

Introduction to the Seminar

Recovery and resolution: what is in place and what needs to be done



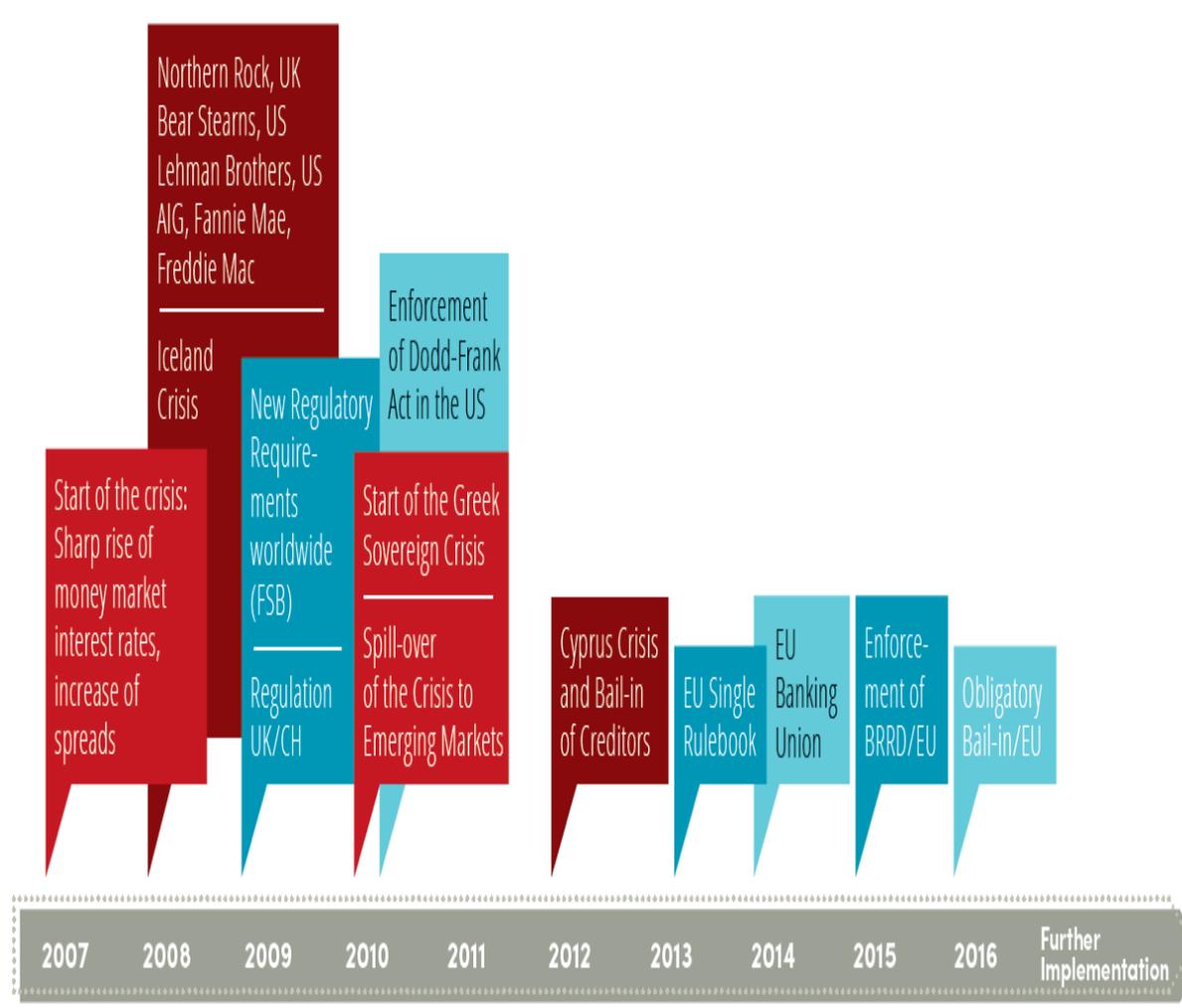
INSTITUT BANCAIRE ET FINANCIER INTERNATIONAL
INTERNATIONAL BANKING AND FINANCE INSTITUTE

SEMINAR

LEGAL EXPERTS AND FINANCIAL CRISES :
PREVENTION, MANAGEMENT, RESOLUTION

What is in place

Resolution: a response to the crisis



The financial crisis 2007-2009 revealed

- a lack of clarity about how to react to distressed banking sector
- Serious shortcomings in the tools available to deal with failing banks without interrupting the provision of systemically critical functions to customers and the economy in large

