

# ESM direct bank recapitalisation instrument adopted

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Press releases

ESM

Luxembourg – The Board of Governors of the European Stability Mechanism (ESM) adopted today the ESM direct recapitalisation instrument for euro area financial institutions. The decision marks the final step in the ratification process and the instrument is now operational. The ESM Board of Governors comprises the 18 euro area finance ministers.

The new instrument allows the ESM to recapitalise a systemic and viable euro area financial institution directly under specific circumstances as a last resort measure. The ESM can recapitalise banks directly only if private investors have been bailed-in, in accordance with the EU Bank Recovery and Resolution Directive. In addition, the national resolution funds or, from 2016 onwards, the Single Resolution Fund must contribute. In order to preserve the ESM's high creditworthiness and lending capacity for other instruments, the total amount of ESM resources available for the new instrument is limited to €60 billion.

The ESM direct recapitalisation instrument forms one of the building blocks of the EU Banking Union, along with the supervision of euro area banks by the Single Supervisory Mechanism and the creation of the Single Resolution Mechanism, with its Single Resolution Fund. The ESM direct recapitalisation instrument contributes to cutting the link between governments and banks that has been a crucial destabilising factor for some euro area countries.

Klaus Regling, ESM Managing Director said: "As a last resort, and only if a bank is considered systemic and viable, the new instrument would allow the ESM to take a direct stake in a euro area financial institution. However, the bail-in rules will shift the bulk of the potential financial burden away from the ESM to the institutions

themselves, along with their investors and creditors.”

Klaus Regling added: “The ESM is ready to use the direct recapitalisation instrument, should the need arise. The results of the recent asset quality review and stress tests confirm that the use of the new instrument seems unlikely. Nevertheless, the fact that the ESM can provide a rescue of last resort for systemic and viable banks is reassuring for markets and safeguards financial stability in the euro area.”

More details about the new instrument are provided in this [Frequently Asked Questions](#) document available on the ESM website.

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