

FSI-IADI Seminar on Bank Resolution, Crisis Management and Deposit Insurance Issues

Basel, Switzerland, 9–11 September 2014

1. Introduction

International Association of Deposit Insurers (IADI) and the Financial Stability Institute (FSI) had the privilege of co-hosting the third annual seminar on Bank Resolution, Crisis Management and Deposit Insurance Issues.

The event was attended by over 130 international delegates from all of the safety-net organisations—central banks, resolution authorities, bank supervisors and deposit insurers. Further, the seminar had 30 speakers making valuable contributions to it from such organisations.

Below are the key points raised within the presentations and panels. Copies of all of the presentations may be found on the IADI website, which you are invited to view.

[FSI-IADI Seminar 2014- Agenda](#)

[FSI-IADI Seminar 2014- All Seminar Documents, including speaker biographies](#)

2. The Role of the Deposit Insurer in Bank Resolution – Jerzy Pruski, President of the Management Board, Bank Guarantee Fund, Poland

Mr Pruski briefly summarized the evolution of the financial safety-net in recent decades that has come about as a result of financial turmoil, namely: the growing role of deposit insurance as well as the need for resolution and macro-supervision and the role of the DIA in the safety-net ranging from a pure pay-box function to having resolution powers (loss/risk minimiser). The importance and efficiency of deposit insurance in crisis management and the growing number of explicit deposit insurance systems having paved the way for changes in DIA mandates.

Since a successful resolution provides access to covered deposits, the resolution process is, in fact, a substitute of a classic pay-out scenario. Therefore, there is a prerequisite for DIAs to support the resolution process with funding. If DIAs are to contribute to funding resolution, then the DIA funding model has to shift towards ex-ante. The DIA role in resolution funding has been confirmed by global standard setters in the FSB Key Attributes, the Core Principles and in the Bank Recovery and Resolution Directive. The role of DIAs and required DIA funding are highly dependent on resolution strategies and tools applied, as well as on the resolution funding model used.



Mr Pruski presented how the evolving role of the DIA in the financial safety net and in resolution funding is reflected in the work on updating the Core Principles for Effective Deposit Insurance Systems. He also spoke on the proposed safeguards for DIAs that deliver funds for resolution purposes yet are not resolution authorities.

Finally, Mr Pruski spoke of the need to create international standards for DIAs, reflecting their evolving role in the financial safety-net and highlighted the importance of IADI as a standard setter for deposit insurers.

[J Pruski Role of DIA in Resolution](#)

3. Revised IADI Core Principles for Effective Deposit Insurance Systems – David Walker, CDIC, and David Hoelscher, FDIC

Background- provided as to the inception of the Core Principles (CPs) in June 2009 in order to promote effective deposit insurance practices and the basis for a desired revision of the CPs.

Proposed revisions to CPs- were specified, having been developed through 2013 by an IADI Steering Committee and since delivered to a Joint Working Group with BCBS, EFDI, FSB, IMF, World Bank and EC. They were issued for public consultation on 1 September 2014.

The proposed revised CPs are, inter alia, reduced in number, more prescriptive in use of funding and contain a new CP on crisis preparedness and management.

Assessment of current compliance with CPs – results presented, that highlighted which of the CPs generally had higher compliance than others. Further, when countries were grouped into four international regions (namely, Europe, Asia, Africa and the Western Hemisphere), it was seen that Africa and the Western Hemisphere had higher compliance than others. This higher compliance was thought to be associated with these safety-net systems being relatively new.

However, it was envisaged that Europe would be far more compliant with the CPs after implementation of the Bank Recovery and Resolution Directive (BRRD).

[D Walker Core Principles Update](#)

[D Hoelscher Core Principles Assessments](#)

4. Update on FSB Key Attributes for Effective Resolution Regimes – Eva Hüpkes, Financial Stability Board, BIS, Fanny Iglesias, Swiss Financial Market Supervisory Authority (FINMA), and Marc Dobler, IMF

Ms Hüpkes introduced the topic and the panel discussed the priorities for FSB participation at the forthcoming G20 Seminar in Brisbane in Nov 2014, in particular:-

- Loss Absorbing Capacity ('LAC')- ensuring the G-SIFIs have sufficient LAC in the correct form, location and availability to implement an orderly resolution in a manner minimizing taxpayer exposure whilst maintaining financial stability and continuity of critical functions.
- Cross border regulation- addressing uncertainties in order to



effect prompt recognition of foreign resolution proceedings, and temporarily suspending early termination/ cross default rights by a foreign authority.