Source: Understanding Bank Recovery and Resolution in the EU: a Guidebook to the BRRD (World Bank Group – April 2007)

Need to end with fiscal interventions to restore financial stability

**COSTS OF THE CRISIS (2007–2009)**

Nationalization of Banks*	29
Gross restructuring support for countries concerned*	In % of GDP 0,7–7,7
Liquidity support*	%-points 1,1–18,3
Asset purchases and guarantees*	In % of GDP 0,2–13,4
Other measures taken included guarantees for liabilities and bail-in of creditors (Cyprus)	

Source: Understanding Bank Recovery and Resolution in the EU: a Guidebook to the BRRD (World Bank Group – April 2007)

A regulatory response:

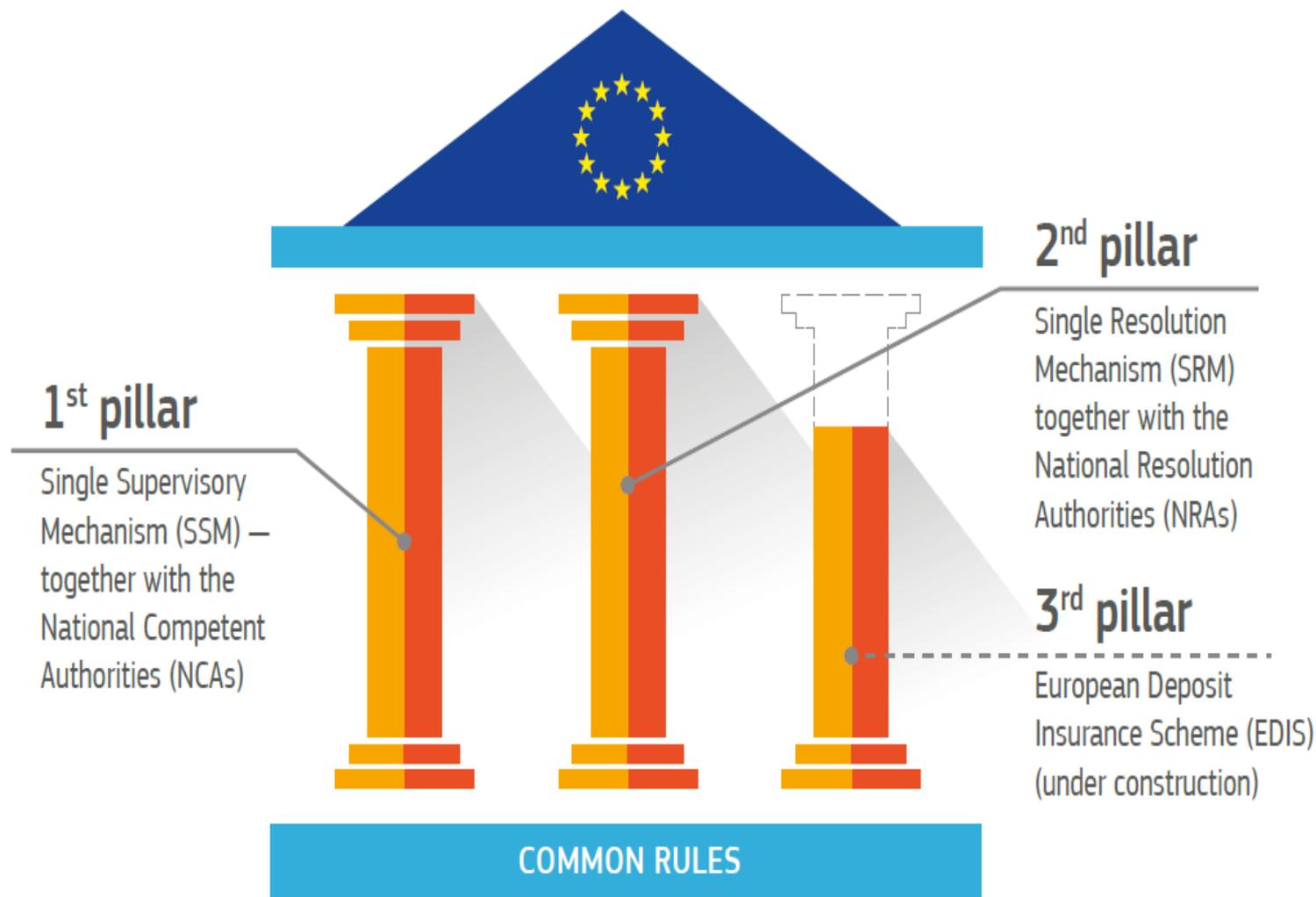
In 2008, the G20 called for strengthened cooperation on crisis prevention, management and resolution to permit an orderly resolution, including of large complex institutions, without public bail-out.

