



FedFin Client Report

Wednesday, July 12, 2017

FSB Finds Large Gaps in Global-Resolution Regime

Client Report: **RESOLVE45**

Executive Summary

In this report, we build on our earlier analysis and go in depth on the Financial Stability Board's G20 assessment of the global resolution regime. One of the most obvious and immediate lessons of the great financial crisis, voiced clearly at the 2009 G20 summit (see Client Report **SUMMIT5**) was the need to ensure orderly liquidation of large financial-services firms without the expectations or use of taxpayer support that led to pre-crisis moral hazards and post-crisis chaos. The FSB finds that much progress towards ending TBTF has been taken over the past ten years, but much also remains undone with regard not only to large-bank resolution, but also to that for other SIFIs. The FSB's report is particularly urgent due to recent U.S. statements about abandoning OLA (see Client Report **RESOLVE44**) and those in the EU calling for a complete revamp of the resolution framework in the wake of several recent large-bank failures. We shall shortly provide clients with a separate report on recent global-regulatory worries about CCP resolvability, worries also reflected both in the FSB's new report and the thinking very much behind the worries so carefully couched in this formal statement. The FSB is also troubled by slow progress to handle global systemically-important insurers (GSIs), impediments to cross-border resolution, slow action to impose automatic stays, and limits on regulatory authority to require resolvability-focused restructurings. Despite FSB head Mark Carney's longstanding calls for authority to sanction laggard nations, the FSB now appears reconciled to its advisory role. Its forward-looking work plan thus focuses on additional efforts to assess global adherence to its edicts and encourage more consistent implementation. Problems with bail-in debt revealed in recent EU cases are also set for review through forthcoming guidance. Should the U.S. officially abandon OLA with or without statutory repeal and walk away from some or all of TLAC, the FSB's efforts will face still more formidable challenges with even greater resort likely to sovereign backstops outside the U.S. and greater subsidiarization for U.S.-domiciled entities.

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Analysis

Key FSB conclusions include:

- Significant progress has been made in the past year issuing guidance on CCP resolvability but much work remains to implement it and address identified concerns. As noted, a forthcoming FedFin report will address this in more detail.
- With regard to GSIBs, TLAC standards are complete and largely being implemented other than with regard to internal TLAC. In concert with this report, the final internal-TLAC standards were released. The FRB's TLAC standards (see FSM Report **TLAC6**) require these for large foreign banks, but Treasury (see Client Report **FBO6**) opposes this and may push the Fed to revise the rules as Trump appointees are confirmed. The FSB notes continued questions about GSIB operational continuity and more significant worries about continued access to financial-market utilities such as CCPs, cross-border resolutions, resolution-relevant valuations, and bail-in transactions. The FSB is also pressing action to finalize adherence to the ISDA automatic-stay protocol, with the U.S. set to begin finalization with action next week by the FDIC on a longstanding FRB-led proposal (see FSM Report **QFC4**). Many of the problems germane to GSIBs also complicate smaller-bank resolution.
- As noted, the FSB is even more concerned with GSII resolvability. This is due to the number of regimes (including the U.S.) where resolution authorities lack the full scope needed to address complex, inter-connected, and/or cross-border insurers. For example, many home and host authorities cannot establish a bridge company, enforce stays, or provide emergency support.