

## BRIEFING

# Single Resolution Mechanism, Single Resolution Board, and Single Resolution Fund

## Main Features, Oversight and Accountability

The Single Resolution Mechanism (SRM) is a new European system for the orderly resolution of failing banks, complementing the new system of banking supervision for Europe that was established by the Single Supervisory Mechanism. The overall aim of the SRM, established by the Regulation [No 806/2014](#) of the European Parliament and of the Council of 15 July 2014, is hence to ensure a level-playing field and re-establish confidence which suffered during the financial crisis.

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 a centralised European resolution authority called the [Single Resolution Board \(SRB\)](#) on the other hand. The SRB became operational on **1 January 2015**.

The **mission** of the SRB is to ensure that banks which get into serious trouble can be resolved with minimal costs to taxpayers and the real economy. One of the key lessons learned from the financial crisis and the damages it has caused was that more efficient resolution mechanisms for banks were needed, and that a better, more harmonized system of rules and procedures was necessary to address the fragmentation of the Internal Market, caused by the situation that previously prevailed, namely that the financial resources needed for funding resolution were raised and spent at national level, the rules and practices relating to the resolution of banks differed, and national supervisors had strong incentives to minimise the potential impact of bank crises on their national economies by adopting unilateral action to ringfence banking operations, even though numerous bank have significant international activities.

The SRB shall therefore enhance the **uniform application** of resolution rules, providing a neutral and effective approach in dealing with failing banks.

### Scope

The SRM automatically applies to all banks (including financial holding companies and investment firms) in the Euro area, whose home supervisor is the ECB.

The SRM also applies to all banks located in Member States that have entered into a **close cooperation** with the ECB.

Following the establishment of the Single Supervisory Mechanism (SSM), the scope of the SRM is basically aligned to the supervision of banks.

## Tasks

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

- to carry out the assessment of the banks' resolvability and adopt resolution plans;
- to adopt measures of early intervention;
- to set the level of minimum requirement for own funds and eligible liabilities;
- to adopt resolution decisions and choose resolution tools;
- to write down or convert capital instruments;
- and to cooperate with and give instructions to national resolution authorities.

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 significant credit institutions whereas national competent authorities supervise all other credit institutions under the overall oversight of the ECB (see [Article 6\(4\) of Regulation \(EU\) No 1024/2013](#)).

In a similar vein the SRB is directly responsible for those credit institutions and bank groups that are **considered significant**, for which ECB has decided to exercise directly all of the relevant powers, as well as for the other **cross-border groups**.

By contrast, the **national resolution authorities** will be responsible for all other entities. The national resolution authorities shall, where relevant, also assist the SRB in resolution planning and the preparation of resolution decisions, provide information, and implement measures, based on instructions of the SRB. Details of the cooperation agreement shall in future be described in a memorandum of understanding. However, as the SRB bears ultimate responsibility for all banks in the banking union, it may at any time decide to exercise its powers in respect of any bank.

## 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.

### **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.

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.

### **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;
- the bridge institution tool;
- the asset separation tool; and
- the bail-in tool.

## **Main features of the SRF**

### **Qualified bail-in instruments**

To qualify as a contractual bail-in instrument, the SRB must be satisfied that the financial instrument:

- contains a contractual term providing that on the SRB's request, it will be written down or converted to the extent required before other instruments are written down,
- and that it is subject to a binding subordination agreement under which it ranks below other eligible liabilities in the event of normal insolvency proceedings and cannot be repaid until other eligible liabilities outstanding have been settled.

In case that a resolution requires financial resources, the **basic principle** is that losses should be borne first by shareholders and next, in general, by creditors (via loss-absorption respectively "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 will be **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 will be 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. The SRF is expected to in the end reach approximately EUR 55 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, and that the funding provided by the SRF is limited to 5 % of 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. Such a hearing shall take place at least annually. The SRB shall furthermore reply orally or in writing to Parliament's questions within at most five weeks of receipt of a question.

Upon request, the Chair shall hold **confidential discussions** behind closed doors with the Chair and Vice Chairs of the competent committee of the European Parliament where such discussions are required for the exercise of the European Parliament's powers under the TFEU.

**An agreement** shall be concluded between the European Parliament and the SRB on the detailed modalities of organising such discussions, with a view to ensuring full confidentiality in accordance with the requirements of professional secrecy imposed by the applicable regulation.

### Regular reports

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

- 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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