FSB FINANCIAL STABILITY BOARD

Press release

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FSB publishes Second Thematic Review on Resolution Regimes

The Financial Stability Board (FSB) published today the *Second Thematic Review on Resolution Regimes*. This report forms part of a series of peer reviews to support timely and consistent implementation of the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (Key Attributes). The Key Attributes set out the core elements of effective resolution regimes that allow authorities to resolve financial institutions in an orderly manner without taxpayer exposure to loss, while maintaining continuity of their vital economic functions.

The peer review examines the range and nature of resolution powers available to authorities for the banking sector in FSB jurisdictions, as well as any requirements for recovery and resolution planning and resolvability assessments for domestically incorporated banks. The main findings of the review are as follows:

- Only a subset of the FSB membership – primarily home jurisdictions of global systemically important banks – currently have a bank resolution regime with a comprehensive set of powers broadly in line with the Key Attributes. The bank resolution powers that are most often lacking are explicit continuity powers, bail-in powers, and powers to impose a temporary stay on the exercise of early termination rights.[1] The reforms underway in a number of FSB jurisdictions address some, but not all, of the gaps in bank resolution powers compared with the Key Attributes.
- While resolution regimes generally apply to all types of commercial banks, the coverage of holding companies of banks, branches of foreign banks and material non-regulated operational entities within a financial group is more variable across FSB jurisdictions.
- There is also significant variation across FSB jurisdictions in the conditions for the use of resolution powers and their level of detail.
- More progress has been made in terms of putting in place processes for recovery planning compared to resolution planning or resolvability assessments. Only nine jurisdictions currently have explicit statutory powers to require banks to adopt appropriate measures to improve their resolvability.

[1] "Continuity" is the power for the resolution authority to ensure continuity of essential services and functions by requiring other companies in the same group to continue to provide essential services to the entity in resolution, any successor or an acquiring entity. "Bail-in" is the power to write down liabilities and to convert creditors' claims into equity or other instruments of ownership of the firm (or its successor), either by recapitalising the entity that provides essential functions or by capitalising a newly established entity or bridge institution to which the functions have been transferred. "Stay" is the power to temporarily stay the exercise of early termination rights that may otherwise be triggered upon entry of a firm into resolution or in connection with the use of resolution powers.

The peer review makes a number of recommendations to FSB jurisdictions to address the identified gaps so as to fully implement the Key Attributes. These are:

- Introduce missing powers in bank resolution regimes;
- Review and extend as necessary the scope of their regimes;
- Introduce recovery and resolution planning requirements for all banks that are potentially systemic in failure; and
- Adopt powers to require banks to take measures to improve their resolvability.

By December 2016 jurisdictions will report to the FSB what actions they have taken, or plan to take (including implementation time frames), in order to address these gaps.

As a follow-up to another review recommendation, the FSB will provide additional clarification and guidance in certain areas to assist jurisdictions in effective and consistent implementation of the Key Attributes, and to enhance, in collaboration with international financial institutions and other bodies, the sharing of experiences and practices on resolution regimes.

Ravi Menon, Managing Director of the Monetary Authority of Singapore and Chairman of the FSB's Standing Committee on Standards Implementation (SCSI) that oversaw the preparation of the peer review, said "Resolution reforms are a critical component of the policy framework for addressing the too-big-to-fail problem. Continued rigorous monitoring is needed to promote full and consistent implementation of these reforms to safeguard financial stability."

Fernando Restoy, Deputy Governor of the Bank of Spain and Chair of the peer review team on resolution regimes, said "Progress continues to be made in strengthening bank resolution regimes in FSB jurisdictions. But the report highlights that substantial work remains to put in place a full set of resolution powers and recovery and resolution planning requirements. Authorities must intensify their efforts to implement fully the Key Attributes."

Notes to editors

The FSB began a regular programme of peer reviews in 2010, consisting of thematic reviews and country reviews. Thematic reviews focus on the implementation and effectiveness across the FSB membership of international financial standards developed by standard-setting bodies and policies agreed within the FSB in a particular area important for global financial stability. Thematic reviews may also analyse other areas important for global financial stability where international standards or policies do not yet exist. The objectives of the reviews are to encourage consistent cross-country and cross-sector implementation; to evaluate (where possible) the extent to which standards and policies have had their intended results; and to identify gaps and weaknesses in reviewed areas and to make recommendations for potential follow-up (including through the development of new standards) by FSB members. Peer reviews are conducted according to the objectives and guidelines set out in the *Handbook for FSB Peer Reviews*. All published peer review reports are available on the FSB website.

The Key Attributes are the international standard on resolution regimes for financial institutions, and form a key component of the FSB's policy framework to address the moral hazard and systemic risks associated with institutions that are too-big-to-fail. They were first issued by the FSB in November 2011 following their endorsement by G20 Leaders at the Cannes Summit. To ensure timely and effective implementation, the FSB is carrying out an iterative series of peer reviews on the implementation of the Key Attributes.

The second peer review on resolution regimes is the eleventh thematic peer review conducted by the FSB. The report published today describes the findings and conclusions of this review, including the key elements of the discussion in the FSB SCSI. The draft report was prepared by a team of experts drawn from FSB member institutions and led by Fernando Restoy, Deputy Governor of the Bank of Spain.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.