

Cross-Border Crisis Management

Sharing thoughts on the recent crisis
and the new EU framework

AGENDA

1. Challenges for the EU framework

2. Does an efficient system imply different solutions for different Institutions?

3. The Basel Committee recommendations

4. Final remarks

1. Challenges for the EU framework

It is a delicate and complex issue (conflicting objectives, different business and political interests, burden sharing,...) needing an ample and thorough debate

➤ **Scope of the framework:**

Systemic vs non-systemic

➤ **Early intervention and resolution:**

Growing complexities as the crisis situation unfolds

➤ **Thresholds (triggers) for intervention:**

Hard or soft triggers (or combination)

➤ **Resolution Fund:**

Private/public funding; depositor/other creditors; “too big to save”

AGENDA

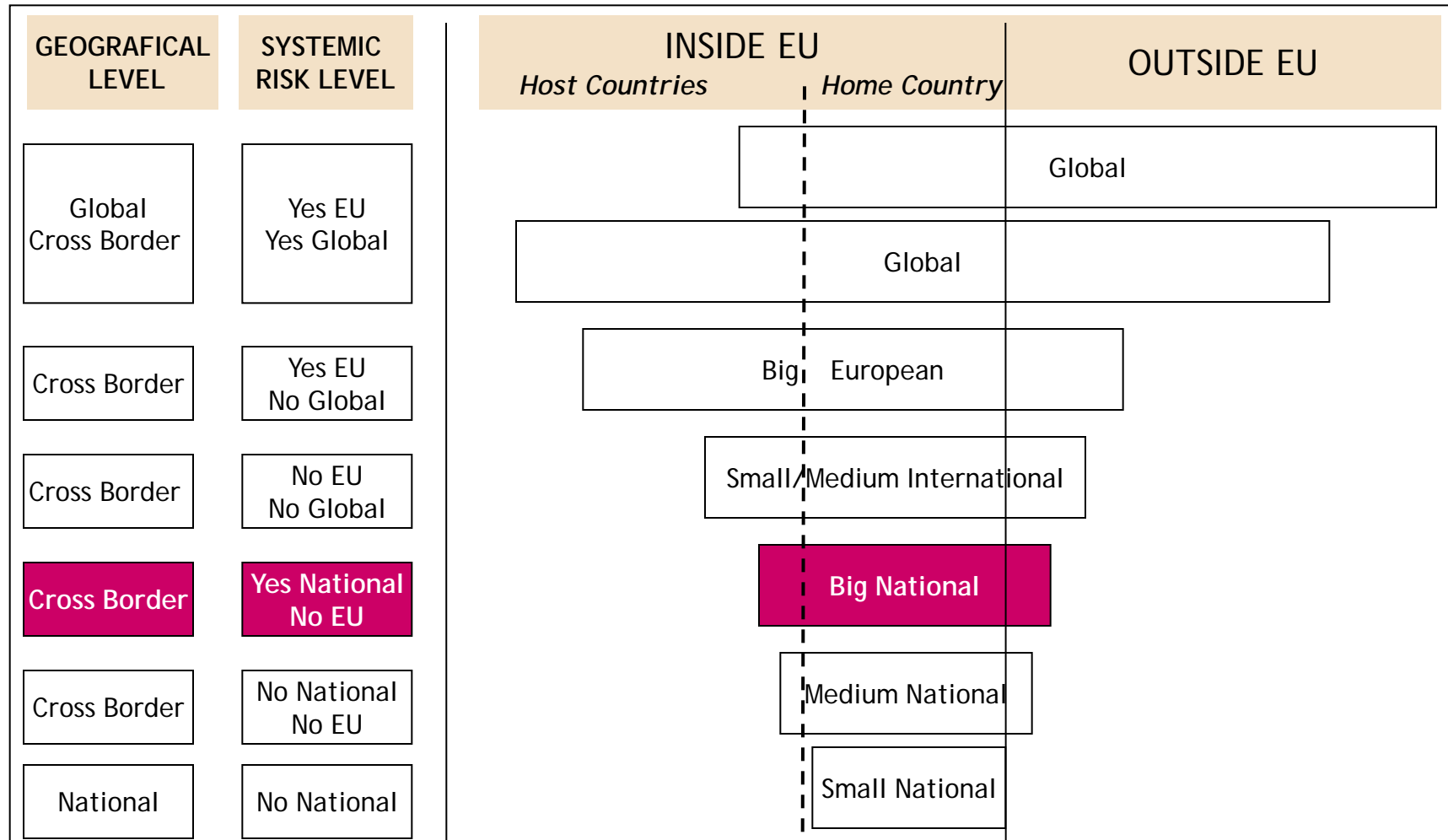
