



WORLD BANK GROUP

Finance & Markets

Financial Sector Advisory Center (FinSAC)

Post crisis Bank Resolution

Key challenges in FinSAC client countries

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The post crisis bank resolution framework

Baseline

- Too Big to Fail; Traditional liquidation does not work for (systemic) banks

Key regulations

- FSB Key Attributes (2011) 
- EU Bank Recovery and Resolution Directive (BRRD): entered into force 1 January 2015 / obligatory statutory bail-in 1 January 2016

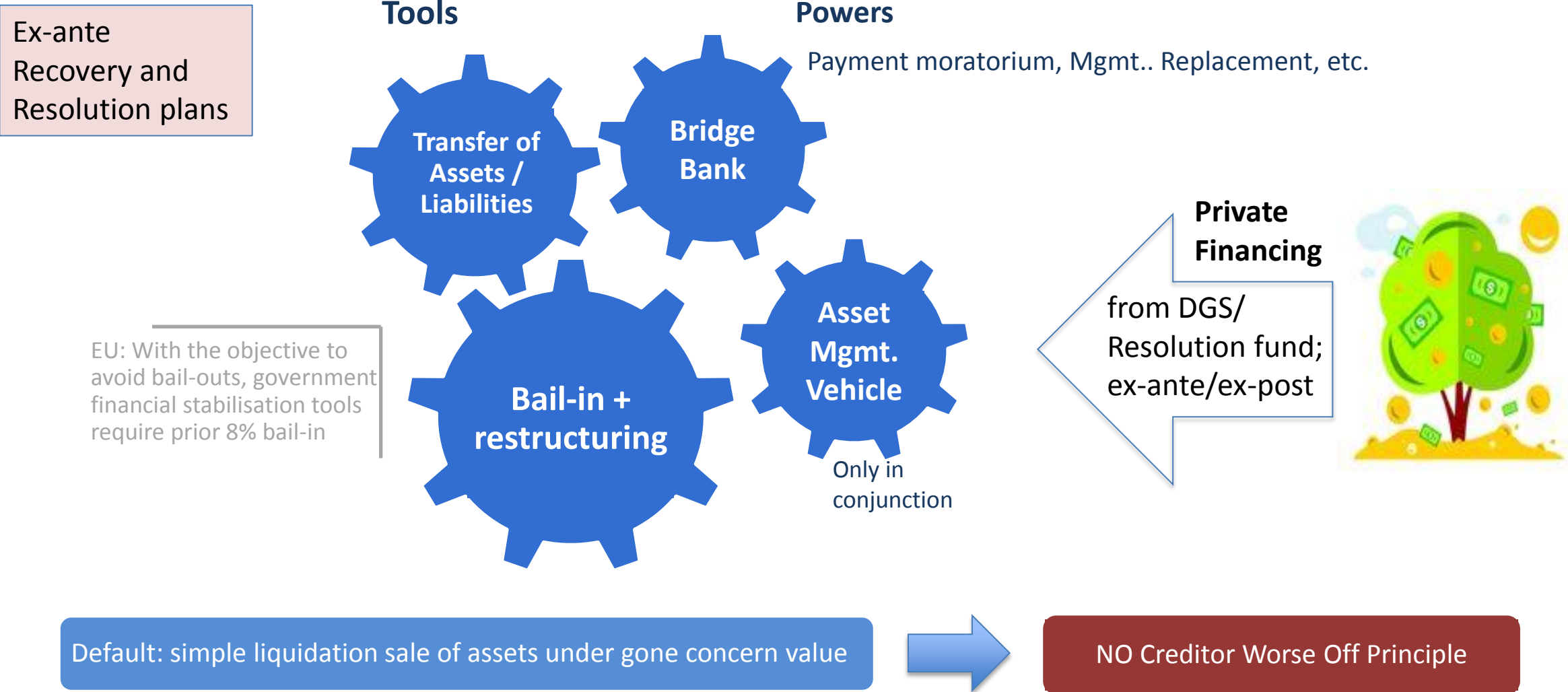
Key objectives

- Maintain financial stability by ensuring **continuity of critical functions**
- Ensure losses are borne by bank shareholders and creditors, not by taxpayers

