



International Centre for
Financial Regulation

Annual International Regulatory Summit

**Regulation Without Borders – G20 Ideals and National
Interests**

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Financial Regulation

Cross border crisis resolution

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An EU Framework for Cross-Border Crisis Management in the Banking Sector

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An EU Framework for Cross-Border Crisis Management in the Banking Sector

- European Parliament Report

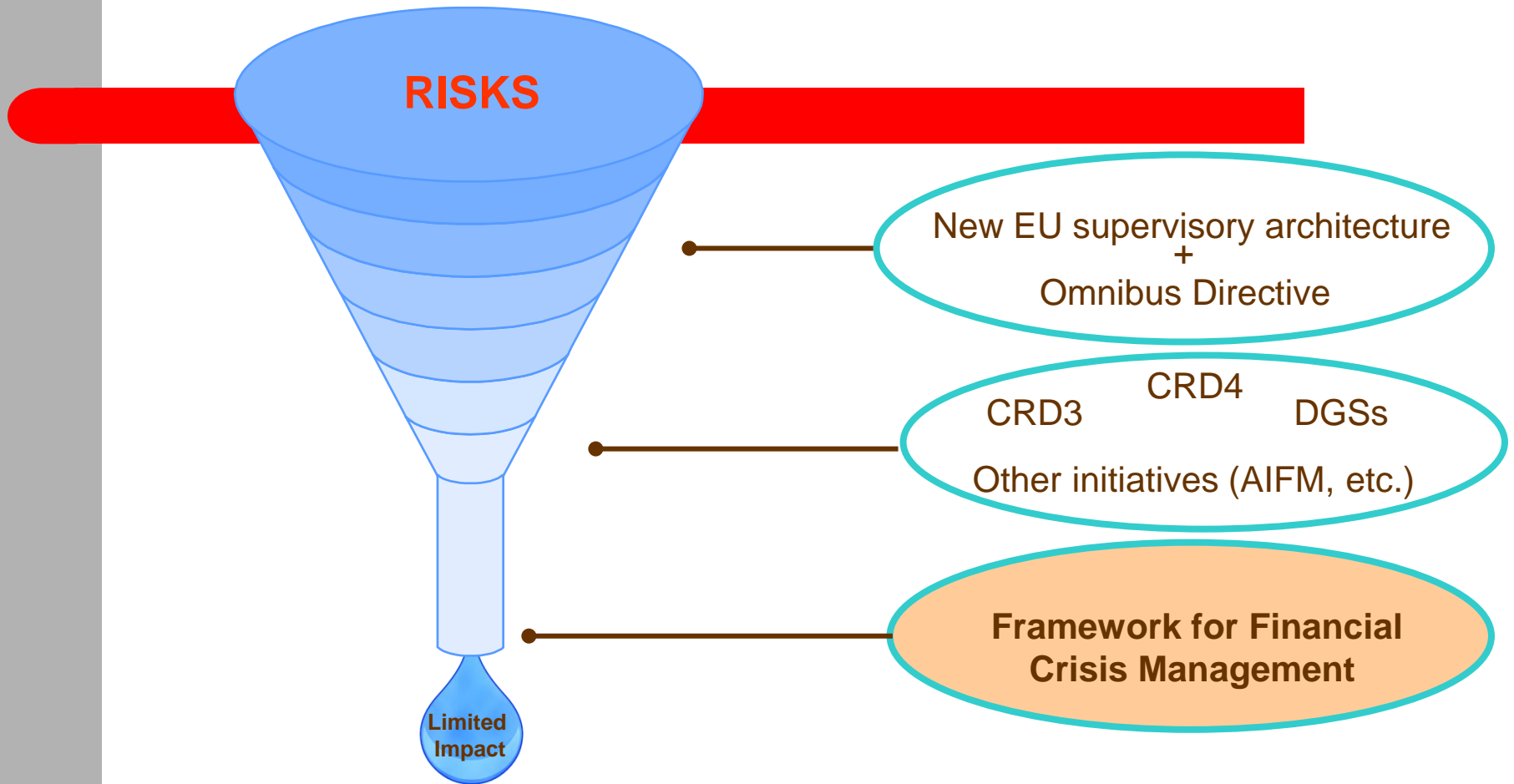
- Approved with an overwhelming majority and adopted on June 28 2010
- <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A7-2010-0213+0+DOC+XML+V0//EN&language=EN>

Context

- Final total **bill weighted too much on taxpayers, growth and jobs**
- **Existing mechanisms** for ensuring stability of the financial system **did not work**
 - EU did not provide a protective shield
 - 27 regulators, 27 ministries of finance = 54 points of view
 - Myriad of interventions and poorly coordinated
 - Protectionist behavior
 - Distortion of competition
 - Somewhat inefficient and ineffective
- That requires the EU institutions to act to:
 - **a) preserve financial stability**
 - **b) minimize the cost to the tax payers**
 - **c) protect depositors**

