

European Bank Resolution: Making it Work!

CEPS

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The institutional framework is largely in place



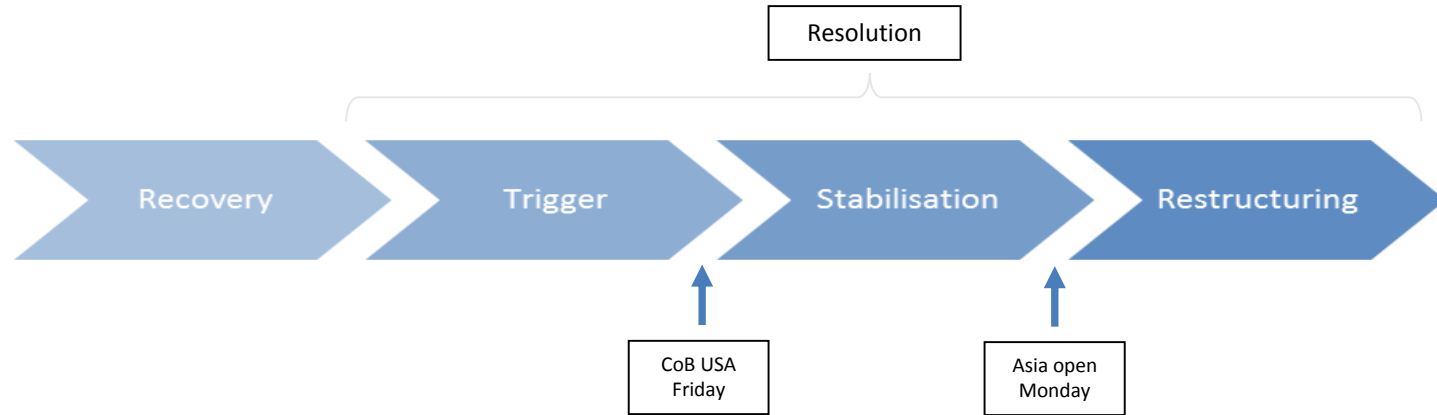
Home jurisdiction		Home resolution authority	Compliance with FSB key attributes	G-SIBs (Home)	Important as host
EU	Euro area	SRB/NRAs		8	✓
	UK	Bank of England		4	✓
	Sweden	Riksgälden		1	
Switzerland		FINMA		2	
United States		FDIC		8	✓
Japan		FSA		3	✓
China		PBC / CBRC		4	
Hong Kong SAR		HKMA	*	0	✓
Singapore		MAS	*	0	✓
Total				30	

* Following implementation of planned legislation in 2016.



The focus should now be on resolution planning

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Resolution planning needs to cover all three stages

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1. Pull the trigger promptly at point of non-viability

2. Stabilise the bank-in-resolution via “pre-pack”

3. Restructure to create a safe exit from resolution

- ▶ Set MREL so that bail-in can recapitalise bank if it has to enter resolution.
- ▶ Use recovery/runway to prepare necessary data
- ▶ Avoid forbearance,
- ▶ Start resolution at the end of the business day.
- ▶ Put in place all necessary approvals before pulling the trigger.
- ▶ Communicate plan clearly to all relevant stakeholders