Ms Iglesias spoke about FSB's pilot assessment of the KA's in Switzerland, carried out in Oct 2013, as part of the Swiss FSAP by a team from the World Bank, IMF, FSB Secretariat and FDIC. FSB recognised the Swiss resolution regime broadly adhered to the KAs and that the Swiss authorities were ahead of many FSB jurisdictions in adopting legal reforms aligned with the KAs. However, it was also recognised that more work was required to address operational, regulatory and legal issues. These include, for example, introducing an explicit statutory basis to write down debt and an article in Swiss legislation to allow exchange of information for resolution purposes between different foreign authorities.

This section was concluded by Marc Dobler, who outlined how the FSB's experience in the Swiss pilot was being used to influence future KA compliance assessments. Mr Dobler confirmed the United States was to use the KAs as basis for completing a technical note on crisis management due to be drafted during the fiscal year 2014/15, going on to announce a third jurisdiction is being sought in order to assess the implementation and assessment of the KAs. His presentation was rounded off by providing the delegates with a useful summary of the content of each of the KAs.

[E Huepkes FSB Key Attributes for ERR](#)

[F Iglesias KAs Swiss Pilot](#)

[M Dobler Swiss Pilot](#)

5. **Bail-in**

IADI Subcommittee research on Bail-In implications for deposit insurance and funding – Krzysztof Broda, Bank Guarantee Fund, Poland

The Subcommittee was set up by IADI upon members' interest in bail-in issues expressed in the research planning survey. Its purpose is to identify, analyse and discuss several key issues, challenges as well as risks related to the interaction between bail-in and DIAs. Mr Broda spoke on the essence and possible future of bail-in as compared to other resolution tools or restructuring measures reflected in FSB and BRRD bail-in definitions. He specified and commented on the drivers for the influence of bail-in on DIAs: the resolution tool-kit structure, the resolution and bank funding model, resolution strategies, the 'No Creditor Worse off' (NCWO) rule and depositor preference.



There are three categories of explicit and implicit risks: issues related to solvency funding, the restructuring plan and liquidity risk. The risk of the application of bail-in could affect the DIA's bottom line via cost increase, lower efficiency of fund use and finally the DIA's reputation. The identified risk can be mitigated by safeguards such as: enhanced financial safety-net structure with the active participation of DIAs (also in the resolution process), DIAs' widened mandate, a transparent framework of DIAs' contribution to funding resolution and depositor preference.

Loss Absorbing Capacity ('LAC') – Charles Gray of Federal Reserve Bank of New York

Delegates updated on FSB guidance with the aim of ensuring that Loss Absorbing Capacity ('LAC') was available in sufficient amounts and at the correct location to facilitate orderly resolution. Such pre-planning would, importantly, avoid the need for bail-out from public funds and avoid disruption to critically important functions.

[K Broda IADI Research on Bail-In](#)

[C Grey FSB Work on Loss Absorbancy in Resolution](#)

6. **A European perspective on deposit guarantee schemes, bank recovery and resolution** - Dirk Cupei, European Forum of Deposit Insurers, and Stefano Capiello, European Banking Authority

EU Directive on Deposit Guarantee Schemes (DGSD) – Mr Cupei demonstrated the evolution of the DGSD from first inception in 1994 to the recently published version, which aims towards far greater harmonisation between members, and swifter payout, yet allows for transitional periods.

EU Bank Recovery and Resolution Directive (BRRD) – Mr Capiello dedicated his speech to the BRRD and the work of the European Banking Authority, characterising it as ‘legal software’ for cross-border resolution in EU. The Directive states, through guidelines, that in some aspects it is appropriate that EBA promote convergence of the practices of national authorities.



The EBA plays an important role in strengthening the legal underpinnings and the institutional arrangements for cross-border resolution. This includes rulemaking (e.g. developing 40 papers for EU Commission delegating and implementing Acts), serving as a facilitator within resolution colleges, benchmarking and peer reviews of Recovery and Resolution Planning (RRP). The EBA could also serve as the point of contact and coordinator for relationships between the EU and third countries, facilitating achievement of cross-border resolution on a global scale.

In Autumn 2014 the EBA will set up internally a Resolution Committee for working out new arrangements to ensure both separation and interaction between Supervision and Resolution Authorities. Resolution implies not only a tight interaction between home and host, also between Supervision and Resolution Authorities. The Directive provides for, inter alia, the working out of the definition of criteria to set up the MREL (Minimum Requirements of Eligible Losses) and GLAC (Gone-concern Loss Absorbing Capacity), that needs to cast national discretion within a European framework. Consultation Paper on payment commitments to DIAs is expected at the end of September 2014, with Consultation Paper on risk-weighted contributions to DIAs expected in early November 2014.

