

Germany Said to Seek Cyprus-Style Wipeouts in ESM Bank Aid Rules  
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By Rebecca Christie and Radoslav Tomek

June 20 (Bloomberg) -- Germany is leading a push for all bank creditors except insured depositors to take losses before the euro area's firewall fund could provide direct aid to troubled financial institutions, according to two European officials.

Euro-area finance ministers meeting in Luxembourg today are battling over what losses to require for private-sector creditors, particularly while the European Union sets up broader rules on how to restructure failing banks. The ministers are trying to agree on an outline for how banks can tap the 500 billion-euro (\$660 billion) European Stability Mechanism without damaging their nation's balance sheets.

Germany, Finland and the Netherlands want to require senior creditors to take losses before ESM aid could be considered, according to the two officials. This contrasts with the European Commission's view that only junior bondholders and shareholders should be written down before state-funded restructuring can begin.

If the German effort is successful, it would mean that future bank bailouts within the currency zone would look more like the rescue terms for Cyprus, rather than the path taken by Ireland, Spain and the Netherlands. The debate shows that euro-area ministers remain divided over how to break the link between banking-sector and sovereign-debt struggles a year after they offered the prospect of direct ESM aid to calm market fears.

#### 'Building Blocks'

German Finance Minister Wolfgang Schaeuble said today that the ESM direct-aid tool won't be available until other elements of the EU's banking union strategy are fully in place. "As regards direct bank recapitalization, all building blocks of the banking union must be in place," Schaeuble told reporters. With French support, Germany now has pushed to delay the bank aid rules until the EU finishes work on bank resolution and recovery legislation.

Schaeuble also said the bloc will require strict conditions on nations that seek aid to support troubled lenders. "One can't just pump money into troubled banks without that being accompanied by reforms," he said.

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