EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Marco Zanni
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 01 June 2017

Re: Your letter (QZ029)

Honourable Member of the European Parliament, dear Mr Zanni,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 25 April 2017.

The Single Resolution Mechanism Regulation (SRMR)[1] and the Bank Recovery and Resolution Directive (BRRD)[2] were designed with a view, inter alia, to preventing contagion and preserving financial stability.

The bail-in tool is a key element of this framework. It is essential for ensuring private sector loss absorption in cases of resolution and as such is an important step in addressing the too-big-to-fail problem. The implementation of the minimum requirement for own funds and eligible liabilities (MREL), currently under way, will ensure that there is enough private sector loss-absorbing capacity at the point of resolution. This, in turn, will enhance the ex-ante credibility of the bail-in tool.

At the same time, under the BRRD and the SRMR, temporary government support to solvent banks is allowed in order to “remedy a serious disturbance in the economy of a Member State and preserve financial stability”, provided that a number of other conditions are fulfilled. Thus, solvent banks may access precautionary recapitalisation, under specific conditions and subject to final approval by the European Commission under the State aid rules, to address capital shortfalls arising from the adverse scenario applied in a national, EU-wide or SSM-wide stress test. Furthermore, it is stipulated that the injection of public funds must be of a precautionary and temporary nature, and proportionate to remedying the consequences of the serious disturbance. It may not be used to offset losses that the entity has incurred or is likely to incur in the

[1] Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (OJ L 225, 30.7.2014, p. 1).

[2] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (OJ L173, 12.06.2014, p. 190).

near future. In line with the State aid framework, burden-sharing by shareholders and subordinated creditors is required in the case of a precautionary recapitalisation.

In the event that a bank applies for precautionary recapitalisation, under Article 18(4) of the SRMR the ECB is required to provide a statement on its solvency to the relevant national authorities. This solvency assessment should be based on the latest available official capital data for the bank and should indicate whether it complies with the minimum capital requirements pursuant to Article 92 of the Capital Requirements Regulation[3]. As laid down in the Interinstitutional Agreement between the European Parliament and the ECB, any reporting obligations vis-à-vis the European Parliament are subject to the relevant professional secrecy requirements, as outlined in the Capital Requirements Directive IV[4]. I therefore cannot comment on the situation of the significant institutions mentioned in your letter. Furthermore, the assessment of a bank's eligibility for precautionary recapitalisation on the grounds of, inter alia, possible financial stability risks, as mentioned in Article 18(4) of the SRMR, is a competence of the European Commission as part of its overall State aid assessments.

Yours sincerely,

[signed]

Danièle Nouy

---

3 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L176, 27.06.2013, p. 1).[4] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

4 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).