⇒ high-level principles for cross-border cooperation on crisis management

⇒ key Attributes of Effective Resolution Regimes for Financial Institutions

What is in place

The European response: Three Pillars

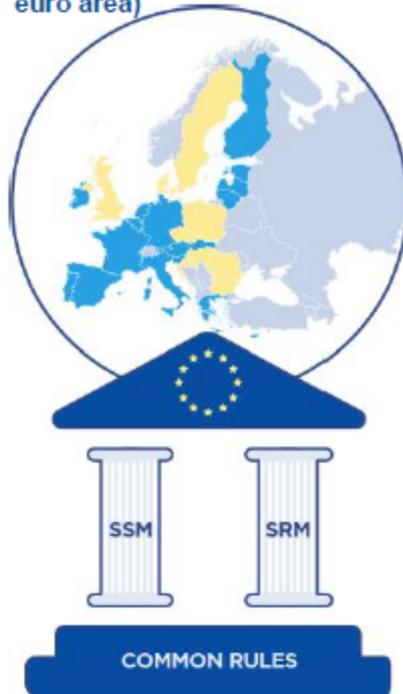


What is in place

Resolution: objectives

Mission: to ensure an orderly resolution of failing banks with minimum impact on the real economy and public finances of the participating Member States and beyond

- Participating Member State (euro area)
- Non-participating Member State (non-euro area)



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- Establish **uniform rules and procedures for the resolution of entities**
- Establish a **credible and feasible resolution regime**
- **Remove obstacles** to resolution in order to make the banking system in Europe safer
- **Ensure unified decision-making process** for resolution within the Banking Union to foster market confidence
- **Minimise the cost of resolution and avoid destruction of value** unless necessary to achieve the resolution objectives
- **Provide key benefits** for taxpayers, banks, deposit-holders and contribute to financial and economic stability in the entire EU

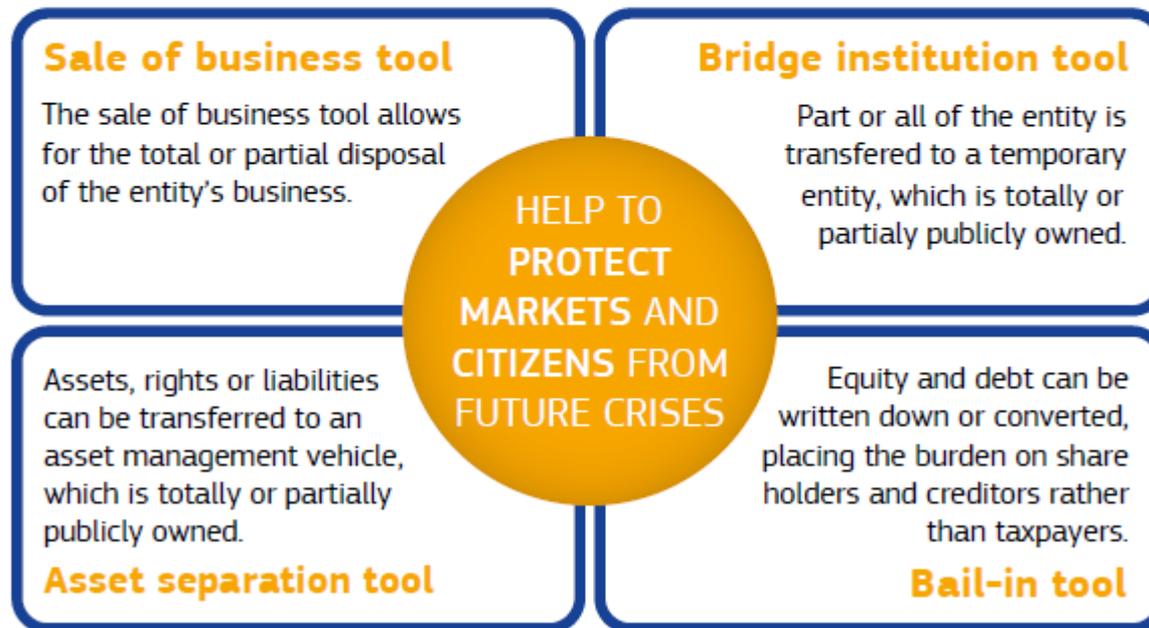


What is in place

Resolution: a set of tools



Different **tools** are used to **safeguard public interests**, including the continuity of the bank's critical functions and financial stability, at minimal cost to taxpayers.