EU's leading role in designing the new global financial system

No silver bullet; multiple approaches towards a robust financial system



Multilayered initiatives to reduce probability of occurrence of crisis, their impact and cost

What we should aim for

- **Universal** coverage approach (as a target)
- **Industry responsible** for its own “pollution”
- **Limit contagion**
- **Limit moral hazard**; protect the system but not the delinquent
- **Protect depositors** and preserve basic banking services
- **Respect creditor hierarchy** and guarantee equal treatment across borders
- Safeguard **internal market** while recognizing national differences
- **Ambitious** vision without ignoring present constraints
- Enhance international **competitiveness of EU** financial market
- Affirm EU’s international **leadership** in redesigning a global framework

What we should aim for (cont.)

Present **constraints...**

- Persistent effects of the crisis
- Heavy public deficit and debt burden
- Unfinished EU supervision architecture and rulebook
- Impact on banks of increased requirements on capital, liquidity, DGS, etc.
- Insufficient mutual trust, amplified by the crisis

... demand a **phased approach...BUT...**

- **Change must start now**; the direction and timelines agreed
- **Fast track change** for large cross border and/or systemic institutions

Key elements of crisis management

A. A Common set of rules

- Clear governance and modus operandi of crisis management from early intervention to resolution and insolvency (including methodologies of supervision, triggers and tools for intervention)

B. Financial resolution vehicles (execution and funding)

- Financial resources to support interventions (quick, targeted and powerful enough)
- Technical staff capable of designing and implementing the required interventions

A. A Common set of rules

Who does what, when and how

- **WHO?**
- **WHAT?**
- **WHEN?**
- **HOW?**

B. Financial resolution vehicles

- A pan **European Stability Fund**
 - **Limit moral hazard**: possible options include restructuring or euthanasia
 - **Fully funded (ex-ante) by the banks** on a risk adjusted basis
 - Scope: **start with large cross border systemic institutions**, ultimately universal
 - **In addition to revised DGSs**
 - **Size** and **calendar** of implementation to be decided
 - An extra layer of capitalization of the system: can contributions count for **total capital ratios**?
 - Funds reinvested into the system in safe and liquid assets
 - Professional management (appointed by EBA)
- An **EBA Resolution Unit**
 - A unit with **expertise** in restructuring, turnarounds and liquidation
 - Management to be **appointed by EBA**
 - A clear **mandate to act**

Fast track change for “cross-border banks”

WHY?

Large cross border and/or systemic institutions:

- Less than 50 banks (out of 12,000 in the EU) **represent 70% of banking assets**
- High complexity, size and interconnectedness **create high systemic risk**
- Conglomerate nature **sends shockwaves** across multiple financial subsectors

For all the above reasons:

- This subset should **fall immediately under the supervision of EBA**
- EBA to organize with colleges of regulators and cross border stability groups institution by institution **resolution plan meetings**
- **Single set of rules** (supervision criteria and methodologies, triggers and intervention toolbox)
- Under normal circumstances, EBA to **act through the local supervisors**
- Interventions **handled by the Resolution Unit**
- **Join the Stability Fund**

The roadmap

Today

Absence of supervisory coordination for interventions across borders

Absence of common rules

Variety of last resort intervention agents

Absence of financial resources segregated for crisis management

Intermediate phase

Enhanced cooperation between colleges, cross border stability groups and EBA
Fast track for large cross-border and/or systemic institutions.

Aligned approach between supervisors and EBA.
Accelerated single rulebook for large cross border and/or systemic institutions.

Professional Resolution Unit working in network with local supervisors

Gradual contribution by Banks to an European Stability Fund (limited to large cross-border and/or systemic institutions)

A vision

A pan European supervision architecture

Single rulebook across the EU (universal coverage)

Pan European Resolution Agency

Fully (privately) funded (ex-ante) pan european Stability Fund (universal coverage)

Conclusion

- Seize the momentum
- COM Calendar
 - **Proposal for a Directive on crisis management - Spring 2011**
 - **Report to the Council and European Parliament - End 2011**
 - **Insolvency - Report to the Council and European Parliament, coupled, if appropriate, by legislative proposal – End 2012**
 - **Integrated resolution for cross-border banking groups - To be considered alongside the review of the EBA Regulation - 2014**
- Phased approach
- European solutions
- Forward looking but realistic and balanced approach (create a clear and robust framework, but take into account possible burden on the industry)