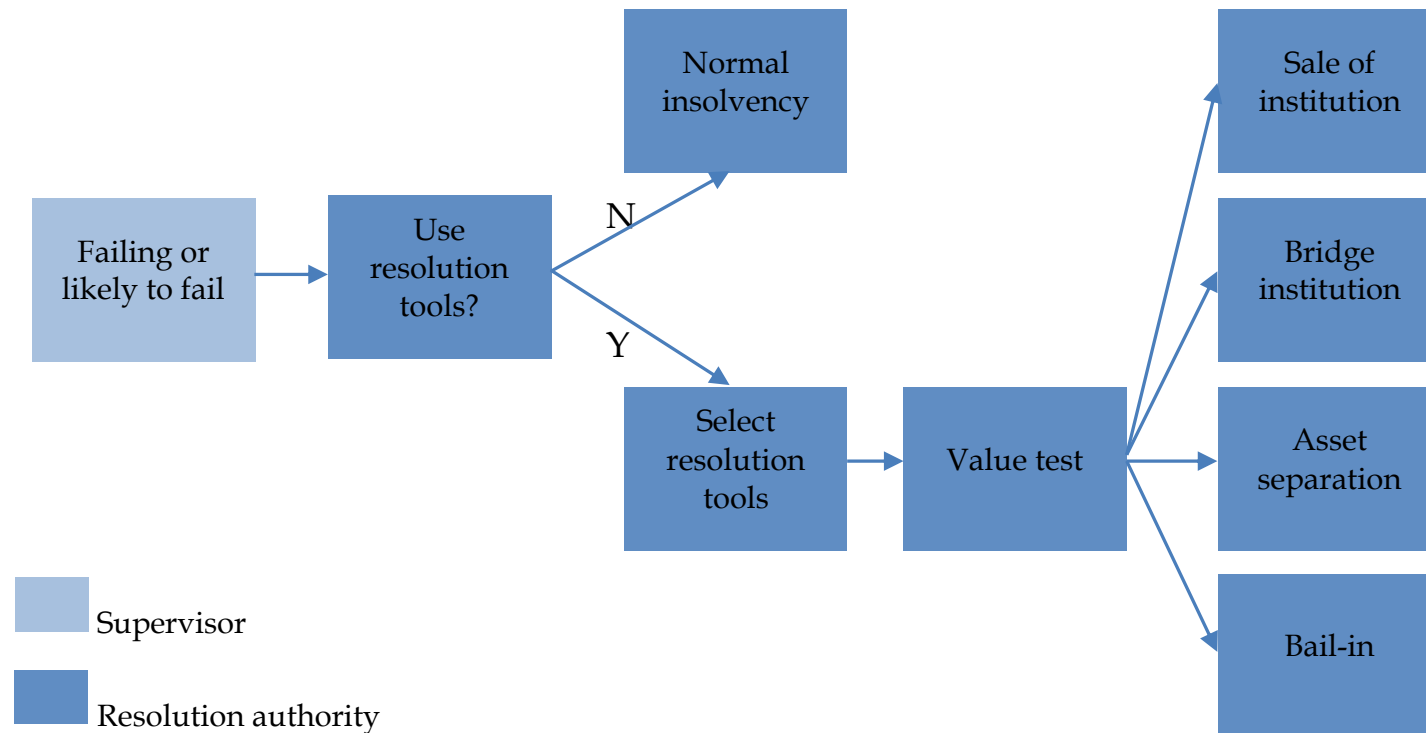


BRRD creates priorities under bail-in and MREL assures adequate investor capital to support recap

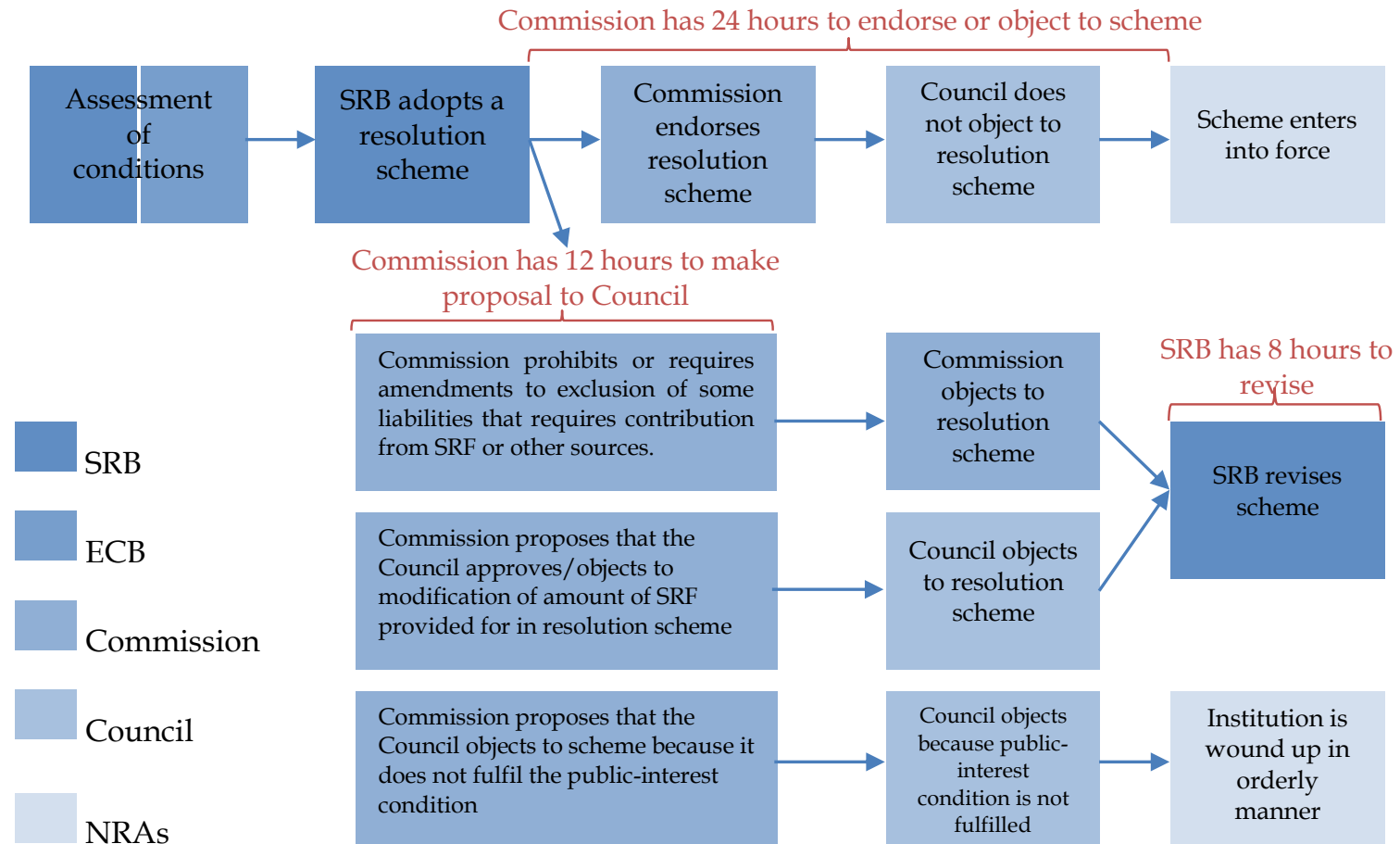
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Order of bail-in	Obligation	Eligible		Comment
		MREL	TLAC	
1	Common equity	●	●	Absorbs first loss
2	AT1	●	●	Capital instrument subject to write down or conversion at PONV (Basel III, CAD IV)
3	T2	●	●	Capital instrument subject to write down or conversion at PONV (Basel III, CAD IV)
4	Other sub debt	◐	◐	Other sub debt with remaining maturity greater than 1 year counts toward MREL
5	ST senior debt	○	○	Does not count as MREL or TLAC
	LT senior debt	●	◐	Counts as MREL (if RA does not exclude from bail-in) Counts as TLAC if subordinated to operating liabilities
	Derivatives	○	○	Net amount of derivatives is subject to bail-in, but such net amount does not count toward MREL
6	Uninsured deposits	◐	○	> 1 year remaining maturity: includable in MREL, if deposits of large corporations. Counts as TLAC if insured deposits have preference over uninsured
	Insured deposits	◐	○	Insured deposits are not subject to bail in, but DGS loss in liquidation may count toward MREL
	Secured obligations	○	○	Not subject to bail-in, not included in MREL, not included in TLAC

