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Germany Shoots Down EU Resolution Proposals for Distressed Banks

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The Proposal Would Contravene EU Treaties, the German Government Said

By TOM FAIRLESS

BRUSSELS—Germany swiftly rejected the European Commission's proposal for a single authority to wind down failing euro-zone banks Wednesday, signaling a rift between the European Union's executive and its biggest economy over the next step in exiting the region's debt crisis.

The proposal on bank resolution—the so-called "single resolution mechanism"—announced Wednesday was to form the second pillar in the euro-zone's banking union project which aims to sever the toxic link between troubled euro-zone banks and their sovereigns. The first pillar is a single supervisor for euro-zone banks, a task the European Central Bank is expected to assume in the fall of 2014.

Under the commission's proposal, a "single resolution board" would prepare and carry out restructurings of any of the 6,000 euro-zone banks that hit financial problems. It would be backed by a shared fund financed by contributions from banks. Crucially, the commission alone would decide whether and when to place a bank in resolution.

But Germany shot down the proposal in its present form almost as it was announced.

"In our view, the commission proposal oversteps [its] authorities," Steffen Seibert, a spokesman for Germany's government, said at a news conference in Berlin. "That's why in our view it isn't something that can bring about great credibility," he said.

Germany has consistently resisted previous efforts to transfer financial risks from national economies to the broader euro zone, because it feels it would end up by paying a large part of the bill.

"We need a system which can deliver decisions quickly and efficiently, avoiding doubts on the impact on public finances, and with rules that create certainty in the market," Michel Barnier, the EU commissioner responsible for financial-market regulation, said at a news conference earlier on Wednesday announcing the proposal.

Germany has warned repeatedly that a single authority risks contravening EU treaty law, which limits the power of Brussels over national finances. Berlin is calling instead for a two-step approach that starts with a network of national authorities, and only creates a centralized authority once EU treaties have been changed.

A spokeswoman for Spain's finance ministry said Wednesday that while the country wants a complete banking union, "we can live with a transitional solution of coordinating among national authorities."

Dutch Finance Minister Jeroen Dijsselbloem welcomed the commission's proposal "It is the next important building block toward a Banking Union. I hope we can reach agreement by the end of the year and come to an effective and independent authority that can act and decide rapidly when banks are in trouble."

Mr. Barnier stressed that the commission thinks its proposal can be enacted under current EU treaties. The Commission is open to a change to EU treaty law that would deal with Germany's concerns but the bloc cannot wait for the completion of what could be a very time-consuming process.

"I listen very carefully to what people tell me about the need for legal certainty," he said, mentioning the German finance minister among them. "We are prepared to consider this question but we have immediate responsibilities."

Still, he suggested that a possible compromise with Germany could lie in the scope of the new authority, or the number of banks it covers. For instance, one option might be for the central authority to be given responsibility for only the biggest, systemically-important institutions, with national resolution authorities handling the rest—similar to the way in which the single bank supervisor only directly oversees the biggest banks.

But Berlin's worries don't relate to the scope of the new authority, an EU diplomat said. Instead, they concern whether the commission can be given powers to decide on winding down banks under current treaties; the decision-making process for the resolution board, which doesn't provide veto rights; and whether the single resolution fund could legally use money built up by national funds.

Nevertheless, Berlin hopes to find a solution that is convincing for everybody, the EU diplomat said.

"We're not blocking or delaying anything here…we want to come to a sustainable solution," German finance ministry spokeswoman Marianne Kothe said Wednesday.

The standoff isn't the first time that Germany has clashed with the EU over its plans for a banking union.

In March, Germany delayed approval of the region's new single bank supervisor amid concerns over its legal basis, and whether its setup could blur the lines between monetary policy and supervision within the ECB.

Berlin ultimately approved the single supervisor after extracting a "declaration" by all member states that they were "ready to work constructively on a proposal for treaty change."