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c/o Bank for International
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Subject: Effective Resolution of Systemically Important Financial Institutions:
Recommendations and Timelines

Dear Svein,

The Italian Banking Association (ABI) welcomes the opportunity to comment the FSB's consultative document on effective resolution of Systemically Important Financial Institutions (SIFIs).

We are pleased to note that the proposed policy recommendations for the convergence of the national resolution regimes clearly recognise the need to set up special solution for financial institutions.

The resolution tools put under consultation are effective and coherent with the best practices under discussion at international level. The proposals to strengthen the cross border cooperation in the case of a crisis are reasonable and ambitious.

Further progresses are nevertheless required; ABI suggests reinforcing the resolution arrangements and the home/host relationships in crisis management through promoting (cross border) legally binding means such as Concordats which set out principles for cooperation, exchange of information and appropriate allocation of responsibilities between home and host resolution authorities.

In other words, the Concordat should be therefore seen as a legal way to recognise the economic unity of integrated cross-border banking groups and the role of the parent company within the group, both in good times and in crisis.

To ensure an effective management of a crisis, in fact, the Concordat should provide for the home resolution authority to have the primary responsibility for coordinating the process, ensuring appropriate flows of information and joint decision making, while guaranteeing equitable treatment of creditors. This would permit to avoid ring-fencing and to minimise the need of intra-group guarantees – and in particular ‘blanket guarantees’ – for SIFIs with multiple legal entities.

The FSB could play a decisive role setting up a Model of Concordat which would ensure a level playing field at global level.

ABI believes that solutions put up for discussion by the FSB on bail-in within resolution do not appear to be appropriate because they could have the effect of increasing banks’ cost of funding and encumber their capacity to obtain funds on the market, as recently demonstrated by the introduction of bail-in rules in Denmark.

In fact, although the recent decision of the Basel Committee to assign the supervisory authorities the power to write down (or convert to ordinary shares) instruments included in regulatory capital as a going concern is acceptable, it is not appropriate to extend said power to senior debts.

In order to justify the sacrifice of creditors’ rights and not to undermine the priority ranking in insolvency, senior debts should bear the cost of the crisis only in a gone concern situation, i.e. after equity instruments and subordinated debts have first absorbed the losses, and that contractual bail-in, if any, was triggered and absorbed the losses as well. In other words, it is not acceptable to grant a full discretionary power to authorities.

We are rather sceptical on the proposal to set temporary funding to achieve the objectives of an orderly resolution. Even if we agree that deposit guarantee schemes could contribute in smoothing the process, the residual losses in case of an orderly resolution should be borne by the creditors of the bank, as it happens for “normal” corporate liquidation procedures.

In addition, ABI believes that considering a purely national dimension for the funds could aggravate the different resolution authorities' tendency to engage in ring fencing in the case of cross border crises.

As a final point, we encourage the FSB to submit proposals as regards the introduction of an international large exposures regime, as requested by the G-20 Leaders in their Summit in Seoul.

The underlying idea is to use the ongoing supervision tools as crisis-prevention tools; therefore any proposal that is able to reduce an excessive risks-taking, incentive the adoption of traditional banking business models and create robust core financial market infrastructure to reduce contagion risk from individual failures should be welcomed.

Yours sincerely,


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