The process of “pulling the trigger” involves both the supervisor and the resolution authority



Adopting the actual resolution scheme is a complex process



Resolution planning needs to cover all three stages



1. Pull the trigger promptly at point of non-viability

2. Stabilise the bank-in-resolution via “pre-pack”

3. Restructure to create a safe exit from resolution

- ▶ Use bail-in to recapitalise bank.
- ▶ Preserve licenses and authorisations
- ▶ Stay QFCs
- ▶ Preserve access to financial market infrastructures
- ▶ Provide recapitalised bank with access to liquidity
- ▶ Continue critical economic functions



Resolution planning needs to cover all three stages

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1. Pull the trigger promptly at point of non-viability

2. Stabilise the bank-in-resolution via “pre-pack”

3. Restructure to create a safe exit from resolution

- ▶ Fully empower resolution authority to act as administrator
- ▶ Continue critical economic functions
- ▶ Act quickly with respect to sales of businesses or assets
- ▶ Create solvent wind-down as backstop plan
- ▶ Clarify rights of creditors to accelerate restructuring and help minimise liability under NCWO safeguard



Policy recommendations

CREATE CONSTRUCTIVE CERTAINTY

- ▶ Significant bank's crisis management group should develop and make known the "**preferred path**"
- ▶ Such preferred path should evidence cooperation and coordination **among authorities across borders**, and **reinforce with investors** that they are at risk

RESPECT THE MARKET

- ▶ For bail-in to work, investors need to know they will be subject to loss, what investment and the process by which it might be recovered
- ▶ The closer resolution gets to **normal insolvency procedures** the better the "back" end of the instrument will function, and the easier to place obligations with the "front" investors

MAINTAIN CONTINUITY

- ▶ In addition to requiring banks to take steps to maintain **continuity of services**, authorities should take steps to assure that a bank in resolution **retains its authorisation(s) and license(s)** and continues to have **access to FMIs**

LOOK AFTER LIQUIDITY

- ▶ Central banks should lend to solvent banks in viable condition on the basis of sound collateral. Banks reaching the PONV should be put into resolution, not given ELA
- ▶ Once the bank in resolution has been recapitalised, it should have the same access to central bank facilities as other banks



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