4 Possible resolution approaches

Given the challenges outlined above, the FSB Key Attributes state that the objective of an effective resolution regime is to make the resolution of financial institutions feasible. This should be possible without severe disruption to the financial system and without exposing taxpayers to loss, while protecting vital economic functions through mechanisms which make it possible for shareholders and unsecured and uninsured creditors to absorb losses in a manner that respects the hierarchy of claims in liquidation.

For systemically important banks, prior planning is absolutely essential – both for stabilisation in a crisis and for resolution by the relevant authorities or central banks. Home and host supervisory authorities should coordinate within crisis management groups to prepare resolution measures. Since there is no prospect of global legislation on bank insolvency in the foreseeable future, mutual recognition of resolution plans for financial groups with cross-border activities should be ensured through co-operation agreements. Unilateral action should be avoided wherever possible.

The FSB is currently working on conceptual proposals[3] along two approaches that may also be used in combination with each other.

The SPE is led by a single resolution authority within the jurisdiction responsible for the consolidated supervision of the group and is applicable at the top holding or parent company level. This company is put into resolution while the competent resolution authority takes control. It recapitalises the subsidiaries within the group that have failed and ensures the access to liquidity for the group entities. The assets and operations of particular subsidiaries are preserved on a going-concern basis, without necessarily entering resolution. Host authorities may, however, need to exercise powers to support a resolution action taken by the home authorities. SPE resolutions would generally keep the critical functions of the company operating within the same group, at least in the initial resolution phase. Subsequent to a bail-in the business is likely to be subject to significant restructuring.

In contrast, the multiple point of entry approach (MPE) involves the application of resolution powers by two or more resolution authorities to multiple parts of the group, and is likely to result in a break up of the group into separate parts. The group could be split on a national or regional basis, along business lines, or a combination of the two. The powers applied to the separate parts need not be the same and could include different options being applied at different times across the group, such as bail-in within resolution, use of a bridge entity, transfer of business or orderly wind-down.

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[3] Financial Stability Board, Recovery and Resolution Planning for Systemically Important Financial Institutions: Guidance on Developing Effective Resolution Strategies, 16 July 2013; http://www.financialstabilityboard.org/publications/r_130716b.pdf