

Contingency Planning for Cross-Border Banks

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procedures
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Overview

- Background
 - FSB and BCBS Initiatives
 - Further work underway
- Resolution plans
 - What are their objectives?
 - What's in them?
- Will they work?
 - Implementation challenges
 - Ways to improve them

Background

FSB and BCBS Initiatives

- BCBS Report on Cross-Border Bank Resolution recommends
 - Enhancing national resolution powers
 - Strengthening risk mitigation to reduce contagion
 - **Preparing in advance for orderly resolution**
- FSF Principles for Cross-border Cooperation on Crisis Management
 - commit members to cooperate in making preparations for dealing with financial crises and in managing them

Work underway

- FSB Cross-Border Crisis Management Working Group (chaired by Paul Tucker, BoE) to work to operationalize the FSB principles
- Firm-specific crisis management
 - Participating authorities
 - Involvement of financial firms
 - Frequency of meetings
 - Agenda

What are resolution plans?

What are their objectives

- Resolution plans should
 - Address as a contingency periods of severe financial distress
 - Seek to ensure the continuity of firms core financial services
 - Make no assumption of extraordinary public sector support

What's in them?

- Resolution plans should
 - Identify the relevant information needed for contingency planning and set out how it can be accessed (via firm and/or authorities)
 - Provide a “going concern” plan consisting of a contingency funding plan and a de-risking plan (to be prepared by the firms)
 - Provide a “gone concern” plan identifying official actions that may be applied to achieve orderly resolution

Will they work?

Implementation challenges

- How overcome conflicting incentives of national authorities and reluctance to share information arising from the concern that it could potentially increase the fiscal costs or lead others to adopt defensive approaches?
- Will resolution plans (which are non-binding and non committal) be credible enough to lower the moral hazard associated with institutions perceived TBTF?

Ways to improve them

- Enhance resolution powers and achieve greater convergence?
- Require the firms to change the ways they are structured and operate to facilitate resolution?
- Achieve a pre-commitments to cost sharing? Alternative financing sources? Contingent capital?
- Agree ex ante on binding restructuring options? E.g., restructuring of liabilities?
- Publication of resolution plans?