

RESOLVING CROSS-BORDER BANKS: WHERE DO WE STAND?

High Level Seminar on Bail-in and Deposit Insurance System Interaction
Warsaw, 25–26 June 2014

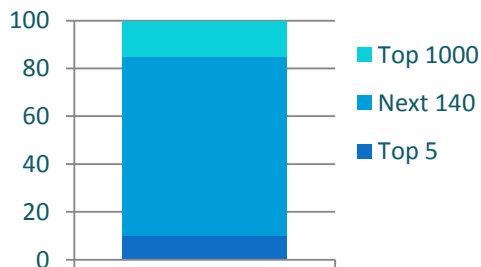
Marina Moretti
International Monetary Fund



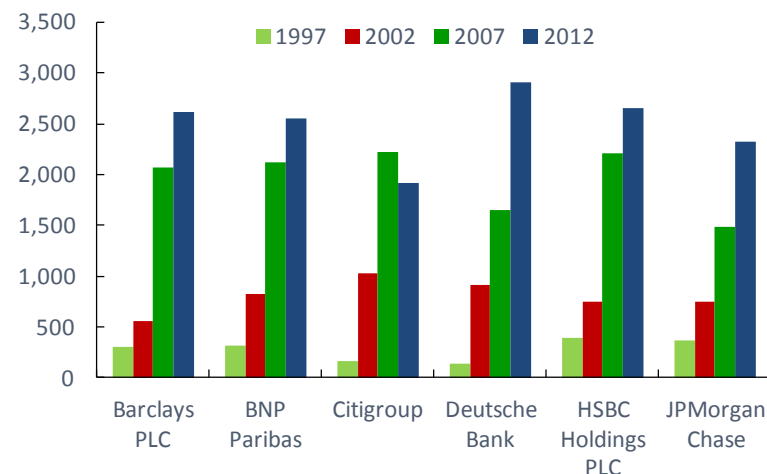
Outline

- Progress with reforming resolution regimes
 - ▣ International policy development
 - ▣ National implementation
- Loss allocation
- Implications for DIS

Asset share of 1000 largest banks



Total Assets of Large Banks
(Billions of U.S. dollars)



Pre-crisis...

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- Two prevalent approaches

Home authorities bore
full costs

Ring-fencing along
national lines

- Key lesson – no effective framework
 - ▣ Inadequate resolution powers
 - ▣ Inadequate cross-border cooperation
 - ▣ Inadequate framework for allocating losses

The new framework

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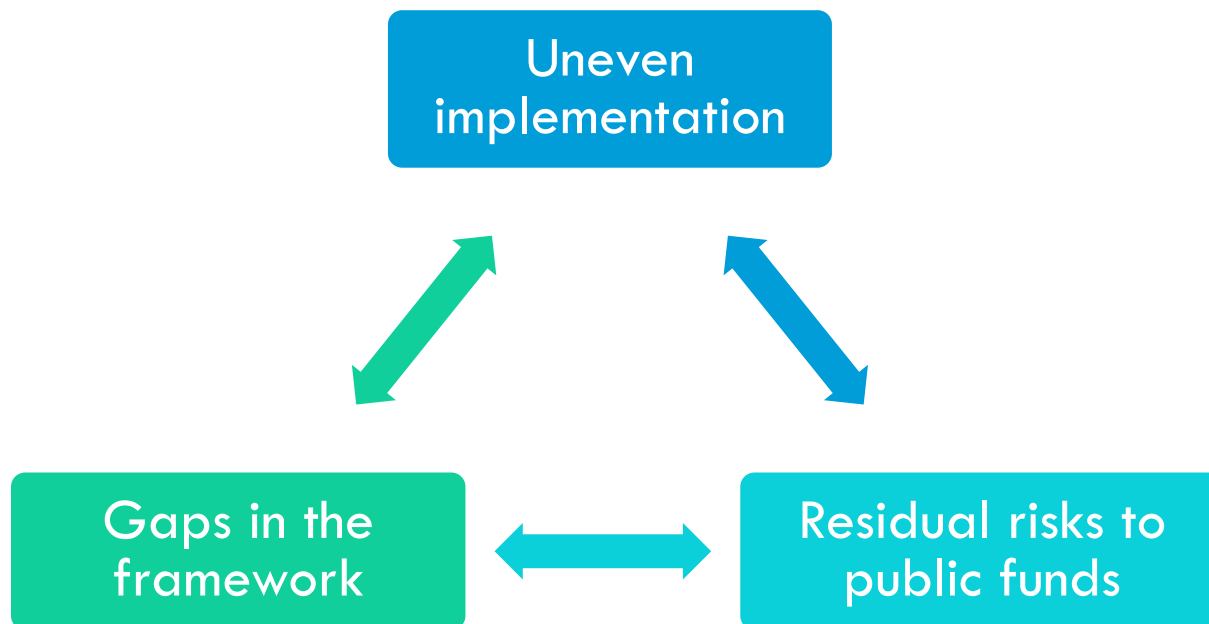
- The 'Key Attributes' attempt to address the gaps
 - ▣ Lay out principles and best practice
 - ▣ Focused on G-SIFIs, but wide applicability



