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What If? Future Banking Failure Resolution – The UK As A Case Study

Webinar with Nicolas Véron

3pm (GMT) on Thursday, 17 December 2020





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What If? Future Banking Failure Resolution – The UK As A Case Study



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Agenda

15:00 – 15:05 Chairman's Introduction

15:05 – 15:30 Discussion with Nicolas Véron

- EU perspective on non-member stability
- Structural changes since 2007-2010
- Proximate cause?
- Early warning systems
- Today's key actors
- Sufi about SIFI's
- Rumsfeld moments

15:30 – 15:45 Questions & Answers



EU PERSPECTIVE ON NON-MEMBER STABILITY

From an EU perspective, what were the highlight causes and lessons learned from the financial crises from 2007 to 2010?

Who were the major actors at that time working to save the banks, particularly the three large British banks in trouble, i.e. RBS, Lloyds/HBOS, and Barclays?

UK Scenarios

- Cautionary tale of RBS 2007-08
- Open questions
 - Willingness to let go of a national banking champion?
 - Forbearance?
 - Bail-out?
 - Fiscal strength to address a systemic crisis?



STRUCTURAL CHANGES SINCE 2007-2010

What major structural changes have been made since those financial crises?

Which actors have new roles, and are there any old roles that have been surrendered?

Have recovery and resolution plans made any difference?

Has the FSB's SIFI designations made things clearer on what needs watching?

Resolution Framework

- In the UK: 2009 legislation, later EU BRRD
- In the EU: Bank Recovery & Resolution Directive (BRRD), in force since 2016
 - Failing of Likely to Fail (FOLTF) decision by Supervisor
 - Public Interest Assessment (PIA) by Resolution Authority
 - Positive PIA triggers resolution; negative PIA triggers [court-ordered] insolvency proceedings
- Few cases so far
 - Positive PIA: Banco Popular Español (June 2017), and two small banks in Denmark
 - Negative PIA: all others, incl. Veneto banks 2017
- BoE has signaled low-ish threshold for PIA

Speculating on a UK banking failure from an EU perspective, what's different now?
Take a major UK bank still having an overseas and capital markets presence, with say circa \$1.5 trillion in assets, putting it between 15th and 20th globally...

- **Bucket 3** (200bp): Citigroup, HSBC, JP Morgan Chase
- **Bucket 2** (150bp): Bank of America, Bank of China, Barclays, BNP Paribas, China Construction Bank, Deutsche Bank, ICBC, MUFG
- **Bucket 1** (100bp): Agricultural Bank of China, BNY Mellon, Credit Suisse, Goldman Sachs, BPCE, Crédit Agricole, ING, Mizuho, Morgan Stanley, Royal Bank of Canada, Santander, Société Générale, Standard Chartered, State Street, SMFG, Toronto Dominion, UBS, UniCredit, Wells Fargo



PROXIMATE CAUSE - POLL

What might be the proximate cause for failure?

1. Massive downward revaluation of commercial property in commuter-intensive cities
2. Wave of SME failures
3. Cryptocurrency exposures
4. Stranded carbon asset readjustment
5. Shadow banking & derivatives exposures

Theory & Practice

- Resolution by the book
 - Bank has issued MREL (Minimum Requirements for Own Funds & Eligible Liabilities = “bailinable capital”)
 - MREL “bailed in” to the extent necessary
 - Result: a bank that’s sound and strongly capitalized
- But that playbook is mostly untested
 - Will the market trust the new entity?
 - Will the bail-in create systemic ripples?
 - U.S. Orderly Liquidation Authority: similar questions
 - Precedents: Washington Mutual (2008)... Banco Popular (2017)... Baoshang Bank (2020)...

Cross-Border Resolution

- Even less tested than domestic
- Coordination Exercises on Cross-Border Resolution Planning
 - First: BoE & FDIC in 2014
 - SRB (EU Single Resolution Board) joined since 2016
 - Also supervisors (PRA, FRB, OCC, ECB), finance ministries (HMT, UST, EC), SEC & CFTC
- All precedents are old
 - e.g. BCCI (1991), Barings (1995), Fortis (2008), Dexia (2008)



EARLY WARNING SYSTEMS

What early warning systems are in place to detect a looming bank failure?

What measures are such systems using?



TODAY'S KEY ACTORS

Obviously the Bank of England (PRA) is a major actor here in the UK, but who else from outside the UK would now be materially involved? ECB, EBA, ESMA, US Treasury/OCC, Federal Reserve, IMF, BIS, World Bank, ...?

How has Brexit changed these relationships?



SUFI ABOUT SIFI'S

Aside from protecting the EU financial system, does the EU have a material role in any non-EU SIFI failure?

What tools does the EU have at its disposal to help?

Aside from protecting the USA financial system, does the USA have a material role in any non-USA SIFI failure?

What tools does the USA have at its disposal to help?



RUMSFELD MOMENTS

What are the big unknowns in non-EU banking resolution?

Any suggestions on how those unknowns could be reduced?



Thank You For Your Attention

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QUESTIONS & DISCUSSION, ANSWERS?





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Christmas Break

- Tuesday 5 Jan (11:00) [Brexit & Trade – New Ways Of Dealing With Paperwork](#)
- Thursday 7 Jan (11:00) [Charting a New Chapter: How To Establish And Maintain a Portfolio Career](#)

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