1. Challenges for the EU framework

2. Does an efficient system imply different solutions for different Institutions?

3. The Basel Committee recommendations

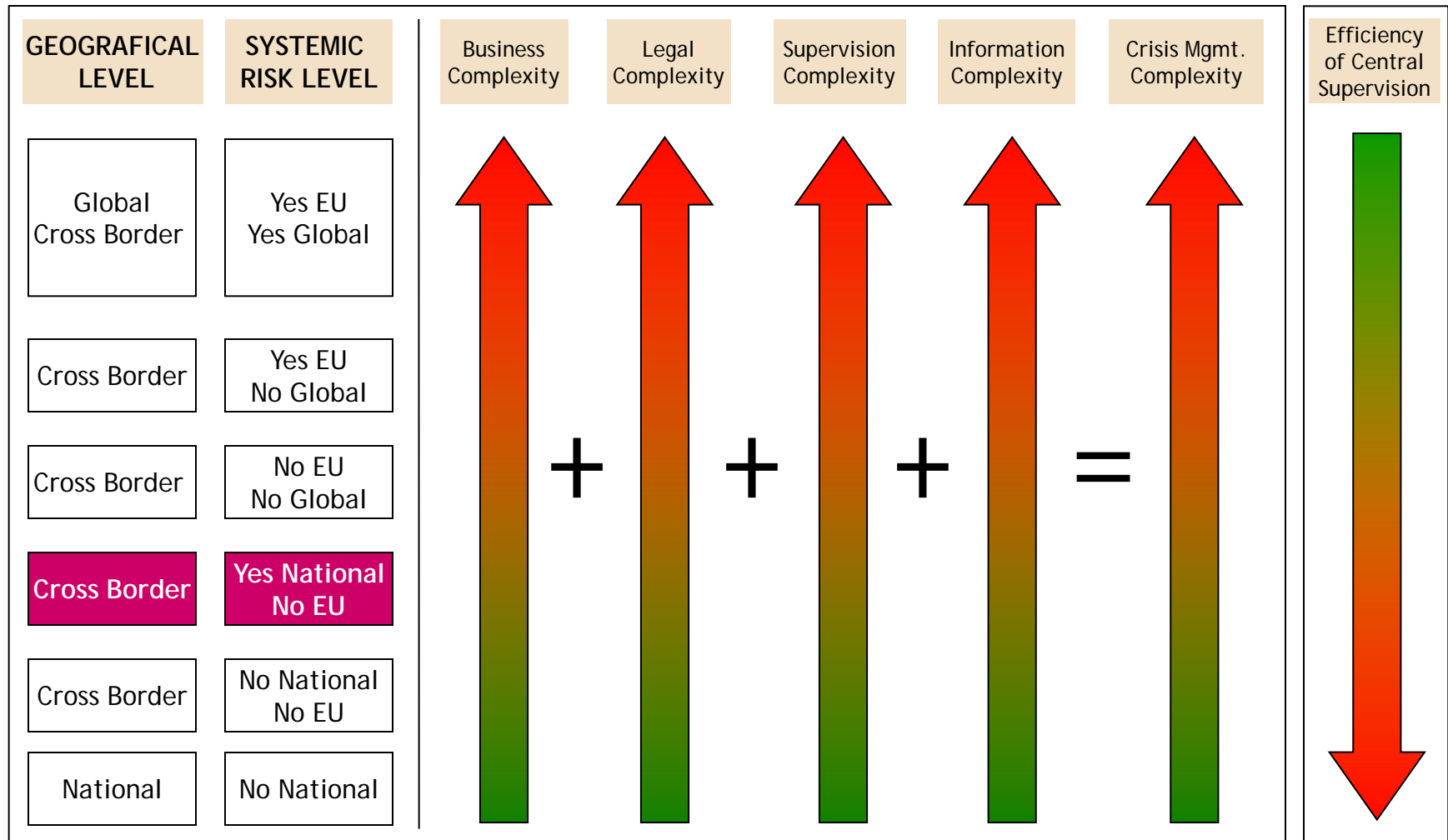
4. Final remarks

2. Does an efficient system imply different solutions for different Institutions?



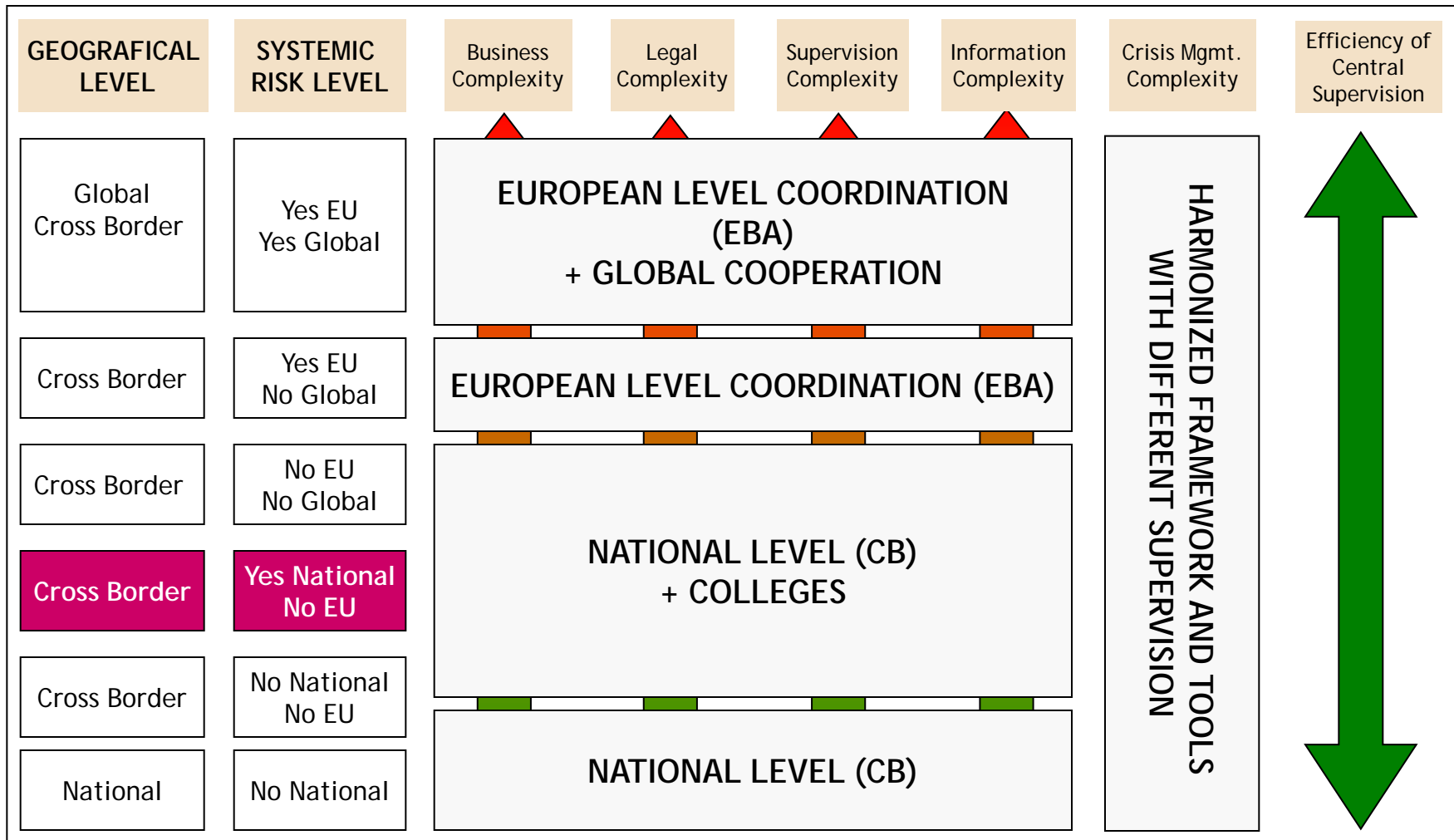
Different types of Institutions with different expansion (geographic) and different levels of systemic risk

