

Brussels,  
C/2011/ 700 11 FEB. 2011

Dear President,

*The European Commission would like to thank the Senate for its resolution concerning the Commission's Communication on bank resolution funds {COM (2010) 254 final} and takes note of the comments contained therein.*

*The Commission agrees that focus should not be exclusively on establishing new funds, new taxes and levies, and draws attention to the fact that it published on 20<sup>th</sup> October a Communication on crisis management which takes a comprehensive view of the issue of bank crisis management. This Communication makes clear that the Commission views bank resolution funds as a part of a broader framework for management of bank crises. A public consultation on this subject was launched on 6 January 2011 and is available on the website of DG Internal Market and Services.*

*The Commission takes note that the Senate opposes the establishment of resolution funds on the grounds that this may increase moral hazard by creating the illusion of a permanent lender of last resort, put EU industry at a competitive disadvantage and result in increased costs for retail customers.*

*In this context, please note that the Commission has given very serious consideration to the issue of moral hazard. By ensuring clear rules written into EU legislation, pre-empting the use of public funds to bail out banks, whilst at the same time equipping Member States with credible alternative resolution toolkits to avoid bank bail-outs, the Commission believes that the risk of moral hazard would be significantly reduced rather than increased.*

*Moreover, the Commission also considered the potential competitive disadvantage that could result from the imposition of levies on EU banks without international agreements in place. In the opinion of the Commission, the issue of competitive disadvantages must be considered in the context of all the relevant factors, such as the overall regulatory and prudential requirements, the wider fiscal burden, as well as the perceived safety and soundness of the business environment in which European banks operate. The Commission has also made clear that any possible resolution financing would need to be gradual and carefully calibrated so as not to harm economic recovery.*

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the Parliament of the Czech Republic  
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*With respect to the risk that costs may increase for customers: inevitably, all regulatory reforms come at a price. National governments will need to remain vigilant in this respect. However, the fact that regulatory reform comes at a price cannot be invoked as a sufficient ground not to undertake such reforms which are absolutely essential for longer term stability and solidity of financial markets. Furthermore, the European banking market would appear sufficiently competitive to avoid costs being passed on to retail customers.*

*The Commission agrees with the Senate that moral hazard risks must be fully addressed. The Commission also supports further examination of the possible use of instruments such as bail-ins and creditor haircuts as part of a comprehensive toolkit of measures.*

*The Commission will certainly consider the Senate's request as to the introduction of a common principle that shareholders and unsecured creditors of a failing bank should be the first to incur losses. The viability of different options to impose haircuts and debt-equity conversions on creditors, including through the use of convertible bonds, are currently being considered. All the measures proposed by the Commission will be thoroughly assessed in the impact assessment accompanying the Commission's forthcoming legislative proposals.*

*Finally, the Commission has taken note of the Czech Republic's position not to introduce bank levies and taxes, as expressed on 17<sup>th</sup> June 2010.*

*I am looking forward to our continued policy dialogue,*

*Yours sincerely,*