EU resolution scheme is a major step in solving ‘too big to fail’, says AFME

The European Commission’s proposed set of common EU resolution tools for Bank Recovery and Resolution (bridge, sale, asset separation and bail-in) are a significant step towards enabling a faster and more coordinated response to any future crisis involving cross-border financial institutions, according to the Association for Financial Markets in Europe (AFME).

Although debate continues on the precise ground rules, ‘bail-in’ is an effective way to solve the ‘too big to fail’ issue for firms that are so large and interconnected that the alternative resolution tools, such as sale, bridge and asset separation, will not work effectively.

The framework for the resolution of cross-border groups by establishing resolution colleges around the core supervisory colleges is also a significant step that goes beyond the platitudes of international cooperation. It merits further exploration for use on a more global basis.

The enhanced supervisory measures contained in the consultation paper are comprehensive and include:

- the establishment of resolution authorities in each Member State
- preparatory and preventive measures which prevent financial institutions from becoming a ‘gone concern’

However, AFME believes that the proposed powers to impose operational or structural changes if the authorities do not approve a financial institution’s resolution plan, commonly known as a living will, are excessive. There is a real danger that any imposed changes could effectively ring-fence individual group companies and interfere with a firm’s integrated risk management across the group.

In addition, concerns exist around the early intervention phase which risks giving a premature signal that the resolution phase has started and could result in loss of market confidence.

Gilbey Strub, Managing Director at the Association for Financial Markets in Europe, comments:

“The Commission's proposals are an important step forward in establishing a European resolution and recovery scheme. There will always be the risk of firms failing but we need to ensure that they do not destabilise the wider economy or need taxpayers' funds to refinance them.”

*Bail-in is implemented when a firm hits a pre-defined trigger and would recapitalise a firm as a going concern by converting selected tranches of unsecured debt to common equity.
Notes:

1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, [www.afme.eu](http://www.afme.eu).