But much remains to be done

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Still far from an effective cross-border resolution framework

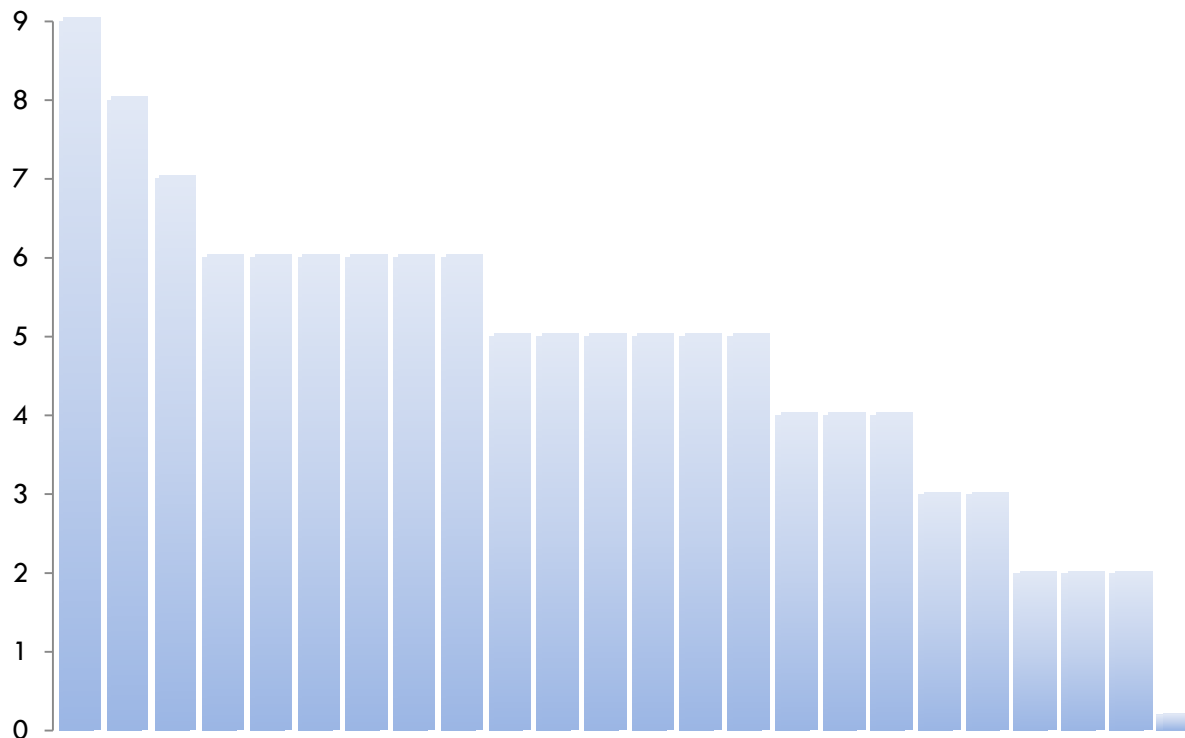


KA: uneven implementation

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Bank resolution powers under KA3

