The FSB Key Attributes of Effective Resolution Regimes

Bail-in Framework

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Outline

- Bail-in powers in the *Key Attributes*
- Resolution strategies – SPE and MPE
- Ending ‘Too big to fail’ – Brisbane priorities
- Gone-concern loss absorbing capacity
- Cross-border effectiveness of bail-in

Bail-in powers

In a manner that respects the hierarchy of claims in liquidation …..

- **Write down** all or parts of unsecured and uninsured creditor claims

- **Convert** into equity or other instruments of ownership of firm in resolution or any successor

Convert or write down any contingent convertible or contractual bail-in instruments not already triggered before entry into resolution and 'bail-in' resulting instruments

Resolution strategies:
Bail-in in SPE and MPE resolutions

RESOLUTION OPTIONS UNDER THE KEY ATTRIBUTES

- **Stabilisation options to achieve continuity**
  - Transfer of some or all business to:
    - a bridge institution
    - another financial institution
  - “Bail-in” creditor-financed (re)capitalisation through:
    - Write-down or conversion of creditors’ claims
    - Debt-for-equity swap to (re)capitalise
- **Liquidation options to achieve a value-preserving orderly wind-down**
  - Asset management vehicle to manage and run-down NPL and difficult-to-value assets
  - Liquidation with timely pay-out or transfer of insured deposits and prompt access to transaction accounts and to segregated client funds.

Resolution Strategies

Single point of entry

Only top parent or holding company enters resolution

Loss absorption at parent level through write-down and/or conversion of debt

Recapitalised parent recapitalises domestic and foreign subsidiaries (e.g. by ‘bail-in’ of debt issued by parent to subsidiary)

Host authorities refrain from independent action and support home country resolution

Multiple point of entry

Multiple parts of the group enter resolution

Entities that are ‘points of entry’ are separable along national, regional or functional lines

Limits on intra-group financial inter-dependencies

Adequate loss absorption capacity at points of entry

Coordination of resolution of distinct parts of group

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Single Point of Entry

Top-tier parent or holding company enters resolution

Bail-in of top-tier parent (GLAC at parent level)

Write-down of of debt held by non-affiliated parties ('GLAC') at parent level and conversion into equity of the (recapitalised) parent or a newly established bridge entity

Internal bail-in of subsidiaries

Recapitalised parent or successor **recapitalises** (domestic & foreign) subsidiaries when losses have eroded the capital of the subsidiaries, e.g. through write-down and conversion of **debt issued by subs to parent** .

Multiple Point of Entry

Multiple parts of the group enter resolution

Entities identified as **points of entry** are separable (along national/regional/functional lines) so that parts of the firm can be resolved without affecting the other

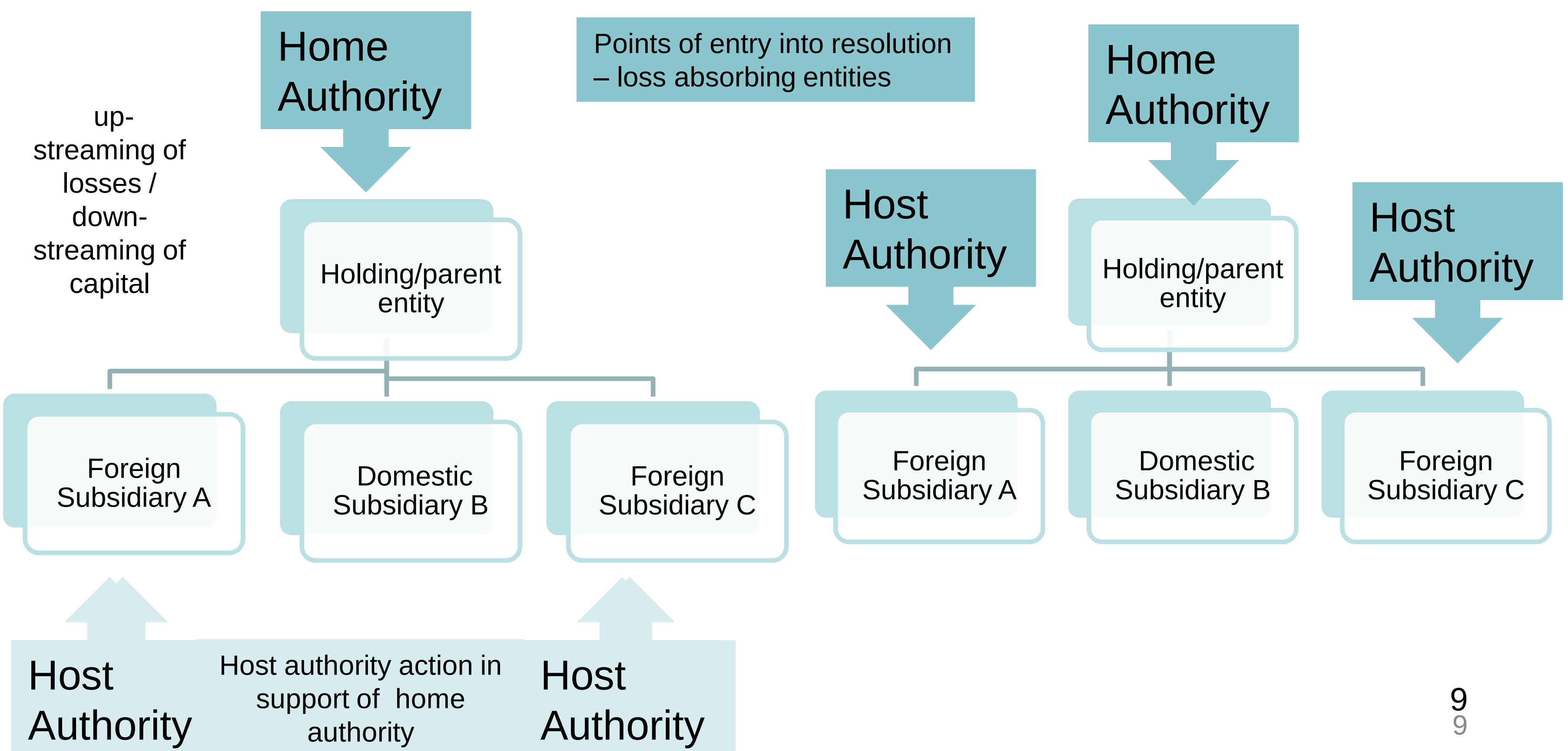
Limits on intra-group financial interdependencies (inter-affiliate debt) to limit intra-group contagion

