

International Comparative of resolution frameworks

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01

The new resolution framework

Resolution: a new instrument to deal with failing banks

G-20 commitment in 2011

*“The new resolution framework should set out the responsibilities, instruments and powers to enable authorities to resolve failing financial firms in an **orderly manner**, by **protecting critical functions** and **without exposing the taxpayer to the risk of loss**”.*

Global banks need to be viable, albeit resolvable

Enough loss-absorbing liabilities (Loss-Absorbing Capacity)

Legal entity structures: clear and feasible mapping of interdependences

Operating model: operational continuity of shared services

➔ The FSB, in 2011, released a set of essential principles necessary for an effective resolution regime: The **Key Attributes (KA)**

FSB key attributes resolution features

Content of the Key Attributes

- 1 Scope
- 2 Resolution authority
- 3 Resolution powers
- 4 Set-off, netting, collateralisation,
- 5 Safeguards
- 6 Funding of firms in resolution
- 7 Legal framework conditions
- 8 Crisis Management Groups
- 9 Cross Border Cooperation Agreements
- 10 Resolvability Assessments
- 11 Recovery & Resolution planning
- 12 Access to information & information sharing

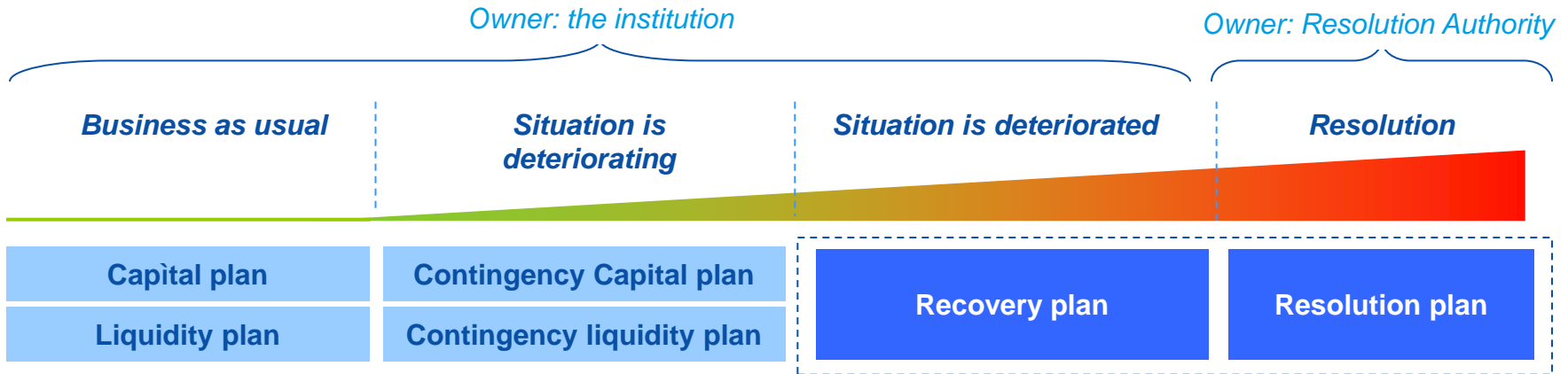
Goal

Providing robust alternatives , which allow financial institutions to fail safely, in a manner that protects financial stability and public funds.

Powers to intervene in a swift and decisive manner safeguarding financial stability and public funds

Pre-resolution phase is critical. PONV triggers resolution

Integration of the recovery and resolution plans with other management policies



Conditions for resolution

The institution is failing or likely to fail
(see next slide)

No private alternative

For public interest

An institution is failing or likely to fail when...

