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Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

Debt Instruments Beyond TLAC Have to Be Backed if Necessary

06/28/2017

In an interview, Jan Krahen demands state aid for a banking resolution – in addition to a bail-in



In an interview with the German business daily Handelsblatt (https://www.google.de/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwil34DIpeDUAhUDVxQKHZF_CT4versicherung%2Fbankenregulierungsexperte-jan-pieter-krahen-bei-mir-ueberwiegt-ganz-klar-die-freude%2F19980218.html&usg=AFQjCNHJ6PV9YNS9d02Pd3shhFerKl1hZA)(issue from 27 June 2017), SAFE Director Jan Pieter Krahen (<http://safe-frankfurt.de/research/researchers/researchers->

<http://safe-frankfurt.de/research/researchers/researchers-details/showauthor/14-krahen.html>) welcomed the resolution of the Italian crisis banks Veneto Banca and Banca Popolare di Vicenza. Although not everything was organized ideally, it is a breakthrough that two failing banks have been taken out of the market and not been kept afloat, as often done before in Italy,

Krahnen said. Even if taxpayer money has been spent, it was not to back a crisis bank but to support a competitor to act as savior. However, compared to the recent Spanish case where Banco Santander took over the failing Banco Popular without any external support, the Italian procedure can only be qualified as second-best solution.


According to Krahnen, the case shows that the question has to be solved of how to deal with creditors beyond the minimum liability threshold TLAC – below this threshold creditors have always to be bailed in. “We have a lot of uncertainty in the financial system without any need, because it is not clear how much money will be demanded from creditors in case of emergency.” Therefore, the EU should regulate that all debt instruments beyond the TLAC threshold – which could possibly be set higher – will be backed if necessary. Krahnen said that the political announcement to never again use tax payer money to secure banks was “ridiculous” from the beginning and that everyone knew that. “If a failing bank causes a relevant systemic risk, you will always need also state aid.”

Keywords: Banking Union (https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=37&cHash=3a4a3ac7d41dcb54b98b9d7fa6a4df)
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