Number available for FSB members, out of 9



Source: FSB Thematic Review of Resolution Regimes, 2013

RRPs: slow progress

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A flowchart diagram consisting of three rounded rectangular boxes arranged horizontally from left to right. The first box is blue and contains the text "Crisis Management Groups". The second box is cyan and contains the text "Resolution Strategies". The third box is green and contains the text "Cooperation Agreements". A large, light blue arrow shape is positioned behind the boxes, pointing from left to right, indicating a sequential flow from the first box to the second, and then to the third.

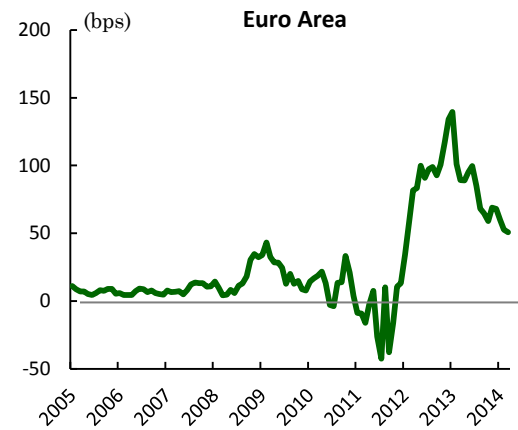
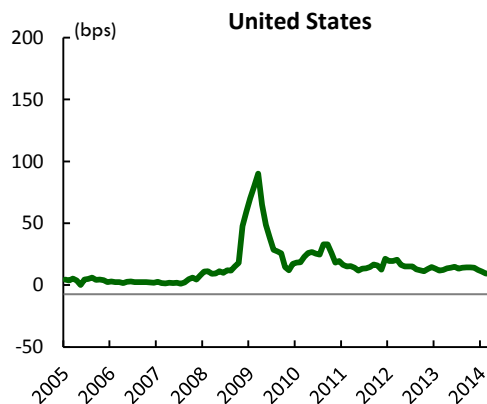
Crisis
Management
Groups

Resolution
Strategies

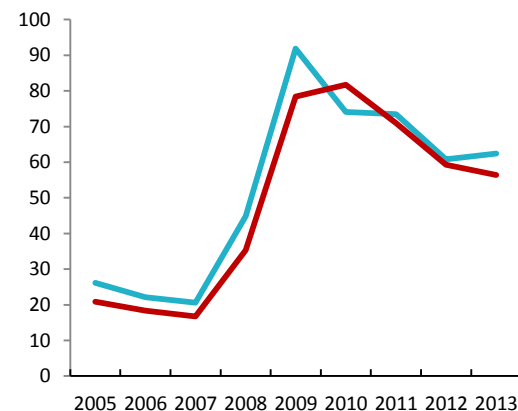
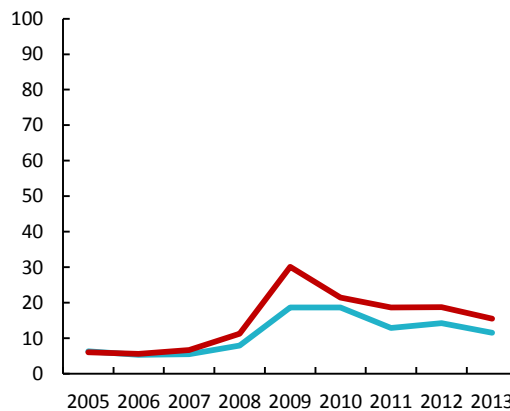
Cooperation
Agreements