Breach prudential requirements

Assets less than liabilities

Unable to pay its debts

Extraordinary public financial support

01 The new resolution framework

Resolution authorities decide whether to resolve a failing bank and which resolution tools to apply

Conditions for resolution

The institution is failing or likely to fail



No private alternatives



For public interest



Resolution

Resolution tools

Sale of business

Bridge bank

Asset separation

Bail-in

01 The new resolution framework

Coordination among authorities is crucial to resolve cross border banks

Coordination framework

Based on common **resolution tools** and an obligation for authorities to consult and cooperate when resolving cross-border groups

Main elements

Resolution Colleges

Crisis management Groups & COAGs

Group resolution schemes
Home- host authorities relations

Relations with third countries
Cooperation Agreements

Implications

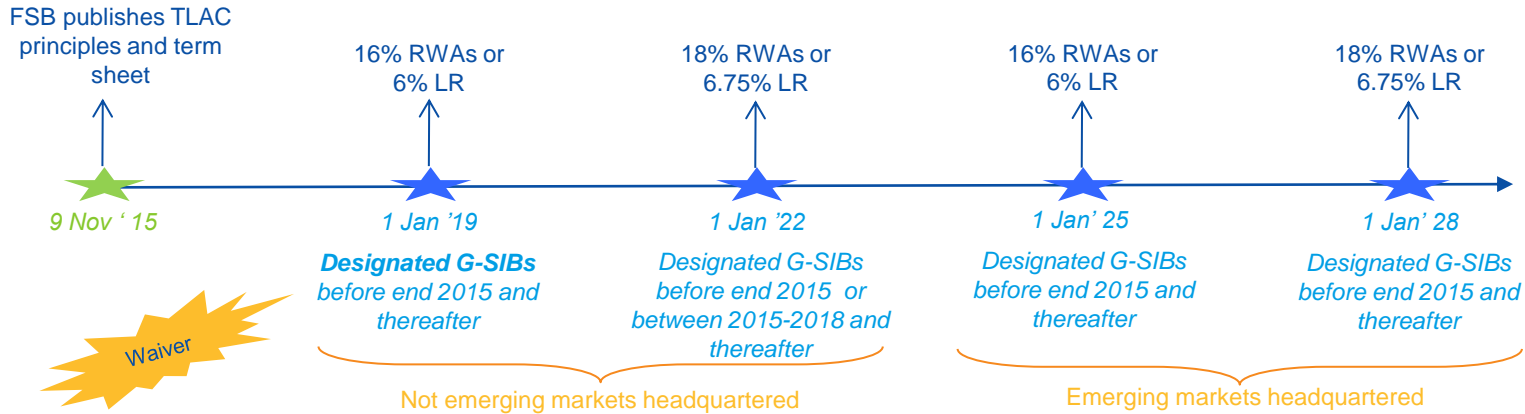
Efficient, timely decision making and cost containment

Increased cooperation and coordination among resolution authorities, supervisors and other authorities

Balancing interest of various member states, no unfair prejudice or protection to particular member states, no unfair burden allocation

01 The new resolution framework

TLAC's calendar and main features



Characteristics

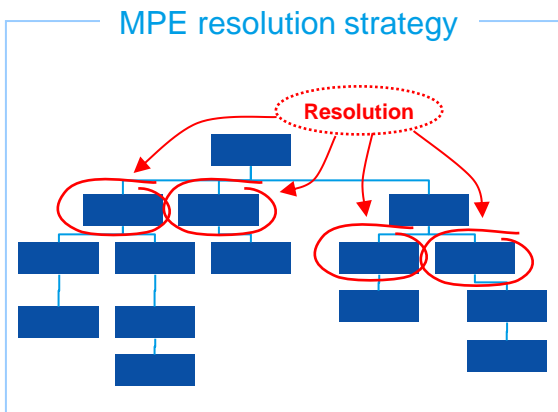
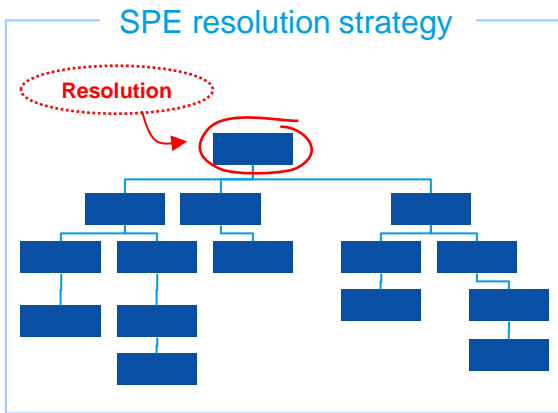
1	Scope	<ul style="list-style-type: none"> FSB' G-SIBs
2	Eligible instruments	<ul style="list-style-type: none"> Common Equity Tier 1, Additional Tier 1, Tier 2 and senior subordinated debt
3	Subordination	<ul style="list-style-type: none"> 3 types of subordination allowed: contractual – structural – statutory (but clearly benefits structural subordination)
4	Allocation	<ul style="list-style-type: none"> External TLAC: MPE & SPE; Internal TLAC: SPE

