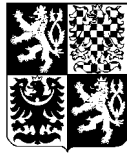


# THE PARLIAMENT OF THE CZECH REPUBLIC

## SENATE



7<sup>th</sup> term

## 593<sup>rd</sup> RESOLUTION

### OF THE SENATE

Delivered on the 24<sup>th</sup> session held on 3 November 2010

on the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the European Central Bank - Bank Resolution Funds /Senate Press no. K 116/07/

#### The Senate

#### I.

##### **C o n s i d e r s**

bank resolution, especially having in mind cross-border banks, to be a serious issue and supports further debate that should focus not only on establishing new funds and imposing new levies and taxes, but above all should aim at reducing moral hazard of financial institutions;

#### II.

##### 1. **A g r e e s**

with the view that taxpayers' money should no longer be used to bail out failing banks;

##### 2. **D o e s n o t b e l i e v e,**

however, that establishing resolution funds, as currently proposed, provides the most appropriate solution because

- creation of such funds can negatively influence the behaviour of financial institutions by creating an illusion that there is a lender of last resort and thus increase the potential for moral hazard;
- no global consensus on bank levies and taxes has been reached within the G20 and imposing bank levies only in the EU would put the European banking industry at a disadvantage to its global competitors;
- rationally acting financial institutions that optimize their profit are able to pass the new costs resulting from the duty to contribute to resolution funds onto their clients so, in the end, the resolution costs would again be incurred by tax payers;

3. **C o n s i d e r s**

it crucial that crisis resolution mechanisms limit the creation of moral hazard to the fullest possible extent and that a bank failure be seen as a real consequence of bad management and excessive risk-taking, and warns in this context that resolution funds should not be regarded as an instrument for recapitalization of failing banks;

4. **I n v i t e s**

the European Commission

- to take into account, when drafting legislative proposals in the area of resolution funds, a common principle that the first to incur losses from their investment decisions are shareholders and unsecured creditors of a failing bank;
- to pay special attention to systemically important institutions and elaborate on the options to impose haircuts and debt-to-equity conversion through convertible bonds;
- to thoroughly assess the legal aspects of using resolution measures such as a good bank/bad bank split as part of the bankruptcy procedure;

5. **R e c a l l s**

the exception of the Czech Republic negotiated at the European Council on 17th June 2010 regarding the right not to introduce bank levies and taxes and invites the European Commission to take it into account when drafting legislative proposals in this area;

**III.**

1. **R e q u e s t s**

the government to inform the Senate about the way this position was taken into account, and about further initiatives following this Communication;

2. **A u t h o r i s e s**

the President of the Senate to forward this resolution to the European Commission.

Přemysl Sobotka  
sign manual  
President of the Senate

Jana Juřenčáková  
sign manual  
Senate Verifier