

**FSB**

FINANCIAL  
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# **Resolution (R)evolution**

## **Where have we come from?**

## **Where might we go?**

**Eva Hüpkes**  
**(via videoconference)**

**International Conference on Deposit Insurance and Bank  
Liquidation: Standards, Best Practices and Innovations**  
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# Disclaimer

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The views expressed in this presentation are the speaker's and do not necessarily represent those of the FSB or its members.

# In a nutshell

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- The **global financial crisis** exposed the “too big to fail” problem
- **Addressing TBTF : a two-pronged strategy.**
  - Reducing the probability of failure for such firms
  - Reducing the impact of failure should failure nevertheless occur by strengthening the authorities’ ability to put complex firms into resolution
- **Significant progress** in making banks resolvable and first test cases
- Continued and sustained efforts needed

# Timeline



## 2009 Pittsburgh Summit

G20 call for action to address TBTF



## 2011 Cannes Summit:

G20 endorse the Key Attributes as new international standard



## 2013 St Petersburg Summit:

G20 call for action to ensure loss-absorbing capacity of G-SIBs in resolution and cross-border recognition



## 2015 Antalya Summit

Final TLAC standard



## 2017 Hamburg Summit

...finalising Guidance on CCP resolution

## 2010 Seoul Summit:

G20 endorse the FSB SIFI framework to reduce probability and impact of SIFI failure



## 2012 Los Cabos Summit

G20 commit to implementation of the Key Attributes, resolution planning and cooperation agreements for all G-SIFIs



## 2014 Brisbane Summit

G20 welcome proposals on TLAC and action on cross-border resolution stays



## 2016 Hangzhou Summit

Shifting the focus on resolvability of CCP – critical nodes of the financial system

# Achievements to date

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- Adoption of **resolution regimes** that broadly align with the Key Attributes in many jurisdictions
- Establishment of **resolution authorities in G-SIB home and key host jurisdictions** with **powers and tools** to resolve systemic firms
- A **new paradigm** built around **resolution planning** through **Crisis Management Groups** underpinned by **institution-specific Cooperation Agreements** and conduct of regular **resolvability assessments**
- Increased **loss-absorbing and recapitalization capacity**
- **Alignment of business model and resolution strategy** through ex ante identification of resolution entities, rationalization of legal entity structures
- **Regular G-SIB resolvability monitoring**

# Status of Implementation (Aug 2018)

| FSB Jurisdiction | Existence of administrative resolution authority | Powers to undertake a transfer (including a portfolio transfer) | Powers to establish a temporary bridge institution | Powers to administer existing insurance contracts and fulfil obligations (including run-off) | Power to impose temporary stay on early termination rights | Powers to restructure, limit or write down insurance and reinsurance and other liabilities | Existence of privately-financed policyholder protection schemes or resolution funds |
|------------------|--|---|--|--|--|--|---|
| Argentina        |  |   |  |  |  |  |   |
| Australia        |  |   |  |  |  |  |   |
| Brazil           |  | (B)   | (B)  |  |  | (B)  |   |
| Canada           |  |   |  |  |  |  |   |
| China            |  |   |  |  |  |  |   |
| France           | 1  | 1   | 1  | 1  | 1  | 1  |   |
| Germany          |  |   |  |  | 1  | 1  |   |
| Hong Kong        |  |   |  |  |  |  |   |
| India            |  |   |  |  |  |  |   |
| Indonesia        |  |   |  |  |  |  |   |
| Italy            |  |   |  |  |  |  |   |
| Japan            |  |   |  |  |  |  |   |
| Korea            |  |   |  |  |  |  |   |
| Mexico           |  |   |  |  |  |  |   |
| Netherlands      |  |   |  | (B)  | (B)  | (B)  |   |
| Russia           |  |   |  |  |  |  |   |
| Saudi Arabia     | (B)  | (B)   | (B)  | (B)  | (B)  | (B)  | (B)   |
| Singapore        |  |   |  |  |  | (B)  |   |
| South Africa     | (B)  | (B)   | (B)  | (B)  | (B)  | (B)  |   |
| Spain            |  |   |  |  |  |  |   |
| Switzerland      |  | 1   | 1 (B)  |  | 1 (B)  | 1 (B)  |   |
| Turkey           |  |   |  |  | (B)  |  |   |
| UK               |  | *   |  | *  |  | *  |   |
| US               |  |   |  |  |  |  |   |

