FSB FINANCIAL STABILITY BOARD

20 December 2019

Solvent Wind-down of Derivatives and Trading Portfolios (SWD)

Public summary of comments on the June 2019 Discussion paper

As part of its ongoing work to support efforts by authorities to develop resolution plans and actions to improve the resolvability of individual global systemically important banks (G-SIBs), including the solvent wind-down of derivatives and trading portfolios, the FSB published a discussion paper in June 2019 for consultation.[1] Six industry groups commented on the discussion paper, and several of these consolidated their efforts, resulting in the FSB receiving three comment letters for publication.[2]

Respondents supported the view that solvent wind-down planning is an integral part of recovery and resolution planning and needs to be **consistent with the home authority's resolution strategy and plan.**

After carefully considering these comments and the fact that SWD capabilities differ across jurisdictions, the FSB has decided not to develop further guidance on SWD at this stage. The FSB will continue to promote SWD planning as part of overall resolution planning.

Summary of comments on the consultative document

Rationale for SWD and future guidance

The discussion paper sought comments on the rationale for SWD planning and possible future guidance. Respondents generally opined that further guidance, if any, should be considered in a way that (i) **would limit or reduce regulatory divergence**; (ii) **acknowledge differing business model**s; and (iii) be **principles-based and capabilities-focused**. Respondents commented that any future guidance should also provide enough of a common framework to prevent resolution authorities from inadvertently developing fragmented requirements that are inconsistent across jurisdictions and therefore difficult for G-SIBs to implement. In addition, respondents were of the opinion that any future guidance should be proportionate and best considered in the context of the group resolution strategy. Respondents noted, for example, that for some strategies the primary objective in SWD is capital preservation, where in others the objective is liquidity generation.

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1 FSB (2019) *Solvent Wind-down of Derivatives and Trading Portfolios – Discussion paper for Public Consultation*, June.

2 The individual responses have been published on the FSB website.

Respondents generally thought that any requirements should apply consistently across the group in home and host jurisdictions, and be combined with effective cooperation between home and host authorities. The importance of authorities remaining engaged with the industry, through workshops or other means, was stressed by commenters, who also called for cost-benefit analyses to inform the development of any further guidance.

Several respondents shared the view that recovery and resolution are not sufficiently distinct as to require different SWD analyses. They suggested that in general, SWD analysis not be linked to specific scenarios. Commenters generally agreed that guidance, if developed, should not be prescriptive, as SWD is a tool that allows firms to respond to stress which may result in recovery or resolution. One respondent noted that SWD planning is not appropriate for all banks, nor in all scenarios.

Capabilities approach

The discussion paper identified firm capabilities necessary to support SWD, including the ability to perform the analysis necessary to support (i) the preparation of a wind-down plan, and (ii) timely assessment and analysis to be undertaken to support decision-making by management and authorities as the firm prepares for execution and executes the plan.

Respondents generally welcomed the capabilities approach and found that the FSB correctly identified key capabilities. Respondents noted that **not all capabilities identified in the discussion paper are specific to SWD**; for example, capabilities to access financial resources and to identify and mobilise unencumbered collateral.

Several respondents drew a distinction between capabilities to run a firm during a wind-down as compared to capabilities to provide forecasts, and opined that capabilities for forecasting and analysis should focus on prudent estimation methods to quantify financial resources required to manage a SWD without disruption to broader markets.

One commenter stated that it is counterproductive to develop tools that duplicate business-as-usual practices for forecasting and can be costly, complex, and create false comfort. Exit cost modelling is very complicated and has multiple external dependencies. Operational cost modelling is also very complex.

Regarding identifying and analysing various scenarios, respondents generally agreed that distinguishing between scenarios has limited value, and that increasingly sophisticated models to forecast scenarios lack incremental benefit. SWD is seen as relying on similar capabilities regardless of the scenarios, with disposal options being situation-dependent.

Evaluation and verification mechanisms

Respondents generally viewed the descriptions of verification mechanisms presented in the paper as comprehensive. They noted, however, that any mechanisms should not be obligatory, and that skilled independent third parties to conduct verification across several firms would be difficult to secure due to confidentiality concerns and the challenges of becoming familiar with the proprietary systems of each firm.

Home/host cooperation

Respondents generally supported cooperation between home and host authorities. One respondent agreed that while home/host cooperation is essential, this is common to all aspects of resolution planning, so does not require any specific focus in the case of SWD planning. Another respondent suggested that compliance with SWD requirements in a G-SIB's home jurisdiction be regarded as sufficient to establish compliance with any host's requirements.

One respondent supported cooperation within crisis management groups, noting however that G-SIBs should not be required to make any assumptions with respect to SWD of foreign subsidiaries' derivatives that would be inconsistent with or unduly burdensome compared to assumptions that should be made for SWD of derivatives in the home jurisdiction. Other commenters noted that SWD on a jurisdiction-by-jurisdiction basis is not feasible, and suggested that host regulators have access to and could rely on a firm's home resolution plan for purposes of SWD planning.

Other considerations

In response to the invitation in the public consultation to suggest additional actions not covered in the paper that could be taken by authorities or firms to help facilitate successful SWD in the event of resolution, respondents suggested advancing work through dedicated workshops, simulations, fire drills and other testing exercises. They also noted that SWD planning should only be applied if proportionate and if justified by the significance of the derivatives and trading book activities. They noted that the focus of SWD planning efforts should be on large banks with significant trading book activities, noting that any guidance should not apply to internal hedging.