

# Resolving SIFIs – the FSB policy framework

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## The issue

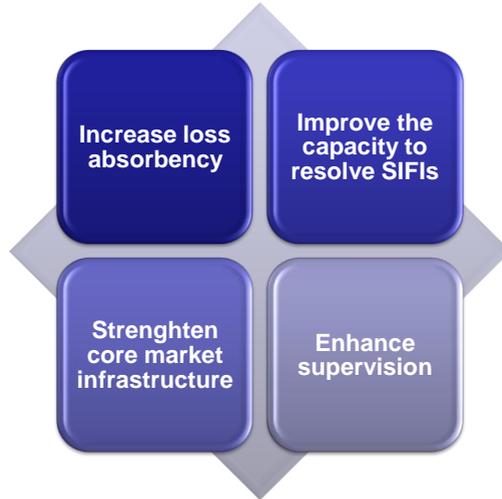


Was Lehman the last SIFI to fail?



G20 call for policies to end to «too big to fail»

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## Overview

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- G20 Leaders at the Pittsburgh, Toronto and Seoul Summits called on the FSB to set out more effective arrangements for the resolution of SIFIs
- FSB released a set of **draft Key Attributes of Effective Resolution Regimes** for public consultation in July 2011
- Final proposal for G20 November Summit

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## An effective resolution regime should

- Ensure continuity of critical functions
- Protect depositors and insurance policy holders, segregated client assets
- Allocate losses to owners and creditors, not taxpayers
- Avoid value destruction and minimize the overall resolution costs in home and host
- Provide for speed, transparency and predictability through legal and procedural clarity and advanced planning
- Provide a statutory mandate for cross-border cooperation, coordination and information exchange
- Ensure an orderly exit of nonviable financial institutions
- Be credible and provide incentives for market-based solutions

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# FSB Key attributes

## 1. Scope

- Financial institutions that are of or may become systemic taking into account firm's activities and sectoral differences

## 2. Resolution authority

- Operationally independent, but accountable administrative authority

## 3. Resolution powers

- Entry into resolution at point of non-viability
- Broad menu of resolution options, including business transfer, bridge bank and "bail-in within resolution powers"

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# FSB Key attributes (cont'd)

## 4. Set-off, netting, collateralisation, segregation

- Legal certainty, effectiveness and enforceability
- Exercise of resolution powers ≠ event of default
- Brief stay on the right to close-out financial contracts (*see FSB July 2011 Discussion Note*)

## 5. Safeguards

- Minimum recovery right "No creditor worse-off than in liquidation"
- Due process and judicial review

## 6. Funding

- Privately financed funding
- Ex post recoveries from industry

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## FSB Key attributes (cont'd)

### 7. Cross-border Cooperation

- Statutory mandate to cooperate and legal capacity to share information and to give effect to foreign resolution measures

### 8. Crisis Management Groups (CMGs)

- Home and key host central banks, supervisors, resolution authorities and finance ministries of global SIFIs to maintain CMGs

### 9. Institution-specific cross-border cooperation agreements

- To set out modalities for cooperation and information sharing among home and key host authorities in the recovery and resolution planning phase as well as in crisis (see *FSB July 2011 Essential Elements of institution-specific cross-border cooperation agreements*).

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## FSB Key attributes (cont'd)

### 10. Recovery and resolution planning

- Recovery and Resolution Plans (RRPs) at a minimum for all G-SIFIs (see *FSB July 2011 Elements of Recovery and resolution plans*)

### 11. Resolvability Assessments

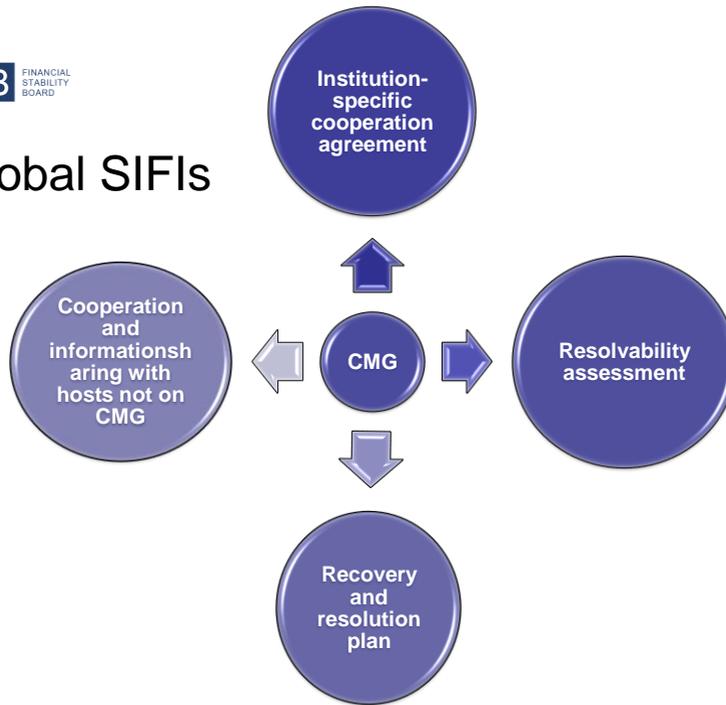
- To be undertaken for all G-SIFIs to evaluate the feasibility of resolution strategies and their credibility in the light of the likely impact of a SIFI failures (see *FSB July 2011 Resolvability Assessments*)

### 12. Access to information and information sharing

- Robust MIS that enable firms to produce up-to-date information on a timely basis
- No impediments to cross-border sharing of relevant information among authorities subject to appropriate confidentiality

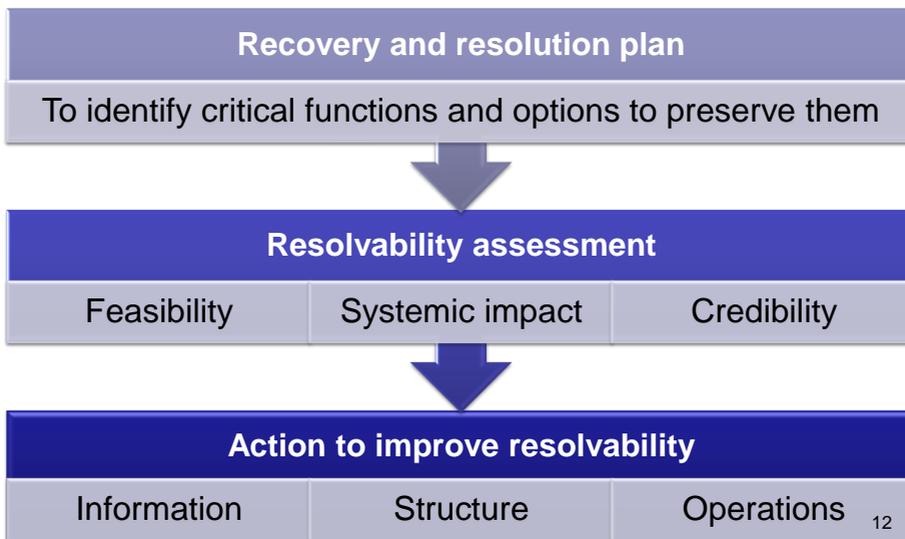
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## Global SIFIs



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## Improving resolvability



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## Conclusion

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- Do the proposed FSB Key Attributes go far enough? Some respondents to the public consultation want the FSB to be more ambitious
- FSB proposal
  - Creates convergent regimes and incentives for cooperation
  - Strikes a balance between home and host interests and global financial stability objectives