Current status of implementation

|  |   |
|--|---|
|  | Implemented   |
|  | Partially implemented (all elements in the KA provision are satisfied but powers/requirements can be exercised only in limited circumstances) |
|  | Not implemented (some or all of the elements in the KA provision are not satisfied)   |

|   |   |
|---|---|
|   | Cells highlighted in bold indicate a colour change from the 2017 report.  |
| A | Reforms agreed (final legislation or rule approved) but not yet in force  |
| B | Reforms under development (policy proposals published or issued for intra-governmental consultation, draft legislation submitted to legislative body or rule-making process initiated under existing statutory authority) |

# 2019 Peer review findings

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- [FSB Peer Review on Resolution Planning](#) published on 29 April
- Jurisdictions are **at differing stages of readiness** in terms of
  - establishing a legal framework that supports resolution and
  - resolution authorities implementing the detailed policies that bring it to life.
- Jurisdictions have tailored the scope of their resolution planning or intensity of requirements to size and systemic importance (**‘proportionality’**)
- **Important work remains** to ensure that bank resolution plans can be put fully into effect and sets out recommendations:
- **The FSB will undertake further work to support authorities’ resolution planning**, including for banks other than G-SIBs that could be systemic in failure.

# Resolution Challenges



# Resources

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**Loss absorbing capacity** - overall amount, form and location (i.e. intragroup distribution) of financial resources that would be bailed in (written down or converted) in resolution.

- [FSB's standard on Total Loss Absorbing Capacity](#)

**Funding in resolution** – access to temporary liquidity in resolution to fund assets and cope with liquidity outflows.

- [2016 Guiding Principles on the temporary funding needed to support the orderly resolution of a global systemically important bank](#)
- [2018 Guidance on Funding Strategy Elements of Implementable Resolution Plans](#);

# Continuity

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**Operational continuity** – IT and other services need to be uninterrupted to support the continued provision of critical functions and services to bank customers and market participants.

- [FSB Guidance to support operational continuity in resolution](#), 18 August 2016.

**Access to FMIs** – to be maintained to support the continuity of payment, settlement, clearing and custody operations in resolution.

- [FSB Guidance on Continuity of Access to FMIs for a firm in resolution](#).

**Financial contracts** - authorities need stay powers to temporarily prevent counterparties from terminating contracts with a resolved bank. ISDA has developed a protocol under which firms contractually commit to respect a such stay powers in a cross border context.

- [ISDA 2015 Universal Stay Protocol](#)

# Resolution execution

**Bail-in execution** – the write down or conversion of liabilities and issuance of securities, or transfer of securities need to be made operational under applicable securities laws and exchange regulations.

**Valuations** –to determine

- whether a failing bank is non-viable
- the financial terms for a bail-in or other resolution action
- Any compensation due to any creditor that may be disadvantaged by the process (relative to the position if the bank had entered bankruptcy ('no creditor worse of compensation')).

**Accurate and timely data supported by effective methodologies, technology and governance.** Requirements around funding and valuation, and bail-in execution require granular monitoring of transactions and balance sheet positions.

- [FSB Principles on Bail-in Execution](#) and ongoing work
- [Discussion paper on solvent wind-downs of derivatives and trading portfolios](#) – for public consultation

# Governance

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**Effective governance, management and communications** with stakeholders are key to retaining the confidence and loyalty of staff customers, creditors, counterparties, regulators and other stakeholders.

