

D-SIB Resolution and Crisis Management in Developing Economies

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Objectives

- Lower PD
 - Better understanding of systemic banks
 - Improved consolidated supervision
 - Earlier and more effective enforcement
- Lower LGD
 - Reduced economic impact of failure
 - Reduced reliance on public resources

Leverage the Key Attributes to Reduce PD

- Recovery and Resolution Planning
 - Improved knowledge and understanding of bank...
 - ... drives a refocusing of day-to-day supervision
 - Which results in earlier identification of problems...
 - ...and enables more timely and effective corrective action → including triggering recovery plans

New Legal Powers Are Essential

- To obtain information regarding the bank and group
 - Related firms, including non-financial
 - Inter-connections (financial, managerial, operational)
- To intervene prior to book insolvency
 - Override rights and write-off shareholders
 - Without necessarily having to assume ownership
- To impose losses on unsecured creditors
 - And convert to equity (bail-in)
- To establish a bridge bank
 - Separation of essential functions
 - Bail-in
- To provide capital and liquidity support
 - Without benefiting shareholders
 - After creditors bear losses

D-SIB Resolution Options

- Deposit payout?
- Insured deposit transfer?
- Full deposit transfer?
- Purchase and assumption
 - Third party acquirer?
 - Bridge bank
 - Creditor owned (bail-in)?
 - Government owned
- Nationalization
 - After creditors bear losses?

Implementation Challenges

- Bail-in feasible and credible?
 - Bank debt markets exist?
 - Contagion, pari passu, and NCWO issues
 - Shareholder suitability
- P&A preparedness
 - Acquirers for SIBs?
 - Separating businesses and ensuring continuity
 - Transaction capacity
- Adequacy of funding
 - DIS
 - Resolution fund?
 - Reliable back-stops?
 - Liquidity funding

Solutions?

- Minimum GLAC requirement?
 - Where issued?
 - Diversification rules
 - Supporting contractual provisions
- Resolution planning
 - Separation of essential functions
 - Ensuring operational continuity
 - Valuation capacity
 - Resolvability assessments → structural changes
- Buy-side planning
- Resolution funds?
- Hard-wired capital and liquidity funding?

Crisis Management

- Agreed resolution strategies/plans for D-SIBs at least
- Inter-agency coordinating body
 - Macro/financial
 - Bank-specific
- Agency and interagency contingency plans
 - Macro/financial
 - Executing bank resolution strategies
- Simulation exercises
 - Bank-specific
 - Preferred resolution strategy
 - Fall-back strategies
 - Systemic crises