Key elements

- **Enhance Early intervention measures and better preparedness** via Recovery and Resolution Plans
- **Banks contribute** to resolution financing arrangements to support the costs of restructuring
- **Strong powers and tools** for resolution authorities, **overriding rights of owners and investors**, to take fast action at an early stage (“Likely to fail”) and **allocate losses on owners and creditors also outside liquidation** (without closing the bank) via **Bail-in**
- Better cross border cooperation

Key Attributes minimum resolution toolkit and legal safeguards



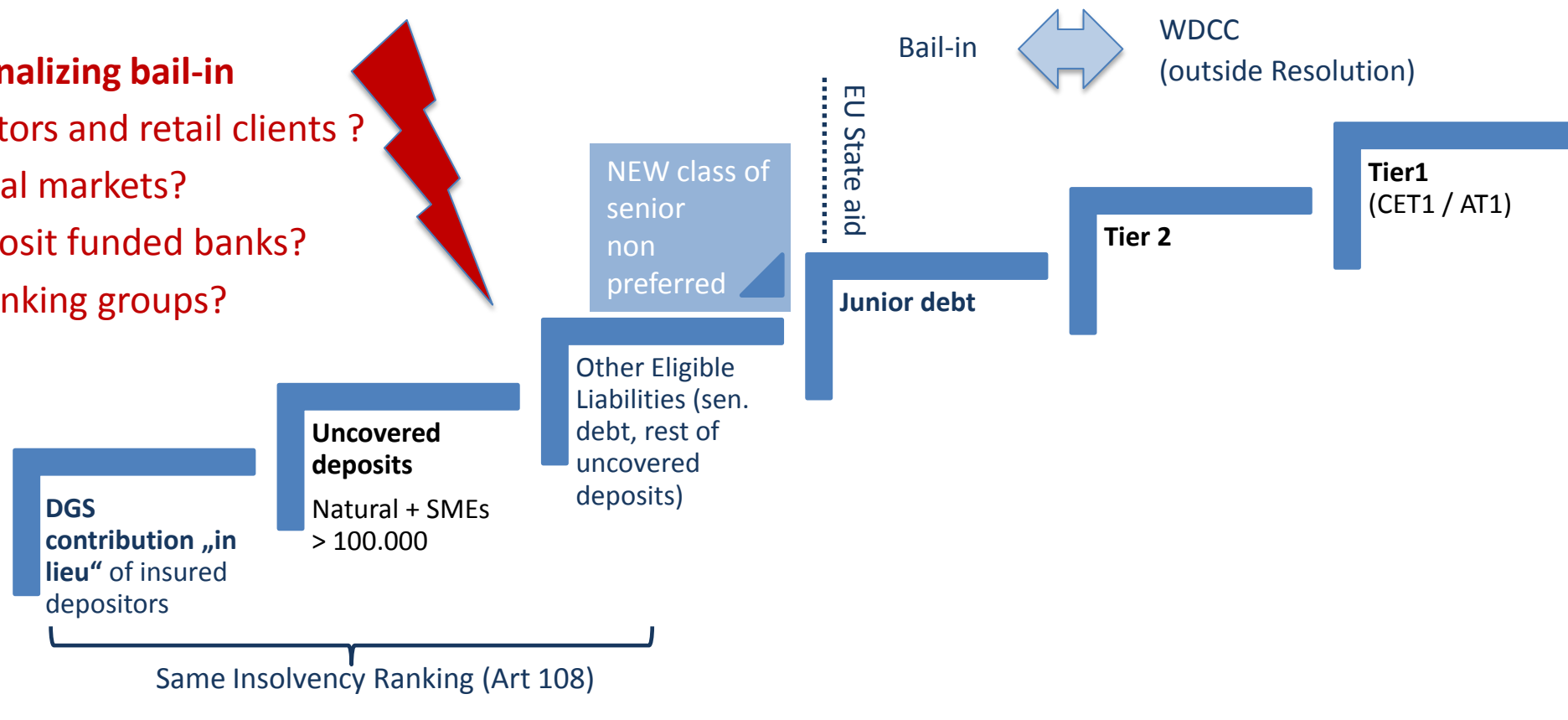
EU BRRD Bail-in Cascade: eligible liabilities and MREL