May involve applying multiple SPE resolution strategies to different (separable) parts of the firm

Adequate GLAC at "point of entry into resolution " (operating subsidiary or national/regional sub-holding)

SPE vs. MPE

Single Point of Entry	Multiple Point of Entry



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Brisbane priorities:

- Gone Concern Absorbing Capacity ('GLAC')
- Cross-border effectiveness

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Priorities to be addressed by Brisbane

Lack of loss absorbing capacity in resolution

- Lack of capacity to allocate losses to shareholders and creditors in a manner that internalises costs of resolution and avoids systemic disruption

Legal uncertainty in cross-border resolution

- Resolution powers are not effective across borders
- Effectiveness of bail-in for debt governed by foreign law

GLAC adequacy - objective

Enhance resolvability by ensuring that G-SIFIs hold at all times and have available at entry into resolution sufficient resources (“gone concern loss absorbency or GLAC”) at the right location and in the right amounts that:

- **can be exposed to loss at entry into resolution** without generating contagion, public interest concerns or risks to the continuity of critical functions
- **can be written down or converted in resolution** to provide an internal source of capital (“creditor-financed capitalisation”) and capitalise, directly or through a bridge, all or parts of the firm to maintain continuity of critical economic functions and achieve an orderly resolution
- **Provide incentives** for holders to exert discipline

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Issues to be addressed by a GLAC Framework

- How much GLAC should G-SIBs be expected to hold?
- What should GLAC consist of?
- How to ensure that GLAC is still available when firm enters into resolution? How ensure early intervention and avoid regulatory forbearance?
- How to design a standard on GLAC adequacy that is “strategy neutral”?
- How to ensure that write-down or conversion of externally issued GLAC at operational entities is legally and operationally feasible, i.e., without giving rise to legal challenge or compensation claims?
- How to design mechanisms for down-streaming funding (generated by bail-in of externally issued GLAC at a parent entity) to operating subsidiaries ?
- Need for prepositioning intra-group GLAC, i.e., debt issued by subsidiaries to parent entities and subject to write-down or conversion in resolution?
- How to determine the level of prepositioned GLAC at foreign subsidiaries?
- How to design the triggers for the write-down or conversion in resolution of intra-group GLAC? What role of home and host authorities in triggering write-down or conversion?
- How to determine the location of intra-group GLAC (e.g., subsidiaries providing critical or core functions)?

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Cross-border effectiveness

Territorial limitations of resolution powers: e.g. 'bail-in' of debt governed by foreign law

Statutory frameworks

Contractual clauses whereby counterparties recognise

To give effect to foreign resolution actions – mutual recognition or supporting measures

A temporary suspension of early termination and cross-default rights

Bail-in of debt instruments by a foreign resolution authority

Thank you

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