Resolving SIFIs – cooperation and coordination before and after things go wrong

Making SIFIs Resolvable

<table>
<thead>
<tr>
<th>Comprehensive resolution regimes and tools</th>
<th>• …to enable authorities to resolve firms without public funds and in a manner that preserves critical financial and economic functions.</th>
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<tbody>
<tr>
<td>Sustained recovery and resolution planning</td>
<td>• …to ensure that firms and authorities are prepared to handle severe distress or failure effectively.</td>
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<tr>
<td>Effective cross-border cooperation and coordination</td>
<td>• …to ensure that resolution regimes and tools work effectively in a cross-border context.</td>
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</table>
Progress so far...

• Clear trend towards special resolution regimes (SRR)...
  – administered by dedicated (administrative) resolution authorities
  – activated “pre-insolvency” (≠ balance sheet insolvency)
  – aimed at “public interest objectives” (financial stability)
    and focused on continuity (e.g., transfer powers, bridge bank, bail-in)

• …but limited progress in cross-border resolution frameworks
  – constraints on pre-crisis and in-crisis information sharing
  – limited scope and effectiveness of existing MoUs
  – No clarity on how to apply special resolution tools (e.g., bridge bank, transfers of assets and liabilities) in the context of cross-border groups
The trilemma

- Financial stability
  - Maintaining a stable global financial system

- Efficiency
  - Promoting efficiency in the operation of global markets

- Sovereignty
  - Respecting the sovereignty of individual countries
What are the options?

1. Do nothing („status quo“)
2. Operate through standalone subsidiaries and resolve nationally („national silos“)
3. Operate through branches and resolve as single entity according to principles of unity and universality („single entity approach“)
4. Conclude an international „treaty on the resolution of cross-border financial groups“
5. Adopt a mixed (institution-specific) approach
What consequences?

- Option 1 leads to massive value destruction caused by uncertainties about exposures, knock-on effects and loss allocation in resolution (or a bail-out)
- Option 2 does not suit all business models and negates the benefits of global finance
- Option 3 leaves host countries without defence
- Option 4 requires surrendering sovereignty
- Option 5 - a pragmatic solution?
Practical steps forward

FSB Recommendations (October 2010):

- Greater convergence of national regimes and tools around FSB Key Attributes
- Explicit mandates and capacity in law to cooperate across borders
- Institution-specific cross-border cooperation agreements and recovery and resolution plans (RRPs)
- Elimination of legal and other impediments to cross-border cooperation
Firm-specific agreements

Agreements to be drawn up by home and host authorities for all G-SIFIs and include

– roles and responsibilities of national authorities with respect to a specific institution

– commitments to continuously engage and consult (through sup colleges, CMGs)

– processes and practical steps for
  • assessing the robustness of the RRP s and G-SIFI resolvability
  • sharing information in “normal times” and “in crisis”
  • applying resolution tools to the institution “in crisis”
  • testing the contingency preparedness (crisis simulation) in “normal times”
• These steps should lead over time to
  – convergence of national resolution policies and tools
  – more resolvable SIFI structures
  – integration of resolution planning into regular supervisory oversight
  – greater trust among home and hosts
  – …and…
…a reduction in moral hazard that was at the root of the crisis if resolution is a viable option.
https://www.financialstabilityboard.org