

## Press Release

#26/2020  
(dated 26/11/2020)

### Publication EBI Working Paper Series No. 73

EBI is happy to announce the joint contribution of **Prof. Dr. Christos Gortsos** (National and Kapodistrian University of Athens), **Prof. Dr. Michele Siri** (University of Genoa - Law Department; European Banking Institute; EUSFIL Jean Monnet Center of Excellence on Sustainable Finance and Law) and **Prof. Dr. Marco Bodellini** (Queen Mary University of London, School of Law - Centre for Commercial Law Studies) in the **EBI Working Paper Series No. 73**. Their paper entitled "**A Proposal for a Temporarily Amended Version of Precautionary Recapitalisation Under the Single Resolution Mechanism Regulation involving the European Stability Mechanism**" was published on 10th September 2020.

The authors argue that European credit institutions are expected to pile up a relevant amount of non-performing loans (NPLs) as a consequence of the crisis provoked by the Covid-19 pandemic. Against this backdrop, one of the most critical issues at stake is whether credit institutions currently hold an amount of capital which is sufficient to absorb the losses that they will likely experience in the forthcoming future. If this will not be the case, then they will have to undergo recapitalisations. In a context of global, generalised and prolonged economic crisis, nevertheless, it could turn out to be extremely challenging to find private investors able and willing to significantly invest in their equity. Therefore, a new solution capable to balance conflicting, yet legitimate, needs, such as credit institutions' recapitalisation without recurring (again) to excessive and generalised public bail-outs, might have to be quickly found.

Accordingly, because of the high bar set in the recent past by the Single Resolution Board (SRB) for the submission of failing or likely to fail (FOLF) credit institutions to resolution, and with a view to avoiding credit institutions' liquidation financed through public resources, the authors propose a temporary, revised and standardised form of privately and publicly funded precautionary recapitalisation, designed beforehand and operating on a quasi-automatic basis. Thus, this paper advocates a temporary amendment of the so-called precautionary recapitalisation under the Single Resolution Mechanism Regulation (SRMR) with the major involvement of the European Stability Mechanism (ESM).

Along with the European Central Bank (ECB), a major role in the process should also be played by the SRB and the ESM, with a view to keeping as much as possible the same level playing field within the Banking Union (BU). The final goal would be to strike a fair balance between the primary need to avoid the collapse of the whole banking system as a consequence of the Covid-19 crisis and the interest to discourage excessive moral hazard and unsound public policies. For a limited period of time, the authors propose that some of the conditions currently required by the SRMR for the precautionary recapitalisation of credit institutions established in the BU should be amended in line with the recent measures adopted by the Commission to facilitate public intervention to support the economy. This should be combined with an ESM facility allowing it to buy hybrid instruments issued by the credit institutions that would need to be recapitalised. In this regard, the ESM could raise the resources needed by issuing senior bonds on the market to be then used to buy contingent convertibles (CoCos) with characteristics enabling them to be included in the credit institutions' Common Equity Tier 1 (CET1) capital, with a view to divesting as soon as the market conditions will allow it. Such an action, in turn, could be placed within a broader framework permitting the ESM to monitor the credit institutions' activity against some targets designed to allow them, over time, to pay back the issued instruments.

Read the entire paper here: <https://ssrn.com/abstract=3688973> or <http://dx.doi.org/10.2139/ssrn.3688973>.

For additional information on EBI, please visit our website: [www.ebi-europa.eu](http://www.ebi-europa.eu) or click here to read our [Brochure](#).

\* \* \* \* \*

#### Media Contact:

EBI Office: Claudia Collins: [claudia.collins@ebi-europa.eu](mailto:claudia.collins@ebi-europa.eu) and  
Lukas Böffel: [lukas.boeffel@ebi.europa.eu](mailto:lukas.boeffel@ebi.europa.eu)

#### Supervisory Board of the European Banking Institute:

Dr. Thomas Gstädtner, President  
Enrico Leone, Chancellor

#### EBI European Banking Institute e.V.

TechQuartier (POLLUX)  
Platz der Einheit 2  
60327 Frankfurt am Main  
Germany

Tel.: +49 69 7500 3904  
E-Mail: [news@ebi-europa.eu](mailto:news@ebi-europa.eu)  
Website: [www.ebi-europa.eu](http://www.ebi-europa.eu)

#### Eingetragener Verein

**Aufsichtsrat:** Dr. Thomas Gstädtner (Vorsitzender), Enrico Leone  
**Vorstand:** Pascal di Prima, Prof. Dr. Otto Gassner, Jakob Gren  
**Sitz:** Frankfurt am Main **AG:** Frankfurt a. M., VR 15756

**Bank:** Deutsche Bank **IBAN:** DE93 5007 0024 0253 3883 00  
**BIC:** DEUTDE33HAN

**Academic Members:** Universiteit van Amsterdam, University of Antwerp, University of Piraeus, Athens, Greece, Alma Mater Studiorum – Università di Bologna, Universität Bonn, Academia de Studii Economice din București (ASE), Universidad Complutense, Madrid, Spain, Trinity College, Goethe-Universität, Universiteit Gent, University of Helsinki, Universiteit Leiden, Leiden, KU Leuven University, Universidade Católica Portuguesa, Universidade de Lisboa, University of Ljubljana, Queen Mary University of London, Université du Luxembourg, Universidad Autónoma Madrid, Johannes Gutenberg University Mainz, University of Malta, Università Cattolica del Sacro Cuore, University of Cyprus, Radboud University, BI Norwegian Business School, Université Panthéon - Sorbonne (Paris 1), Université Panthéon-Assas (Paris 2), University of Stockholm, University of Tartu, University of Wrocław, Universität Zürich.