What is in place

Continuity between supervision and resolution

As a principle, the Resolution authority should be a separate body from the Supervisory authority, but **continuity between supervision and resolution is essential**



**BANK FALLS
INTO TROUBLE**

Single Supervisory Mechanism (ECB + NCAs)

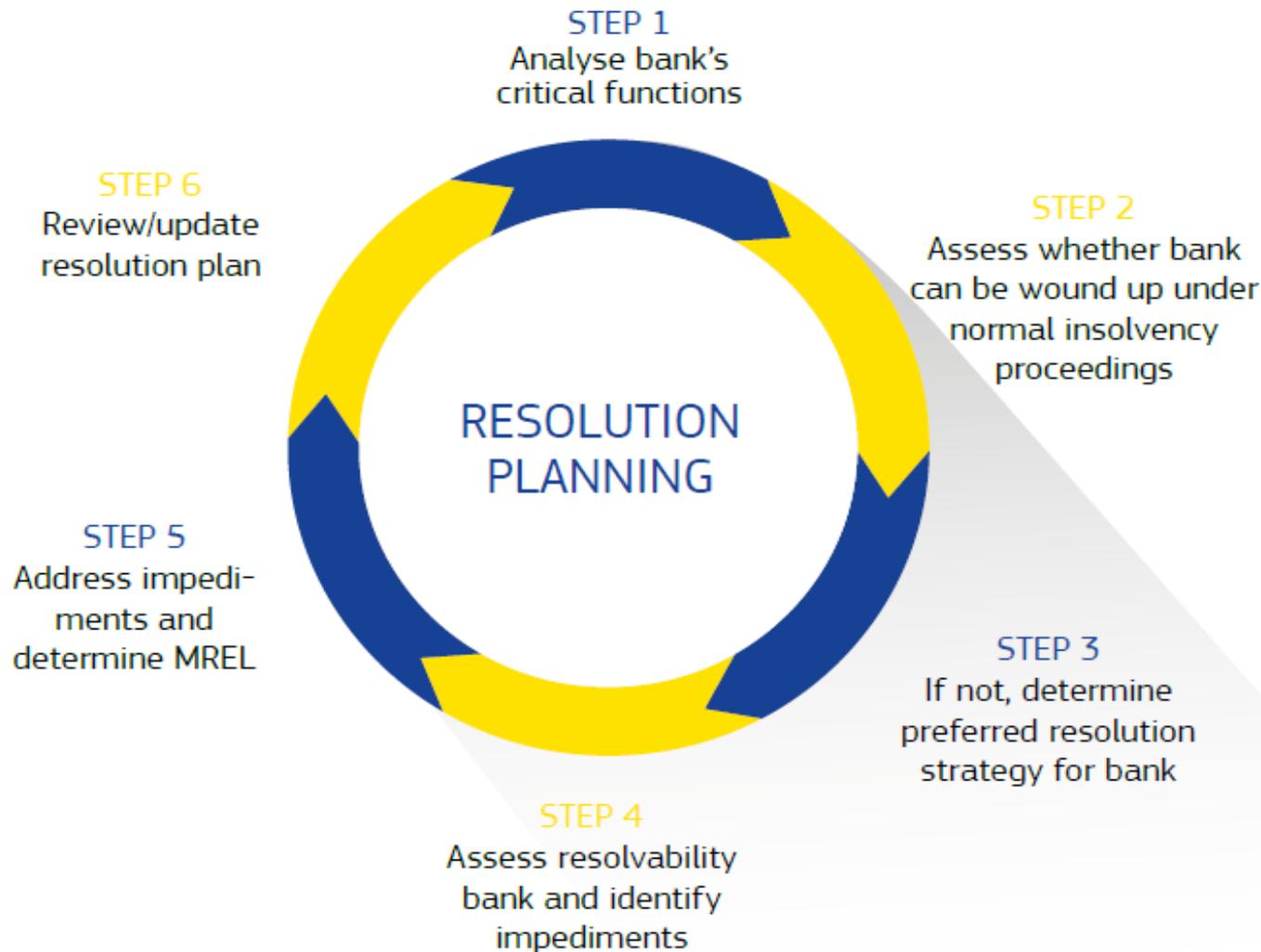


**PRE-CONDITIONS
TO RESOLUTION**



What is in place

Resolution planning process



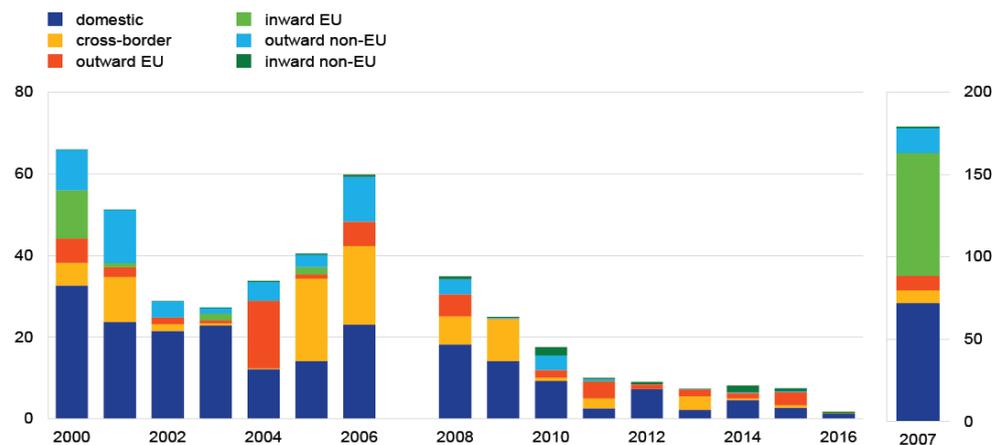
The banking system in Europe is still fragmented

The introduction of the euro in 1999 and the development of the single market have made a contribution to increasing bank MNA activity

- Ever since the financial crisis in 2008, these transactions have slumped

Bank M&As involving euro area banks – value of transactions

(EUR billions)



Sources: Dealogic and ECB calculations.

- Very diverse concentration of banking systems

Market share for the 5 lead banks

USA	40 %
Europe	20 %

What needs to be done

The advantages of mitigating fragmentation

- Furthering financial integration
- Offering more opportunities to invest and afford access to new sources of financing
- Optimizing risk sharing which will bolster stability and efficiency of the European economy
- Fostering geographical diversification
- Allowing economies of scale and being more efficient
- Helping to reduce excess capacity
- Improving the position of European banks with international competition

What needs to be done

Obstacles related to regulations

- Applying prudential rules to individual banks and consolidated groups is also a potential obstacle as there are **no cross border waivers for capital requirements**.
- Concerning liquidity, it can be hard to meet the conditions required for granting waivers on capital requirements for individual banks whereas **centralized liquidity management** tends to be safer from a prudential standpoint as it affords better access to financial markets and fosters quicker allocation of funds to groups that need them.
- **Maintaining options and discretionary** powers when implementing banking regulations with a tendency to reduce consistency across Europe.
- The regime for qualifying holdings has been harmonized to a large extent in the SSM, but **national standards for mergers** tend to be far more varied.

What needs to be done

Obstacles related to supervision and resolution

