EU Consecrates Mega-Bank Bail-Ins

by Our European Bureau

July 3—On June 27, the finance ministers of the European Union turned depositors into hedge-fund investors. The new EU "bank-resolution" mechanism approved by the Economic and Financial Affairs Council (Ecofin) introduces an epochal shift in banking, by allowing depositors' money to be used to bail-in bankrupt financial institutions. The bank-customer fiduciary relationship no longer exists. Whereas the money someone put in a savings account or a current account used to be his, from now on, it is not. He has given his money to an investor, and must share the full burden if it is lost in high-risk speculation.

The principle of protecting the citizen/depositor has been replaced with that of "protecting the system."

Concretely, if the new EU Bank Resolution Directive is passed (national parliaments can still oppose it), a bankrupt bank will be both bailed-in and bailed-out. First, the money will be taken from shareholders, bondholders, and "non-protected" depositors, in that order. The Ecofin final statement explains that accounts under EU100,000, as well as eligible deposits from "small and medium-sized enterprises . . . would have preference over the claims of ordinary unsecured, non-preferred creditors and depositors from large corporations."

What does "small and medium-sized" mean? Will companies with 5 workers be spared while companies with 500 workers will be expropriated? Furthermore, the word "preference" does not mean that the deposits of such companies will not be seized. In fact, as the financial oligarchy has signaled, at least EU2.5 trillion is needed from the "bail in" to rescue the Eurozone banks at the current market value of their assets. This means, that the "extraordinary circumstances" in which "all unsecured, non-preferred liabilities other than eligible deposits have been bailed in," is easily reached in any bank-resolution event, after which, "the resolution authority may seek funding from alternative financing sources." This masterpiece of ambiguity leaves the door open to seizing the funds of taxpayers or protected depositors.

World Economic Forum/Remy Steinegger

ECB chief Mario Draghi

European Central Bank president Mario Draghi has demanded a commitment from EU member-states to provide a backstop with public money as an element of the Banking Union-Bank Resolution scheme. This does not mean, however, that all banks will be saved.

The super-rich, whose fortunes depend on the continuation of the gambling economy, will be spared. The Ecofin release states that "National resolution authorities would also have the power to exclude, or partially exclude, liabilities on a discretionary basis" for reasons such as "to avoid contagion." In other words, any "systemically relevant" liability must be paid. Derivative bets are the most systemically relevant, as the Lehman Brothers case demonstrated.

Once those bets are closed, a gaping hole is left. Thus, the Ecofin scheme leaves open the possibility of saving derivative operations, by excluding from the bail-in "inter-bank liabilities with an original maturity of less than seven days." Since most derivatives contracts are stipulated between banks, and any derivatives contract can be turned into something with a maturity of less than seven days, this is a giant loophole intended to exclude the entire speculative debt from the bail-in, and have depositors pay for it, in order to "avoid contagion."

By putting into law the principle that speculators' money is safe but depositors' money is not, the EU has jeopardized that very "stability of the system" it claimed it wanted to preserve. If the perception spreads that deposits are no longer safe, there will be a run on deposits.