TLAC/ MREL: “high quality” loss absorbing capacity (LAC); own funds and liabilities that can credibly and feasibly be written down or converted into equity

Key challenges in operationalizing bail-in

- Bail-in of uninsured depositors and retail clients ?
- LAC in less developed capital markets?
- LAC for predominantly deposit funded banks?
- LAC within Cross border banking groups?

EXCLUDED: Secured debt (covered bonds), short term 7d interbank liabilities; Salaries, Tax,...



Key challenges [for FinSAC client countries]

➤ Fully operational administrative Resolution Authorities

- Staffing
- Separated from supervision but dependent on cooperation and information sharing
- Imbedded in broader financial stability framework

➤ Scope / Proportionality between Resolution and Liquidation

- Small versus big banks, same treatment of depositors/creditors: Level playing field, moral hazard
- P&A / Bridge Bank for all banks as a standard alternative

➤ Dependency on sound supervisory framework

- Strong early intervention powers
- Enhance usefulness and synergies of recovery and resolution planning

➤ Role of the judiciary

- Working judiciary to ensure effective and reliable implementation of resolution/insolvency law by the Courts; no duplication of economic assessment
- Prior 24hours formality check

Key challenges ctd. [for FinSAC client countries]

- **Access to Resolution Funding and use of DGS**
 - Dis/advantages of obligatory prior bail-in before use of funds and government support
 - Dis/advantages of super-preference of DGS and effects on use for resolution purposes
- **Ensure Liquidity including ELA availability** during resolution for the restored/bailed-in bank
- **Operationalisation of bail-in**
 - Legacy issues: MREL first then Bail-in
 - High level of DGS coverage facilitates bail-in
 - Contribution of DGS depends on insolvency ranking of DGS in lieu of insured depositors (super-preference in the EU)
 - LAC from parent regardless of group MPE/SPE strategy?
 - LAC depending on resolution strategy ?
- **Resolution Valuation / Evidence for the No Creditor Worse Off Test**
 - Lack of (historical) data for lesser cost than liquidation test; no market price, etc.

Thank you !

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Annex 1: Loss stacking order / Bail-in ≠ MREL under the BRRD

Instruments	Bail-in	Loss stacking-order	MREL / TLAC
CET1	✓	1 ^o	✓
AT1	✓	2 ^o	✓
Tier 2	✓	3 ^o	✓
Subordinated debt < 12 months	✓	4 ^o	✗
Subordinated debt > 12 months	✓	4 ^o	✓
Senior non-preferred < 12 months	✓	5 ^o	✗
Senior non-preferred > 12 months	✓	5 ^o	✓
Senior unsecured debt < 12 months	✓	6 ^o	✗
Senior unsecured debt > 12 months	✓	6 ^o	✓
Derivatives	✓	6 ^o	✗
Deposits by credit institutions and corporates			
Financial institutions <7 days	✗	6 ^o	✗
Financial institutions <12 months	✓	6 ^o	✗
Financial institutions > 12 months	✓	6 ^o	✓
Corporates (no DGS) < 12 months	✓	6 ^o	✗
Corporates (no DGS) > 12 months	✓	6 ^o	✓
Deposits with specific characteristics			
Employees	✗	6 ^o	✗
Critical services liabilities	✗	6 ^o	✗
Fiduciary deposits	✗	6 ^o	✗
Tax	✗	6 ^o	✗
SME/Retail (no DGS)	✓	7 ^o	✗
DGS covered deposits	✗	8 ^o	✗
Central Banks and public administration	✗	-	✗
Secured: covered bonds	✗	-	✗
Secured: securitizations	✗	-	✗
Secured: repos	✗	-	✗

Annex 3: MREL and the Group resolution strategies: SPE / MPE and Internal / External MREL

