Resolving the big bangs – cooperation and coordination before and after things go wrong

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Why is this important for Africa?

• In many African countries, banking markets are dominated by the subsidiaries of cross border banks.

• Headquarters of cross border banks in Africa are found in Europe, North America, Asia and, increasingly, in other African countries.

• Many subsidiaries of cross border banks are systemically important in African banking markets.

• Some, but not all, are regarded as globally systemically important financial institutions (global SIFIs).
Existing resolution frameworks in Africa

Most African countries only allow cross border banks to take deposits if they are fully capitalised subsidiaries, incorporated in the local jurisdiction.

Bank resolution in Africa follows territoriality approach.

African bank regulators use tools available under national legislation.

In the event of financial distress of a subsidiary of a cross border bank, regulators would attempt to resolve it as a stand alone entity.
Drawbacks of the existing territoriality approach to resolution of cross border financial groups (CBFG)

• Inconsistency between allowing a CBFG to allocate its assets and liabilities at the global level while resolving it at the national level; gives regulators incentives to discourage cross border exposures

• Potential conflicts of interest between host and home regulators of CBFGs in cases where the CBFG is systemically important in the host market but not so in the home market

• Franchise value could be lost if a subsidiary is split from its parent bank, raising the cost of resolution

• Measures taken by regulators at the national level to protect creditors in their jurisdiction may exacerbate the distress of the entire banking group
Possible Solutions

• Universality approach may be optimal at the global level but does not appear to be feasible; there are too many potential conflicts of interest

• What can realistically be achieved?

  1. Measures to reduce the risk of a CBFG failing

  2. Strengthen national resolution frameworks and work towards international convergence

  3. Commitment among regulators in supervisory colleges to cooperate and consult when resolving banks at the national level
Measures to reduce the probability of a CBFG failing

• Strengthen supervisory colleges for CBFGs; extend them to all CBFGs

• Better and more timely sharing of information, especially from home to host regulators, to alert host regulators to impending problems

• Host regulators need a better understanding of the capacity and willingness of the parent bank to support a distressed subsidiary

• Strengthen resilience of global SIFIs, e.g. through systemic capital surcharge at the consolidated level and/or at the national level as appropriate
Strengthen national resolution frameworks

Basic requisites of bank resolution framework are well known (e.g. authority for early intervention before a bank is insolvent)

Implement recommendations of the Cross Border Bank Resolution Group for a convergence of national resolution tools and measures
Coordination of Resolution Measures in Supervisory Colleges

• Commitment among the members of supervisory colleges to:

1. Consult before implementing any intervention in a distressed subsidiary which might adversely impact the bank at the global level

2. Coordinate interventions where possible, e.g. timing of intervention in different subsidiaries

The efficacy of supervisory colleges to facilitate resolution of CBFGs has not yet been properly tested in a crisis