The Directive provides authorities with more comprehensive and effective arrangements to deal with failing banks at national level, as well as cooperation arrangements to tackle cross-border banking failures.

[D Cupei European perspective](#)
[S Capiello Resolution](#)

7. **Regional case studies on resolution planning** – Michinobu Kishi, Deposit Insurance Corporation, Japan, Aurelija Mazintiene, Deposit and Investment Insurance, Lithuania, and Mauricio Costa Moura, Central Bank of Brazil

Japan – Mr Kishi highlighted the lessons learnt from the crisis faced by Japan in the 1990s from non-performing loans and the global financial crisis of 2008-2009, culminating (especially from the latter) in the new orderly resolution framework that came into effect in March 2014 with the adoption of an act amending the Deposit Insurance Act. The new resolution framework is invoked in case of a systemic risk in the financial market and has two groups of tools – the Stabilization Measures and the Orderly Resolution Measures.

The new Orderly Resolution Mechanism has a financial-industry wide scope, including banks and other deposit-taking institutions, and branches of foreign banks, insurance companies, securities firms, bank holding companies and securities finance companies. Orderly Resolution Measures are used only in a case a financial institution is (or is likely to be) balance-sheet insolvent or has defaulted (or is likely to default). The measures might include: “Special Oversight” by DICJ; administering Financial Institution’s (FI) business and property by DICJ; transferring FI’s systemically important assets and liabilities to an acquiring (or bridge) institution; liquidating FI’s remaining businesses through insolvency proceedings in court, while using deposit insurance.

Stabilization Measures are used only when deemed necessary due to the risk of severe disruption in the financial markets and only when concerned FI is not balance-sheet insolvent. These measures may include putting the FI under the “Special Oversight” by DIC of Japan, and compelling it to reduce market transactions in an orderly manner or providing necessary liquidity to perform obligations (including capital injection).

The Deposit Insurance Act also sets the legal base for the establishment of the Financial Crisis Response Council consisting of the Prime Minister (PM) and five other supreme government officials in charge of financial stability. The Deposit Insurance Act provides for “Stay” for automatic close-out netting clauses.

Powerful structures are now in place, which include involvement of the PM in decision making, and ensure the Regulator establishes resolution and recovery plans for all 3 G-SIBs in Japan.

Lithuania – Ms Mazintiene described how the financial safety-net of Lithuania managed to cope with the largest bankruptcy in the country’s history, with creditor claims amounting to 6.34% of the country’s GDP and 400,000 depositors affected. Due to the scale, a number of administrative challenges were faced and several important systemic problems identified, resulting in a system better prepared for future failures. Key problems at the time were, insufficient number of employees, confusion of depositors regarding DIA coverage, lack of timely/ accurate data and of readily available reimbursement funding.

Emerging Markets and Developing Economies (EMDEs) – Mr Costa Moura from the Central Bank of Brazil probed the key challenges for resolution planning in EMDEs as opposed to developed economies. Challenges characterised by Resolution Authorities in EMDE are: lacking expertise, resources and independence, along with their judicial system being non-resolution friendly. In addition, EMDEs may not exert significant influence over large foreign banks and may have a higher volatility during a crisis, compounded by potential lack of representation on CMGs.

Mr Moura went on to suggest ways in which EMDEs could work to overcome such challenges.

[M Kishi_Resolution Planning in Japan](#)

[A Mazintiene_Regional Case Studies on Resolution Planning](#)

[M Moura_Regional Case Studies on Resolution Planning](#)

8. **Recovery and Resolution Planning (RRP) from the perspective of financial institutions**
 – Sharon Easky, Alvarez and Marsal, Wilfried Paus, Deutsche Bank, and Stefan Friesenecker, UBS

Industry Advisor – Ms Easky presented her view on RRP from the perspective of a financial industry adviser, indicating three levels of challenges:-



- High level challenges include ‘Too big to fail?’ and ‘Not too big to fail’ issues – the latter being smaller Insured Depository Institutions (IDI) not deemed systemic being allowed to fail without government intervention. Consequently, Ms Easky asserted the Regulators’ focus has been on entities deemed ‘Too big to fail’ that posed a systemic risk.
- Institutional level challenges – may be summarized in the ‘Too complex to survive resolution’ question. Large IDIs are grappling with their own complexity and interconnectedness, and banks are reluctant to make structural changes until regulators specifically require them to do so. IDIs have demonstrated an inability to ensure continuity of affiliate provided services in resolution, also lacking operational capability to plan for/support resolution activities (historically performed by FDIC in the US).
- Resolution plan challenges
 - Regulators not wishing for big banks to get bigger.
 - IDIs are not yet planning for multiple acquirers, deposit/ branch break-up or for business line sales.
 - When core business activities cross multiple legal entities, it may not be possible to break up and sell.
 - IDIs plan for all deposit transactions though there is no certainty that uninsured deposits will be covered, even with a Bridge Bank.