Implicit subsidy of SIBs

Average Subsidies from Contingent Claims Analysis



Average Subsidies from Credit Ratings

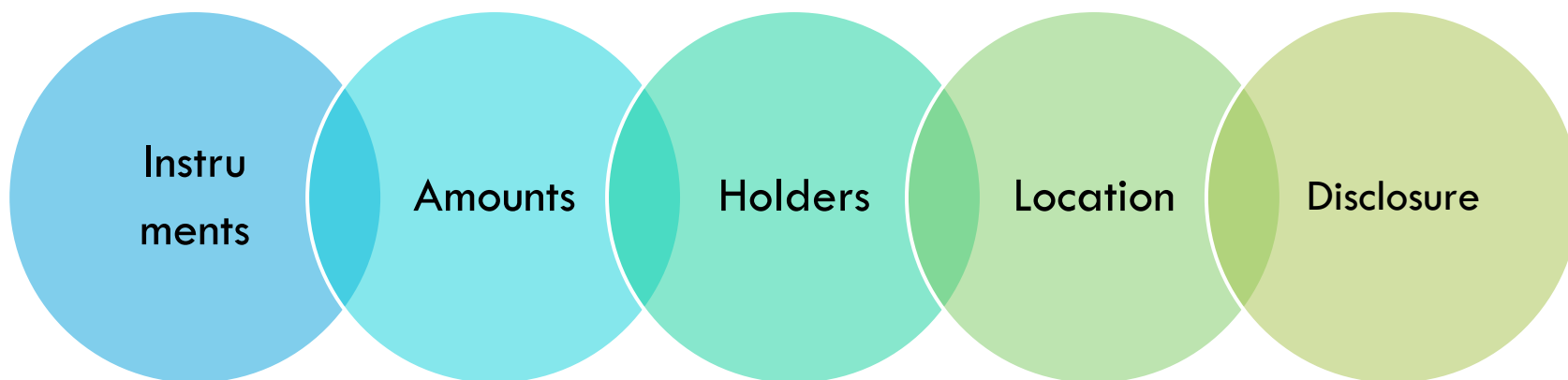


— Banks with positive support — SIBs

Loss absorbency

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- How to ensure private creditors bear losses?
- The GLAC agenda

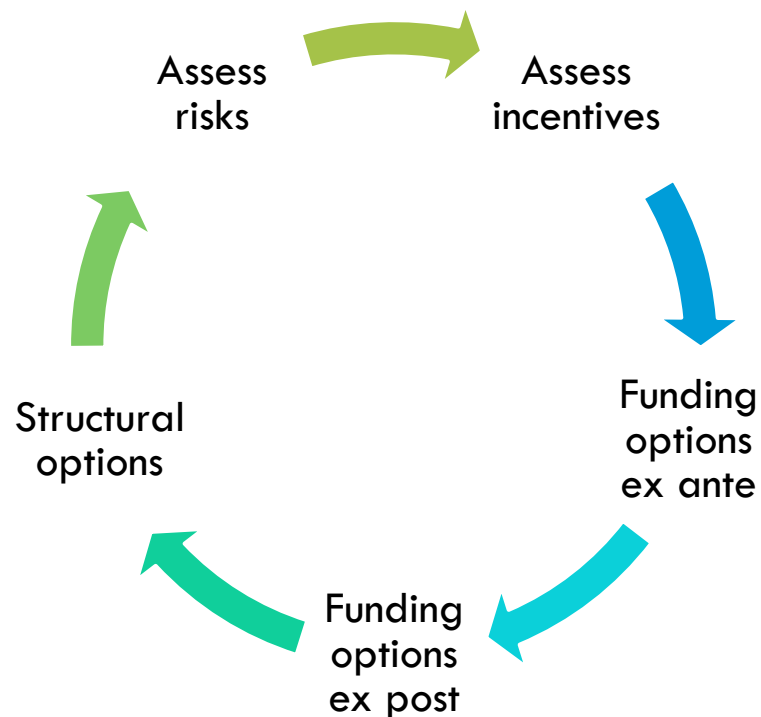


Progress needed on all fronts

Residual risks to public funds

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- More capital, GLAC → less public support
- But: residual risk that public support is needed
 - ▣ Not enough GLAC?
 - ▣ System-wide event?
- Role of DIS



Depositors and DIS

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Are deposits
loss absorbing?

- Feasibility
- Credibility

Role of creditor
hierarchy

- Depositor preference
- Cross-border harmonization

Role of fiscal space

- Can costs be afforded?