02

Resolution strategies

02 Resolution strategies

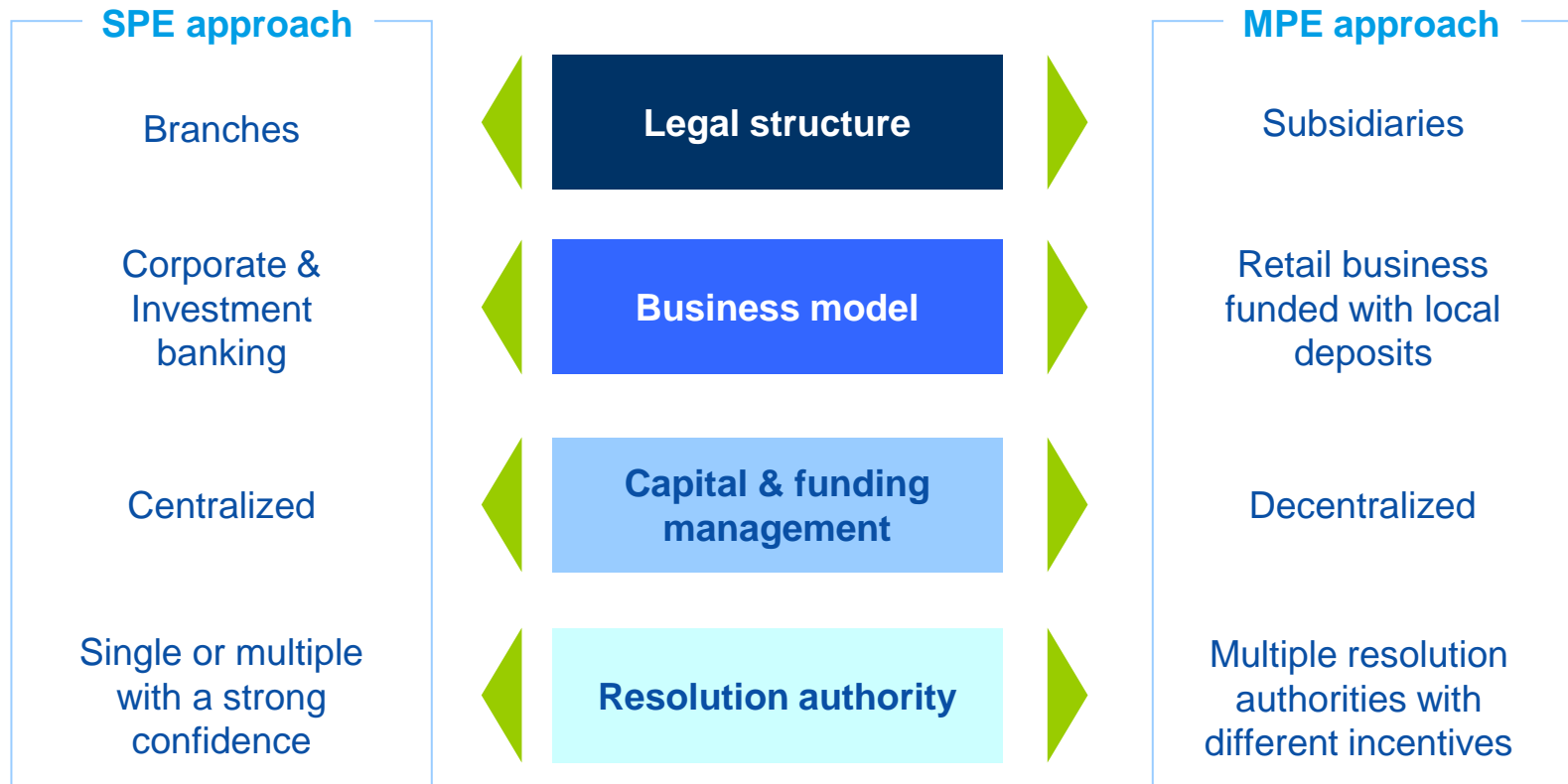
Banks can choose among two resolution strategies: SPE or MPE