- [Bail-in execution Guidance on communication](#)
- Ongoing work on regulatory approvals

**Effective cooperation between home and host authorities** to the establish confidence that an orderly and coordinated ('single point of entry' or 'multiple point of entry') resolution is achievable with appropriate resources available in adequate amounts where needed.

Inappropriate levels of pre-positioning may lead to insufficient **flexibility to allocate resources where needed** and lead to market fragmentation

- Ongoing review of the implementation of the TLAC standard –implementation review to be published early July
- Addressing Market fragmentation through enhanced cross-border cooperation – [FSB Report on Market Fragmentation of 4 June](#)



Randal K Quarles, FSB Chair and Vice [Chairman for Supervision](#)  
[Randal K. Quarles in a speech on 16 May 2018](#) stated:

“To enable cooperation and avoid a destabilizing seizure of assets by host regulators, I would submit that all jurisdictions must find a balance of *flexibility* for the parent bank and *certainty* for local stakeholders.

Flexibility, or the ability to allocate capital and liquidity to different parts of the group on an as-needed basis, helps to meet unexpected demands on resources and reduces the risk of misallocation and inefficient use of resources.

Certainty, or the local prepositioning of capital and liquidity to ensure a firm can satisfy local claimants under stressful conditions, helps to promote cooperation in the context of a cross-border resolution and avoid incentives for more drastic action by host authorities.”

# Disclosures

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- **Resolvability disclosures** should provide assurances to market participants that authorities and firms have the capabilities to support successful resolution actions.
  - In some jurisdictions, banks have to make critical assessments of their own resolvability, and authorities publish assessments of banks' resolvability (e.g., US, UK)
  - [FSB discussion paper on resolution-related disclosures](#) – for public consultation

# Market reactions

## From S&P Global Ratings, 4 April 2019:

### Government Propensity To Support: A Spectrum Of Possible Behavior

### Ramp-Up Of Bail-In Buffers Remains A Work In Progress



| Uncertain          |                      | Supportive       | Highly Supportive |                  |
|--------------------|----------------------|------------------|-------------------|------------------|
| <b>New Zealand</b> | <b>EU Countries</b>  | <b>Canada</b>    | <b>Australia*</b> | <b>Singapore</b> |
| <b>U.S.</b>        | <b>Liechtenstein</b> | <b>Hong Kong</b> | <b>Japan</b>      | China            |
|                    | <b>Norway</b>        | Brazil           |                   | India            |
|                    | <b>Switzerland</b>   | Mexico           |                   | Indonesia        |
|                    |                      | Russia           |                   | Korea            |
|                    |                      |                  |                   | Saudi Arabia     |

- Government remains supportive.
- Government support is uncertain, the resolution regime is effective, and we include ALAC uplift for some banks.
- Government support is uncertain, the resolution regime is effective, but we do not include ALAC uplift for any domestic banks.
- Government support is uncertain, the resolution regime is not yet effective.
- We have not yet made an assessment.



Notes: We assess other jurisdictions (such as Argentina, Iceland, South Africa, and Turkey) to be uncertain, largely due to our view of their inability to support, rather than just our view of their intentions.  
 Countries in bold already made substantial changes to their resolution framework.  
 This diagram is impressionistic only; there are no sub-categories within our three support classifications.  
 \*We are currently evaluating whether future changes to the Australian resolution framework could lead to a reassessment.

Source: S&P Global Ratings.  
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 Only the Bank for Social Finance continues to make slow progress to establish robust...

# Conclusions

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## **Resolvability** is

- Not binary
- a journey not a destination.
- an ambitious long-term objective that may overtime fundamentally reshape the way banks are structured, regulated, resourced and resolved.



[www.fsb.org](http://www.fsb.org)



[eva.hupkes@fsb.org](mailto:eva.hupkes@fsb.org)