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## **AFME comments on current SRM developments**

5 December 2013

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The Association for Financial Markets in Europe (AFME) strongly supports the establishment of a banking union in Europe. We believe that this project can greatly improve the functioning of the financial system and the Single Market, ensuring financial stability and enhancing integration, to the benefit of the European economy.

It is essential that momentum is maintained to ensure that political agreement is reached in the Council on the Single Resolution Mechanism (SRM) before year-end. We welcome the determination that has been shown in this regard and the commitment to avoid further delays to the EU-wide Bank Recovery and Resolution Directive (BRRD), an essential post-crisis reform which forms the indispensable basis for the banking union.

In this short note AFME and its members would like to express views on a number of important issues in the current discussions. This note complements AFME's initial paper on the Commission's proposals for a Single Resolution Mechanism published in late September <http://www.afme.eu/WorkArea/DownloadAsset.aspx?id=9885>.

Our comments relate to the scope of the SRM, the need for consistency between the SSM and SRM frameworks, the relationship between the BRRD and SRM files, coherence of the approach to funding, and the role and powers of the EBA in resolution.

AFME and its Members strongly welcome efforts to develop the SRM to operate alongside the SSM within banking union. As noted in our September paper, it is essential that supervision and resolution be exercised by the same level of authority to ensure coherence, consistency and effectiveness.

On the important issue of the scope of the SRM, AFME reiterates its view that the SRM should be able to apply to all banks in Member States which participate in the SSM. It is essential that any bank which may pose a systemic risk be resolvable by the central resolution authority. Any inconsistency between the scope of the SRM and that of centralised supervision under the SSM would give rise to significant risks (including also with regard to inconsistency on triggers, scope of bail-in and financing arrangements).

Moving to a centralised resolution system is essential to ensure that supervision under the SSM is well-integrated and effective, to ensure that resolution decisions are taken swiftly, and to reduce the possibility of uncoordinated, inconsistent or inefficient decision-making. A centralised body taking resolution decisions is essential in breaking the link between sovereigns and banks. It is essential that whatever decision-making process is decided upon, decisions can be made centrally, quickly and effectively in order for the SRM to be effective.

Resolution planning within the SRM is an integral component of the resolution system. While resolution planning might also involve members of the relevant Crisis Management Group, it is essential that the responsibility for planning for the resolution of, and resolving, any bank which may pose a systemic risk lies at the central level and is not delegated to national authorities.

Full consistency and alignment between BRRD and SRM must be ensured. It is important that any SRM compromises do not undermine important aspects of a coherent and consistent European recovery and resolution framework established by the BRRD. To assist cross-border resolution, the SRB should also be empowered to take decisions to recognise and support third country resolution proceedings throughout participating Member States under Article 85 of the BRRD and should take part in global

Crisis Management Groups and enter into institution-specific cross-border cooperation agreements on behalf of national resolution authorities of participating Member States.

In order to ensure alignment with the BRRD and consistency between participating and non-participating Member States, AFME takes the view that the EBA should have an important role and relevant powers in the area of European cross-border resolution in the framework of the Single Market for financial services as a whole. This should include mandatory mediation as well as developing technical standards and guidelines under the BRRD which apply to all Member States.

On the Single Resolution Fund (SRF), we believe, as underlined in our September paper, that any such fund should mirror the minimum funding levels, purposes and uses of national resolution funds under the BRRD. There should be some clear principles: (1) the contribution of a bank to any European resolution fund should not be higher than, and should replace, what would have been required at national level under BRRD (if anything, synergies should result in an overall smaller total amount); (2) single resolution fund financing availability should be consistent with the transfer of responsibility for direct supervision and resolution from national to central level; (3) the sharing of the burden must be fair and not discriminate against any business model.

Consideration should also be given to ensuring that, in addition to the proposed ex ante contributions, the SRF has access to sufficient sources of funding to enable it to advance funds on a temporary basis until any losses can be recouped from the industry via ex post contributions.

To conclude, AFME and its members urge decision-makers to maintain political momentum around the SRM negotiations. It is crucial that a consistent and coherent single resolution mechanism is set-up alongside the single supervisory mechanism on a consistent timeline. This is necessary for financial stability, and will benefit the Single Market and the European economy as whole.

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**Published: 5 December 2013**

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