	Single-Point-of-Entry	Multiple-Point-of-Entry
Point-of-entry	Parent - failure the consolidated Group	Subsidiary – failure individual subsidiaries
Resolution powers	Home authority – parent	Host authority – subsidiary
Authority role	Home – Global executor Host – Secondary executor	Home – Coordinator & local executor Host – Executor (local)
Losses / bail-in	Upstream losses – downstream support	Local losses – parent voluntary support
TLAC placed to third investors	TLAC at parent level	TLAC at individual level
Legal structure	Branch and subsidiary	Subsidiary
Operational services	Centralized but independent	Decentralized – operational subsidiarization

02 Resolution strategies

The choice between SPE or MPE depends on each firm's characteristics



However the resolution strategy is not a binary option. Thus, an **hybrid resolution scheme** is also possible

03

International comparison

03 International comparison

Different worldwide implementations of the resolution regimes

Each jurisdiction is in a different stage

	Global	EU	USA	JAPAN	LATAM
Legislation	FSB Key Attributes	BRRD & SRM	Dodd – Frank Act	Special Resolution Regime I & II	Each country has different legislations
Main Features	<ul style="list-style-type: none"> • Core elements for resolution regimes to ensure firms can fail in an orderly manner 	<ul style="list-style-type: none"> • Recovery & resolution plans • Bail-in tool • Single Resolution Mechanism • Single Resolution Fund • MREL 	<ul style="list-style-type: none"> • Resolution plans • Bridge bank & bail-in tool • Orderly Liquidation Fund (OLF) with a public backstop • TLAC 	<ul style="list-style-type: none"> • Recovery and Resolution regimes • Bridge bank & bail-in tool • TLAC 	<ul style="list-style-type: none"> • Deposit Guarantee Schemes play a significant role • No resolution regimes nor TLAC yet • Less pressure to adopt Key Attributes because not affected by recent financial crisis

03 International comparison

Countries that have adopted the KAs: differences

	USA	EU	UK	Switzerland	Japan
Compliant with FSB's Key Attributes?	✓	✓	✓	✓	✓
Loss absorbing requirement	TLAC	MREL	MREL	TLAC	TLAC
Scope	US G-SIBs and subs. Of foreign G-SIBs	All banks	All banks	Swiss G-SIBs	Japanese G-SIBs
Sizing	Minimum requirement	Case-by-case	Case-by-case	Minimum requirement	Minimum requirement
Subordination	Structural	Statutory/Contractual	Structural	Structural	Structural
Entry into force	1 Jan 2019	1 Jan 2019 (G-SIBs). Rest: case-by-case	1 Jan 2019 (G-SIBs). Rest: 2020-2022	1 Jan 2019	1 Mar 2019
Goldplating vs TLAC Term Sheet	<ul style="list-style-type: none"> Higher long term debt requirement No phase-in period Stricter eligibility 	<ul style="list-style-type: none"> Applicable to all banks Stricter eligibility (proposal) 8% loss absorption before public funds 	<ul style="list-style-type: none"> Applicable to all banks Stricter eligibility (proposal) 8% loss absorption before public funds 	<ul style="list-style-type: none"> Higher overall requirements Higher AT1 requirements 	

