FSB work on cross-border resolution

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Panel “Insolvency of large and complex financial institution”
Fourth International Insolvency Law Colloqium
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Outline

What has been achieved so far?

• The FSB Policy framework to address “too big to fail”
• Resolution vs. bankruptcy
• The Key Attributes of Effective Resolution Regimes for Financial Institutions

Making cross-border resolution work?

• Cooperation and information sharing
• Crisis management groups and institution-specific cooperation agreements
• Resolution planning
• Resolvable structures
• Recognition (contractual and statutory approaches)
FSB Policy Framework to end “too big to fail”

2010 G20 Seoul Summit
“FSB Recommendations to reduce moral hazard risk of SIFIs”

2011 G20 Cannes Summit
“FSB Policy measures to address systemically important financial institutions”
“FSB Key Attributes of Effectives Resolution Regimes”

Initial list of G-SIFIs

2012 G20 Los Cabos Summit
Commitment to implement policies
Updated list of G-SIFIs

2013 St Petersburg Summit
FSB Report on “Ending TBTF”

2013

2014 Brisbane
“Completing the job”
The FSB Key Attributes

Scope – all types of financial firms that could be systemic

Designated resolution authority with financial stability objective

Resolution powers including transfer powers, “bail-in”, bridge bank…

Enforceable, set-off netting, collateralisation, segregation

Safeguards ("no creditor worse off", respect of creditor hierarchy…)

Funding and protection schemes

Capacity to cooperate and share information across borders

Crisis Management groups (CMGs)

Institution-specific cooperation agreements (COAGs)

Resolvability assessments

Recovery and Resolution Planning

Access to Information and Information sharing
Resolution powers and objectives

“protect vital economic functions through mechanisms which make it possible for shareholders and unsecured and uninsured creditors to absorb losses in a manner that respects the hierarchy of claims in liquidation” (Key Attributes Preamble)

<table>
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<tr>
<th>Bridge institution</th>
<th>Bail-in within resolution</th>
<th>Temporarily suspend early termination and cross-default rights</th>
<th>Temporary liquidity</th>
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<td>• To take over and continue operating certain critical functions and viable operations of a failed firm</td>
<td>• To achieve a creditor-funded recapitalisation of critical functions by way of a debt to equity conversion</td>
<td>• To avoid that large volumes of financial contracts frustrate create systemic instability</td>
<td>• To help stabilize the firm in resolution and avoid fire sales</td>
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Making cross-border resolution work

Cooperation and information sharing
- Powers to share information ex ante and in crisis
- Cross-border Crisis Management Groups (CMGs)
- Institution-specific cross-border cooperation agreements

Resolution strategies and plans
- Resolution planning within CMGs
- Identification of preferred resolution strategies
- Operational plans that implement the strategies

Resolvability
- Alignment of strategies and firm structures
- Single point of entry or multiple point of entry into resolution
- Regular resolvability assessments

Recognition of foreign resolution action
- Statutory processes to give effect to foreign resolution
- Contractual recognition temporary stay of termination rights
- Contractual recognition - bail-in by a foreign authority