolution Fund: Agreement signed

It includes the mutualisation and transfer of banking contributions to the Single Resolution Fund.

1. What is the Intergovernmental Agreement (IGA)?

- The **Single Resolution Mechanism** (SRM) Regulation, voted by the Plenary of the European Parliament on 15 April, provides the eurozone with a centralised system of banking resolution, consisting of a new Single Resolution Board (the Board) and a Single Resolution Fund (the Fund).
- **This Fund will be settled in 2016** with a target funding level of 1% of covered deposits in the SRM universe (around €55bn), that will be reached in eight years. During the first eight years it **will comprise a national compartment for each participating Member State**, that will progressively merge into a single, fully-mutualised pot.
- In this context, in December 2013 the **Council decided that some of the aspects concerning the functioning of the Fund**, such as the transfer of contributions, the progressive mutualisation of compartments and their use, should be governed through a separate legal text, an **Intergovernmental Agreement (IGA).**
- **This so called IGA was finally signed today by 26 Member States**, excluding Sweden and the United Kingdom (neither country is participating in the SRM nor is obliged to enter the eurozone).The agreement is only binding for SSM and SRM participating Member States.

2. What does this Agreement contain?

The Member States agreed on:

- **The establishment of national compartments within the Fund.** Each participating Member State will remit the contributions collected nationally into national compartments of the Fund. These compartments will be gradually merged into one over the eight-year transition phase, according to a progressive mutualisation scheme, in order to disappear completely in 2024.
- **The transfer to the Fund**. The Member States shall "irrevocably" transfer annually every 30 June at the latest (starting in June 2016) approximately 12.5% of the target level. The contributions collected by the national resolution funds under the BRRD during 2015 (before the constitution of the Single Resolution Fund) should be transferred to the Fund before 31/01/2016.
- **The transfer of ex-post contributions** to their respective compartments in the Fund, immediately on collection.
- **The rules for the use of the contributions during the first eight years and the progressive mutualisation of funds.** For example, using the tables below, we show how the Fund would be used in 2017:

1. **Step 1**: In the first instance 60% of the capacity of the concerned compartments would be used (i.e., the national compartments of the relevant home and host Member States), to cover the resolution costs remaining after the application of the bail-in tool.
2. **Step 2:** If this is not sufficient, then a maximum 20% of the capacity of all the compartments (including those of the concerned Member States) would be used.
3. **Step 3:** If Steps 1 and 2 are still insufficient to cover the costs, any remaining funds of the concerned compartments would be used.

Table 1
Use of the ex-ante SRF financial means during the transition phase

Year	Step 1: concerned compartments	Step 2: mutualisation of all Compartments	Step 3: back to concerned compartments
2016	100%	40%	If there is still need for further funds the concerned national compartments will have to use all the remaining resources
2017	60%	60%	
2018	40%	66.7%	
2019	33.3%	73.4%	
2020	26.6%	80.1%	
2021	19.9%	86.8%	
2022	13.2%	93.5%	
2023	6.5%	100%	
2024	0%	100%	

Source: BBVA Research based on the Intergovernmental Agreement.

4. **Step 4a:** If these ex-ante collected funds are insufficient, then the concerned national resolution authorities will be required to raise extraordinary bank contributions from the banks in their territories.
5. **Steps 4b and 4c:** In case those extraordinary bank contributions were not immediately accessible, the Board could (b) use alternative funding (such as borrowings from the market) or (c) arrange temporary transfers of non-mutualised funds between national compartments. A Member State may in some circumstances have the right to oppose the transfer of funds from its national compartment to the concerned compartments. Before the transitional period is over, the temporary transfers would have to be repaid (plus the appropriate interest) through extraordinary contributions.

3. What are the next steps regarding the IGA?

According to the Agreement, the IGA requires two conditions that have to be fulfilled in order to come into force:

- **The Intergovernmental Agreement** shall be ratified, by national procedures, by at least the number of countries equivalent to 90% of the total weighted votes of the Member States participating in the SSM and the SRM:

Weighted votes of the participating MS (votes needed = 195,3)

1	Austria	10	10	Italy	29
2	Belgium	12	11	Latvia	4
3	Cyprus	4	12	Luxembourg	4
4	Estonia	4	13	Malta	3
5	Finland	7	14	Netherlands	13
6	France	29	15	Portugal	12
7	Germany	29	16	Slovakia	7
8	Greece	12	17	Slovenia	4
9	Ireland	7	18	Spain	27
				Total	**217**

Source: BBVA Research based on the Protocol (No 36) on transitional provisions

- **The SRM Regulation should have come into force**, which is expected to happen at the end of the summer.

4. Assessment

- **In line with the assessment of the trilogue agreement reached on 20 March on the SRM Regulation,** we consider that a quicker and greater mutualisation than initially agreed by the Council in December is a positive step. It significantly enhances the credibility of the Fund and ensures the risk-pooling of European private funds from the very beginning.
- **Today's signature by the Member States under the agreement** brings us closer to establishing the second pillar of banking union, the SRM, and clears some of the doubts about the functioning of the Fund, the foundation for the whole system's credibility. However, it is necessary that, along with the SRM Regulation, the adoption process is completed quickly so that the implementation of both becomes a reality.