

Practical Problems with Group Resolution

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Solution for Too Big to Fail?"

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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		
		Topco	Local entity	Mixed
Structure	Decentralised group			
	Integrated group			
	Single entity/ branches		N/A	N/A

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

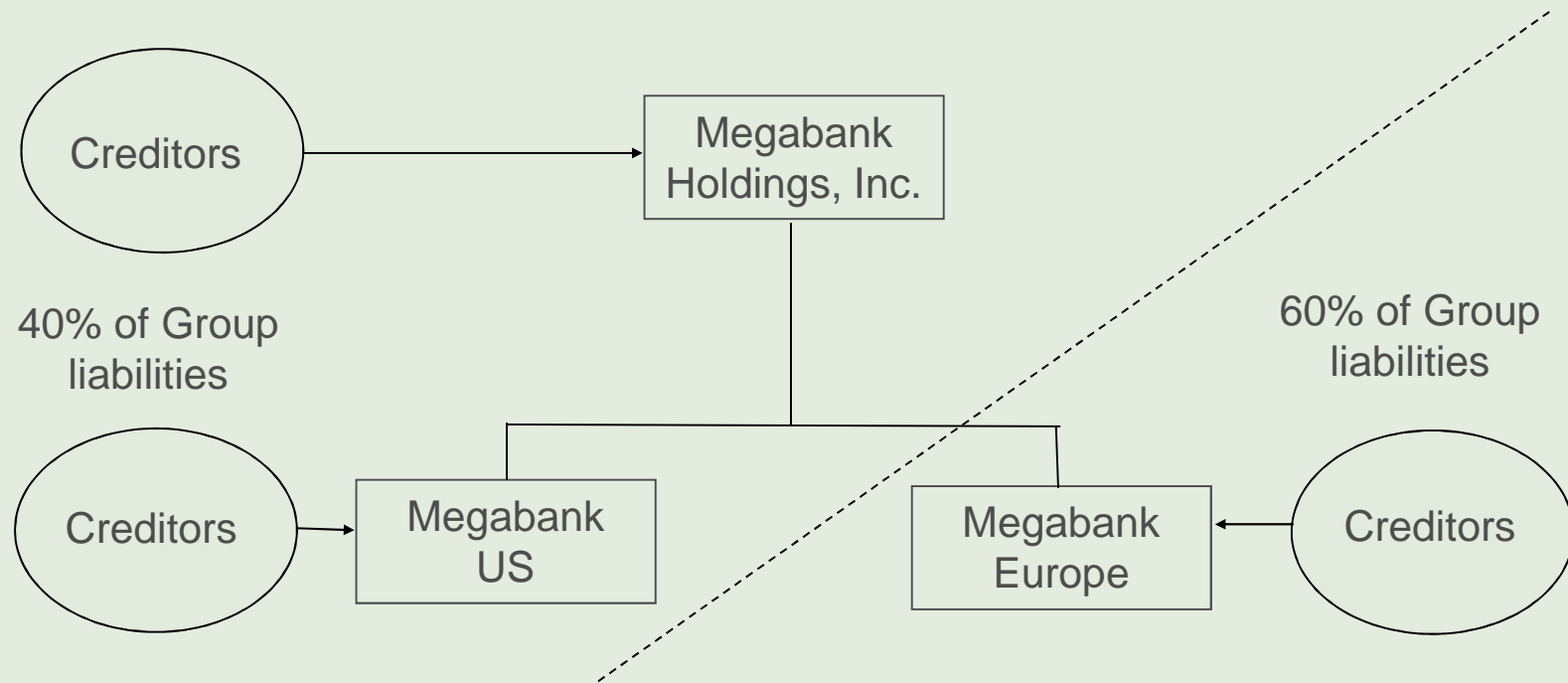
Home and Host Regulatory Issues

- 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?

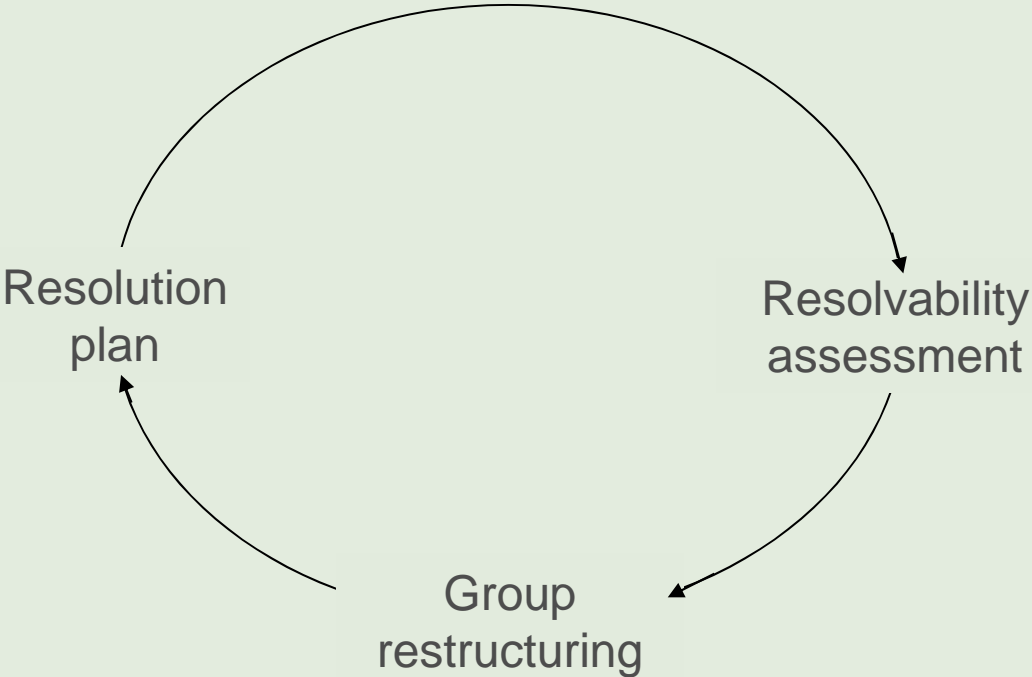
Group Resolution: Incentives



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



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

Profile



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Joined firm

1980

Partner since

1989

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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