2. Does an efficient system imply different solutions for different Institutions?



...and significant differences in business complexity, legal and regulatory framework, supervision, information gathering and, consequently, crisis management.

2. Does an efficient system imply different solutions for different Institutions?



Possible levels of supervision/crisis management adjusted to institutions' complexity (and adapted to the subsidiarity principle)

AGENDA

1. Challenges for the EU framework

2. Does an efficient system imply different solutions for different Institutions?

3. The Basel Committee recommendations

4. Final remarks

3. The Basel Committee recommendations (*)

The lessons drawn from the case studies led to the following 10 recommendations...

- 1: Effective national resolution powers
- 2: Frameworks for coordinated resolution
- 3: Convergence of national resolution measures
- 4: Transfer of contractual relationships
- 5: Cross border effects

«MAINLY
AUTHORITIES LEVEL»

-
- 6: Reduction of complexity and interdependencies of group
 - 7: Planning in advance for orderly resolution
 - 8: Cross border cooperation and information sharing
 - 9: Strengthening risk mitigation techniques
 - 10: Exit strategies and market discipline

«AUTHORITIES
+
INSTITUTIONS LEVEL»

... embodied in the proposed new EU framework

(*) In BCBS Consultative Document "Report and recommendations of the Cross Border Resolution Group" from BIS

3. The Basel Committee recommendations^(*) The new proposed EU framework^(**)

A DEFICIENT SET UP FOR HANDLING SYSTEMIC GLOBAL CRISIS...

Territorial approaches...

- Public support (the bail out)
- National initiatives (local resolution tools)

... raising problems of:

- Un-coordinated actions (ill timed and producing sub-optimal outcomes)
- Conflicts of interest (protectionism, legal rights disputes)
- Unpreparedness and inexperience

... SET UP OF NEW POLICY OBJECTIVES IN 2 KEY AREAS

- ✓ **Early intervention:** restoring financial stability when problems are developing;
- ✓ **Bank resolution/insolvency:** measures to contain the impact on financial stability/ reorganization and winding up of the ailing financial institution.

(*) In BCBS Consultative Document "Report and recommendations of the Cross Border Resolution Group" from BIS

(**) In Commission Staff Working Document, SEC 1389

AGENDA

1. Challenges for the EU framework

2. Does an efficient system imply different solutions for different Institutions?

3. The Basel Committee recommendations

4. Final remarks

4. Final remarks

➤ **Scope of the framework:** Systemic vs non-systemic

Harmonized framework and tools with different levels of supervision and coordination.

➤ **Early intervention and resolution:** Growing complexities as the crisis situation unfolds

Two regimes: Early intervention outcome recovery; Resolution outcome restructuring or liquidation.

➤ **Thresholds (triggers) for intervention:** Hard or soft triggers (or combination)

Due to complexity and market signalling, soft triggers (qualitative) seem more appropriate, complemented by non-binding quantitative information on a confidential level.

➤ **Resolution Fund :** Private/public funding; depositor/other creditors; “too big to save”

- Pan-European resolution fund for systemic institutions together with a network of country-based funds for non systemic institutions?
- Separate Deposit Guarantee Schemes (DGS) from the Resolution Fund (RF).
- Eventually a mixed public-private funding. If existing a Pan-European fund should be managed by an independent third part entity.