- Capital allocation flexibility, in the context of a crossborder acquisition, is restricted by the **Pillar 2 capital requirement calculation** (additional capital requirements required by the supervisory authority) in respect of subsidiaries.
- Crossborder consolidation **generates a lot of decisions** by the supervisory authority – approval of a merger and/or qualified holdings, decisions on own funds, liquidity, leverage, use of internal models.
- Crossborder transactions can **involve several European and national authorities**, which can have an effect on operation timelines.
- Crossborder consolidation generates **restructuring risks** and transaction costs. Supervisors tend to consider that they temporarily impair the risk profile of the banks, which has an impact on Pillar 2 requirements and the assessment of internal models or operational risk.
- After a crossborder transaction, **recovery and resolution plans** become more complex and have to be updated.

What needs to be done

Need to complete the Banking Union second pillar

The Single Resolution Mechanism (SRM) is still incomplete.

1 - The common backstop to the Single Resolution Fund is the key.

- The euro area agreement on the backstop reached on the 29th of June is a crucial first step.
- Two key issues remain:
 - how to fund the backstop at a sufficiently high level to be credible,
 - how to create a swift decision-making process to deal with emergencies
- The euro area also needs a system for providing liquidity to financially sound banks after resolution

2 - Need a framework in case of liquidation

Need to foster trust between home and host countries

To ensure an effective resolution regime in Europe, one should consider possible solutions to tackle the lack of trust between home and host authorities:

- The banking Union has strengthened the European cooperation for supervision and resolution. This framework should now fully deliver confidence that there will be no national/home bias, thanks to a centralized power
- Joint decisions on the adoption of resolution plans and of MREL requirements: these are binding obligations which force to find a common approach
- **Confidence of host Member states can be ensured by more robust ex-ante arrangements: intra-group arrangements could be requested to reinforce the protection given by the parent banks to their subsidiaries**