Practical Problems with Group Resolution

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Overview

- What is "group resolution"?
- Impact of group structure on resolution
- Technical issues
- Regulatory issues
- Coordination issues
- The way forward
What is "Group Resolution"?

- Like many resolution-related terms, no clear definition
- Possible meanings:
  - coordinated resolution that preserves all critical functions of the group as a going concern
  - resolution at the highest point of entry of the consolidated group
  - resolution pursuant to group resolution scheme proposed by the group resolution authority
  - some or all of the above?
Group Resolution Scheme

- Proposed by group resolution authority
- Objectives of preserving value of group as a whole and minimising impact on financial stability
- Scheme needs to specify:
  - resolution actions for parent and/or other entities
  - how actions will be coordinated
  - financing plan for resolution
Group resolution options

- Basic options:
  - Bail-in
  - Good bank/bad bank

- Key drivers:
  - Loss of franchise value, deadweight costs, contagion risks of "sudden stop" insolvency or resolution
  - Complexity of separation issues
  - Need to establish unequivocal confidence in continuing operations
### Impact of Group Structure on Bail-In Funding

<table>
<thead>
<tr>
<th>Structure</th>
<th>Topco</th>
<th>Local entity</th>
<th>Mixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralised group</td>
<td>Green</td>
<td>Green</td>
<td>Orange</td>
</tr>
<tr>
<td>Integrated group</td>
<td>Green</td>
<td>Red</td>
<td>Red</td>
</tr>
<tr>
<td>Single entity/branches</td>
<td>Green</td>
<td>N/A</td>
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Technical Issues

- Termination and default rights, including cross-default
  - stays
  - scope of overrides
- Change in control issues, contractual and regulatory
- Central/essential services and relationships, e.g.
  - payment and settlement systems
  - financial market infrastructure, CCPs
  - management information systems
Home and Host Regulatory Issues

- Management
- Capital
- Liquidity
  - group liquidity
  - collateral demands
  - central bank/other funding
The Cooperation Challenge

- Limited experienced of complex group resolution (WaMu)
- For complex integrated groups, bail-in at parent level may work best
- However, parent-level bail-in:
  - requires clarity on worst-case losses
  - preserves structural seniority of local subsidiary creditors and may impose losses predominantly on parent jurisdiction creditors
  - will require substantial liquidity support in all jurisdictions
- Uncertainties:
  - will home authority trigger parent-level bail-in?
  - will host authorities contribute to liquidity?
  - will it be decisive enough?
Group Resolution: Incentives

Creditors

Megabank Holdings, Inc.

40% of Group liabilities

Creditors

Megabank US

Megabank Europe

60% of Group liabilities

Creditors
Coordination Issues

- Focus on individual country planning before group wargaming
- Multiplicity of resolution plans and options
- Size of Crisis Management Groups
- Tensions created by branches/passporting
- Absence of comprehensive mediation/arbitration role
- Inconsistent experience and resources
The Resolvability Cycle

Resolution plan → Resolvability assessment → Group restructuring → Resolution plan
The Way Forward

- Integrate resolution planning, wargaming, resolvability assessments and group restructuring
- Integrate resolvability as the "Fourth Pillar" of Basel, and provide appropriate incentives for better resolvability
- Make resolution plans, resolvability assessments and Peer Review more transparent, with appropriate mediation
- Incorporate analysis of regulators' incentives into resolvability assessments, with Peer Review
- Develop standards and concordats on these issues
Charles advises on corporate finance and public sector work. In the field of restructuring financial institutions, he advised HM Treasury on a range of assignments arising from the credit crunch, including Northern Rock; Bradford & Bingley; the Icelandic banks; the recapitalisation of the UK banking sector, including the investment of up to £45 billion in shares of RBS and £23 billion in shares of the merged Lloyds/HBOS; and the £280 billion Asset Protection Scheme.

Charles is included in the highest ranking for Corporate/M&A in *Chambers Global, 2012*.

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