



HOUSE OF LORDS

European Union Committee

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Rt Hon Greg Clark MP
Financial Secretary
HM Treasury
1 Horse Guards Road
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17 July 2013

Dear Greg

EM 11066/12: Bank Recovery and Resolution Directive

Thank you for your letter, dated 9 July 2013, on EM 11066/12 on the Bank Recovery and Resolution Directive. The House of Lords European Union Sub-Committee on Economic and Financial Affairs considered this document at its meeting on 16 July 2013.

We are grateful to you for this update, and are pleased to learn that a General Approach has been agreed. However, we note some concerns about the nature of the deal. Your letter emphasises the flexibility that you have secured in the revised text. However, we note the reported concerns of EU officials that giving countries too much flexibility in bail-in rules would allow large and wealthier Member States to use public money for bailouts while smaller, economically vulnerable Member States would be forced to impose losses on creditors, including depositors. How would you respond to these concerns? Is there any danger that the agreement will result in a two-tier recovery and resolution system, exacerbating the worrying trend towards fragmentation of financial markets that we have witnessed since the financial crisis erupted? Can you guarantee that the mistakes of the Cypriot bank bailout deal will not be repeated, where it was initially proposed that insured deposits below €100,000 would be caught? Given that many bondholders are pension funds, how practical do you believe the bail-in model to be?

You state that the Council agreement includes a clause to review EBA's role to take into account future developments in financial services legislation. Now that the proposals for a Single Resolution Mechanism proposal has been published, how will this matter be taken forward?

We also note that you did not respond to the question in our letter of 18 June, when we noted reports that European banks' issuance of senior debt has fallen to its lowest level in more than a decade amidst concern that investors will take losses as a result of demands for greater protection of taxpayers and depositors. We asked if you share such concerns about the potential knock-on effect, in terms of the costs of financing banks, of bail-in rules that seek to reduce the liability of taxpayers. We would be grateful for a response to this question.

We also understand that the new system will become operational in 2018. What risks are created by such a delay, and how can they be mitigated?

We would be grateful for a response to this letter by 30 August 2013.

I am copying this letter to William Cash MP, Chair of the Commons Committee; Sarah Davies, Clerk to the Commons Committee; Paul Hardy, Legal Adviser to the Commons Committee; Les Saunders, Cabinet Office, Kunal Patel, Thomas Kenny and Gary McMillan, International Tax Strategy & Co-ordination, HM Treasury.

A handwritten signature in dark ink, appearing to be 'The Lord Boswell', written in a cursive style.

The Lord Boswell
Chairman of the European Union Committee