03 International comparison

“Resolution regimes” in Latam: a work-in-progress

	EU	Colombia	Mexico	Brasil	Chile	Argentina	Peru	Uruguay	Paraguay	Venezuela	Panama	
Scope	ALL financial entities in 28 Member States	ALL Financial Entities	ALL Financial Entities	ALL Financial Entities	ALL Financial Entities	ALL Financial Entities besides FMIs	ALL Financial Entities	ALL Financial Entities	ALL Financial Entities	ALL Financial Entities	ALL Financial Entities	
“Resolution Authority” (Central bank, Supervisor or Independent body)	Independent Body (SRB)	Supervisor (SFC) and Independent body (FOGAFIN)	Independent Body (IPAB)	Central Bank (BCB)	Supervisor (SBIF)	Central Bank (BCRA) + Independent body (SEDESA)	Supervisor (SBS) + Independent body (FSD)	Independent Body (COPAB)	Central Bank (BCP) + Independent body (FDG)	Independent body (FOGADE)	Supervisor (SBP)	
Recovery Plan	Yes, bank	?	Yes, bank	Yes, bank	?	Yes, bank	?	Yes, bank	?	Yes, bank	?	
Resolution plan	Yes, RA	?	?	?	?	Report information	?	?	?	?	?	
Trigger for resolution	Capital, Liquidity ratios	Capital, Liquidity ratios	Capital ratios	None (BCB discretion)	Capital ratios	None (BCRA discretion)	Capital ratios	None (BCU discretion)	Capital ratios	Capital, Liquidity ratios	?	
Resolution Tools	Sale assets	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	Bridge bank	✓	✓	✓	✓	✗	✓	✗	✓	✓	✓	
	Asset separation	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	Liquidation	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	Bail-out	✗	✓	✗	✓	✗	✗	✓	✗	✓	✗	✓
	Bail-in	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Resolution Fund	SRF & national funds	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	
DGS	National	FOGAFIN & FOGACOOOP	IPAB	FGC	None! But State Guarantee	SEDESA	FSD	COPAB	FDG	FOGADE	None!	
DGS in resolution	YES	YES	YES	YES	N/A	YES	YES	YES	YES	YES	N/A	



ANNEX

US TLAC

What is it?

- After more than a year since the publication of its proposal (Oct'15), on Dec 15th 2016 the Fed released its final TLAC & LTD rule.
- The rule transposes the FSB's TLAC in the US, with **additional requirements** (LTD, 50% eligibility if maturity under 2 years...)

Main changes compared to proposal

- **Internal TLAC of foreign MPE G-SIBs is no longer mandatory**
- Some requirements are lowered compared to the proposal)
- LTD **Grandfathering** (waives requirements of i) no acceleration clauses and ii) governed by US law) of issuances done before 31 Dec. '16 until their maturity
- Internal LTD changed* so that it is treated as debt rather than equity for tax purposes

Scope and calendar

- Applies to **US G-SIBs and to IHCs of foreign G-SIBs** with more than \$50bn US assets
- G-SIBs are determined as per BCBS or as per Board's capital rules (method 1)
- Mandatory **from 1 Jan 2019 at "fully loaded level" (no phase-in in 2022)**

The final US TLAC & LTD rule is more lenient than the proposal

*main changes: LTD is not subject to cancellation, "some or all" may be converted into equity and acceleration and subordination as per external LTD. No grandfathering

US TLAC (cont.)