Ms Easky went on to address the main features of current resolution plans, pointing out progress is being made, though it is slow and difficult due to the reasons above.

UBS – Mr Friesenecker outlined how UBS is taking early action to comply with evolving regulatory standards as one of the 29 G-SIFIs. In contrast to many others, UBS had managed to significantly downsize its balance sheet and to deleverage. The bank had explored the highly interlinked areas of legal structure alternatives, resolution planning and capital/ funding planning, to be most prepared for possible future events.

Deutsche Bank – Mr Paus illustrated how Deutsche Bank uses the Group Recovery Plan and the Group Resolution Plan to assess its everyday and long-term activities, even embedding five pillars of the Group Recovery Plan into day-to-day risk management. The results of live tests of DB’s recovery response to a crisis situation were presented to the delegates.

[S Easky Recovery and Resolution Panel Presentation](#)
[S Friesenecker Recovery and Resolution Planning](#)
[W Paus Recovery Resolution Planning status](#)

9. Crisis Management Groups (CMGs) and Cross Border Agreements on Information Sharing (COAGs)

Crisis Management Groups (CMGs) –Ruth Walters, FSB, and Charles Gray, Federal Reserve Bank of New York

Information-sharing in cross-border bank resolutions – Jin Soo Lee, FSB, Liberato Intonti, Banca d'Italia, and Kong Kuan Lim, Malaysia Deposit Insurance Corporation

Resolvability Assessment Process (RAP) – Ms Walters described the main functions of a CMG – namely, to prepare for and manage a cross-border crisis affecting a G-SIFI. They also serve as a forum for discussion and agreement on resolution strategies and plans, coordination of resolvability assessments and information sharing.

In meeting their functions, there may be seen three groups of challenges faced, Cooperation Agreements (“COAGs”), information sharing regimes and, finally, cross-border cooperation and effectiveness of resolution actions.

Ms Walters went onto outline the FSB’s Resolvability Assessment Process (RAP), which is to be completed on all G-SIFIs in 2015.

Information sharing – Mr Lee defined the classes of information to be shared between home and host jurisdictions, including home to non-CMG host cases, and vice versa.

- Home to non-CMG host – relevant information may be provided in order for the host to assess the potential systemic impact of a resolution measures on the local operation of the G-SIFI and would include details of the resolution plan, along with additional information to be decided bilaterally.
- Non-CMG host to home – to include an RRP for the local firm, circumstances under which non-CMG host would forbear from taking independent ‘local’ action and details of confidentiality agreements.

Mr Lee noted information provided may need to be shared between different safety-net bodies within a jurisdiction.

Mr Intonti spoke further with regard to information-sharing with non-CMG hosts, including how they could be identified, and information types that may be shared, especially where a G-SIFI had a systemic presence.

Mr Lim went on to address information sharing in cross-border bank resolution, outlining FSB initiatives on information sharing. Difficulties faced in such information sharing by non-CMG host, including the information gap, lack of clarity on impact and roles of non-CMG hosts. Mr Lim suggested a lack of proper framework between relevant national authorities and ‘national interest’ concept could impede effective information sharing.

[R Walters Panel on Crisis Management Groups \(CMGs\)](#)

[JS Lee Information Classes](#)

[L Intonti Information-Sharing with Non-CMG Hosts](#)

[Lim Kong Kuan Information-Sharing in Cross-Border Bank Resolutions](#)



10. Swimming with the black swans- what don't we see? Mr Alex Kuczynski, Financial Services Compensation Scheme, Mr Charles Gray, Federal Reserve Bank of New York, Mr William White, OECD, Mr David Hoelscher, FDIC, and Mr Douglas J Elliott, Brookings Institution

The delegates, moderated by Mr Thierry Dissaux of the Deposit Guarantee and Resolution Fund, were treated to a highly thought provoking and entertaining panel session regarding 'Black Swans', i.e. events which had not (or could not) have been anticipated until they had occurred.

The distinguished panellists faced questions on topics that included, current readiness to resolve a G-SIFI, the effect of social media on DIAs, the reliance of data availability/ quality, and the far reaching risks posed by global instability.

