

EU Seeks Plan to Handle Failing Banks Amid Cost Concerns

European Union chiefs pledged to seek a joint strategy for handling failing banks as German Chancellor Angela Merkel demanded taxpayers be spared the costs.

Leaders agreed to start work next year on a single resolution mechanism for euro-area banks to complement the European Central Bank oversight role approved yesterday by European finance chiefs. Lenders should underwrite financial stability by repaying governments as needed, EU leaders said.

Resolution “may not be at the cost of the taxpayers, but has to be structured so that those responsible for the failures of the banks carry the burden,” Merkel told reporters at 2:15 a.m. after nine hours of talks in Brussels.

Bolstering confidence in banks is a key component of policy makers’ effort to defeat the debt crisis that has rattled markets since late 2009. They must decide how to handle existing bank weakness as well as future failures that emerge after the ECB takes on its oversight duties. In the first half of 2013, they will seek a deal on the terms of allowing the EU’s 500 billion-euro (\$656 billion) rescue fund to provide direct aid to banks.

“We made progress” on a resolution mechanism, said ECB President Mario Draghi. He pressed government leaders to confront how they will handle banking woes that spread across borders and exacerbate financial crises.

Legacy Assets

The euro rose against the dollar following the summit announcement. The European currency traded at \$1.3105 at 8:34 a.m. in Brussels, up 0.2 percent on the day and at the highest intraday level since Dec. 5.

Leaders still need to settle the issue of so-called legacy assets, which emerged as nations proved unable to stave off financial contagion, according to today’s conclusions. Guidelines are needed “as soon as possible” on when the European Stability Mechanism can channel aid to banks instead of through a government as was done in Spain’s case, according to the statement.

At the same time, the summit conclusions focused on the “medium-term” costs without addressing the upfront outlays needed to shut down or prop up failing institutions. Existing proposals, which nations will seek to conclude before launching the joint resolution talks, would set common national standards for protecting depositors and stabilizing banks.

Backstop Arrangements

A joint-resolution approach would go further by adding “appropriate and effective backstop arrangements,” leaders said. This strategy should “ensure a fair balance between home and host countries,” they said.

They stopped short of saying who would pay the upfront bills. Instead, the summit concluded that “this backstop should be fiscally neutral over the medium term, by ensuring that public assistance is recouped by means of ex post levies on the financial sector.”

French President Francois Hollande said next year's elections in two of the euro zone's biggest nations shouldn't paralyze banking-sector progress.

“With the elections in Italy and Germany we could fear that everything will be stopped,” Hollande said. “But we will implement banking union and recapitalizations. There is an election in Germany, but Mrs. Merkel has accepted that in 2013 banking union will not only be perfected but put in place.”

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