		RWA	Leverage ratio exposure	Avg. Total consolidated assets
US G-SIBs	TLAC	18% + buffer	7.5% + buffer 9.5%	
	Of which LTD	6% + G-SIB surcharge	4.5% + buffer	
Foreign G-SIBs	TLAC	18% + buffer	6.75%	9%
	Internal TLAC	16% + buffer	6%	8%
	Of which LTD	6% 7%	2.5% 3%	3.5% 4%

- Proposal numbers in red
- US G-SIBs Buffer: 2,5% + G-SIB surcharge + Countercyclical buffer
- US G-SIBs Leverage buffer: 2%
- Foreign G-SIBs buffer: 2,5% + Countercyclical buffer




*main changes: LTD is not subject to cancellation, "some or all" may be converted into equity and acceleration and subordination as per external LTD. No grandfathering

UK MREL

- ▶ **First attempt to introduce both MREL and TLAC at national level in one ratio**
- ▶ **Uncertain final configuration because of Brexit**

Scope	<ul style="list-style-type: none"> • All UK Banks
Neutral	<ul style="list-style-type: none"> • MPE and SPE models are respected
Calibration	<ul style="list-style-type: none"> • Close to EBA's: Loss Absorption Amount (LAA) + Recapitalization Amount (RA) • BUT RA depends on bank's size and resolution strategy: 3 different types • No 8% floor
TLAC features	<ul style="list-style-type: none"> • Similar calibration for UK G-SIBs but still high level of discretionality • Similar eligibility for liabilities • Requires structural subordination • External/Internal MREL similar to External/Internal TLAC
Timing	<ul style="list-style-type: none"> • Enters into force in 2019 for G-SIBs and 2020 for the rest • Equal to minimum capital requirements until then (No additional requirement)

UK MREL: Three types of entities, three sizes of MREL

Insolvency	Partial Transfer	Bail-in
<p>Size</p> <p>< 40,000 – 80,000 transactional accounts</p> <p>MREL</p> <p>Min. Capital requirements only</p> <p>Subordination</p> <p></p>	<p>Size</p> <p>< £15bn – £25bn in TA (> 40,000 – 80,000 transactional accounts)</p> <p>MREL</p> <p>Min. Capital requirements + additional requirements in proportion to transferred balance sheet</p> <p>Subordination</p> <p></p>	<p>Size</p> <p>> £15bn – £25bn in TA</p> <p>MREL</p> <p>2 x Min. Capital requirements only – changes to post-resolution capital requirements</p> <p>Subordination</p> <p></p>

- TA = Total Assets
- Transactional accounts = current or payment accounts with at least 9 withdrawals over previous 3 months
- Minimum Capital requirements = Pillar 1 + Pillar 2A

TLAC /MREL: Other international implementations

- In April 2016 Japan and Sweden released their TLAC/MREL proposals
- Japan does not deviate much from current regulations. Sweden is much tougher

Japan's FSA approach to TLAC

- 1) **Applies ONLY to 3 G-SIBs** Mitsubishi UFJ, Sumitomo-Mitsui and Mizuho (all HoldCos & SPE)
- 2) Preferred strategy: **SPE**, preferred tool: **bridge bank and bail-in**. PONV announced by Prime Minister
- 3) **Same calibration as FSB's** term sheet (16-18% RWAs and 6-6,75% LR from 1/3/2019 and 1/3/2022)
- 4) 2,5 - 3,5% of external TLAC can be achieved with ex-ante commitments (i.e. Deposit Insurance Fund Reserves)

Sweden's Riskgälden approach to MREL

- 1) **Applies to every bank:** from **autumn 2017** onwards
- 2) **Calibration** : **LAA** = Total capital reqs. (excl. buffers & systemic risk of P2) + **RA** = Total capital reqs. or Basel I floor. Ej. 12% + 20% = 32%.
No Min. floor of 8% Total Assets requirement
- 3) **Minimum debt proportion:** equal to the RA: around **60%**
- 4) **Subordination and cross-holdings requirements:**
Yes but not yet defined