CREDIT SUISSE AG
Paradeplatz 8
P.O. Box
CH-8070 Zurich
Switzerland

Phone 044 333 66 50
Fax 044 337 01 86
www.credit-suisse.com

Financial Stability Board
CH-4002 Basel

Per email to:
fsb@fsb.org

Volker Bätz

044 333 2882
volker.baetz@credit-suisse.com

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Funding Strategy Elements of an Implementable Resolution Plan
Consultative Document dated 30 November 2017

Dear Sirs:

Credit Suisse welcomes the opportunity to comment on the Financial Stability Board's proposed guidance on Funding Strategy Elements of an Implementable Resolution Plan. Credit Suisse is a longstanding supporter of efforts to put in place credible G-SIB resolution strategies and ending Too-Big-To-Fail. Establishing a funding plan is a key element in credible resolution planning. Setting guidance in this area is challenging as it needs to be sufficiently developed to be effective yet flexible enough to cater for the needs of a diverse group of banks and a wide array of resolution events the characteristics of which can never be fully predicted.

Funding of firms in resolution is one of the FSB's "Key Attributes" of Effective Resolution Regimes for Financial Institutions. In its subsequent "Guiding Principles" on the Temporary Funding Needed to Support the Orderly Resolution of a Global Systemically Important Bank, the FSB formulated guidance which favoured reliance on private sector sources of funding in resolution and detailed the types of temporary public sector backstop mechanisms available to firms highlighting however the need to minimise the associated moral hazard risk.

The current Consultation Document is an extension of the Guiding Principles. It focuses on the capabilities required to simulate and measure different resolution strategies or market scenarios and report the liquidity and funding requirements associated with them. It also provides guidance to the resolution authorities on how to develop resolution funding plans including potential temporary public sector funding and support. It also sets expectations in terms of information sharing and cooperation amongst the various authorities.

Before answering the specific questions in the Consultation Document, Credit Suisse would like to encourage the Financial Stability Board to include some overarching principles in its final recommendations:

- G-SIBs should be allowed to tailor their funding in resolution capabilities to their preferred resolution strategy (e.g. single point of entry "SPOE" bail-in in the case of Credit Suisse Group).
- Any analysis on the funding and liquidity requirements to execute alternative resolution scenarios should be dealt with as an overlay.
- The funding of the G-SIB in business as usual should remain governed by the prevailing prudential regulations as well as the firm's internal liquidity and funding framework. No expectation should be set for the modelled funding in resolution requirements to be fully pre-funded as conditional liquidity/funding structures cannot be depended on in a crisis situation. Further, the existing calibration of NSFR and LCR/Reg YY measures should be sufficient to provide funding in a resolution event. Indeed, the SWD approach explicitly requires such an analysis so why should additional pre-funding be required? It is legitimate however that banks be expected to establish credible resolution funding plans including making provisions to ensure access to alternative sources of funding.
- Co-operation amongst regulators and central banks (e.g. in regard to FX swap lines) should be emphasized as a key pre condition to the establishment of an effective resolution funding plan. This is essential if the risk of ring fencing and its adverse effects on managing a global crisis is to be mitigated. In particular, we feel that the onus is unfairly placed on banks to manage possible cross-border collateral and funding impediments when in fact much of these risks could be mitigated by stronger regulatory cooperation.

Question 1. Do the funding strategy elements in the consultative document address all relevant aspects of a resolution funding plan? What other aspects, if any, should be considered?

Yes broadly they do. There are three specific aspects we would like to emphasise however.
Firstly, we believe that greater insistence should be placed on clarifying that in times of stress banks may dip below regulatory liquidity limits. Having this principle accepted by the regulators is essential in helping size the liquidity needs do deal with such events. We would advocate that banks should, during the stabilisation phase of resolution, focus on ensuring that adequate levels of High Quality Liquid Assets or HQLA are maintained at Group level to ensure the orderly implementation of the preferred resolution strategy and the maintenance of critical operations. Only for those parts of the bank which are expected to be maintained as going concern, should the resumption of full going concern regulatory compliance be the objective within a reasonable time frame. This strategy relies on the understanding that it can be applied across jurisdictions, under a common and consistent approach, which the full endorsement of the relevant regulators.
Secondly, also of importance to us is the need to limit the extent to which the HQLA required to facilitate resolution are prepositioned in the various MLEs. Achieving this requires containing the risk of ring fencing which, as previously mentioned, is a serious impediment to an orderly resolution process. The establishment of effective cooperation agreements between the regulators would help significantly in this respect.
Thirdly, the guidance should also explicitly foresee that banks can establish their liquidity and funding resolution plans based on their internal liquidity risk stress models albeit with the required modifications built in to allow for the adjustments required for a resolution event.

Question 2. Do you foresee any challenges in the development of firm capabilities to facilitate the execution of the funding strategy, as set out in section 1?

A number of challenges have been identified and in some cases already mentioned as part of our response to question 1. above:

a) Being able to determine and agree ex-ante what is the firm's preferred resolution strategy at a Group level and for each MLE (which are to be wound down, sold, transferred and which should maintain going concern) so that the appropriate resolution funding plan can be established,
b) Linked to a) is getting clarification and an agreement with the regulators on the scope and timing of resumption of full regulatory liquidity compliance for the various entities,
c) Getting regulators to come up with a consistent or at least complimentary approach when developing requirements around funding in resolution. This is essential for us as our preferred resolution strategy is SPOE bail-in which entails that the coordination of funding in resolution is expected to be the remit mainly of our Home authorities,
d) The ability to anticipate and identify legal and regulatory obstacles to the transfer of liquidity between the MLEs. This point naturally links back to the concern we raised a number of times already in this letter around the risks posed by a lack of regulatory cooperation including ring fencing,
e) The development of liquidity models for resolution will vary in its complexity depending notably on the leeway afforded to banks to use their own established internal models.

Question 3. Does section 1 identify all relevant aspects for estimating liquidity needs for resolution? What other aspects, if any, should be considered?

An important benefit that should be considered is the portfolio effect that comes from managing funding from a consolidated perspective. However that potential benefit is jeopardised if the risk of ring fencing is not mitigated.

Question 4. Are there any obstacles to the identification and mobilisation of assets that could be used as collateral for both private and temporary public sector backstop sources of funding? How might any such obstacles be addressed?

Two potential issues come to our mind: 1. identification of asset encumbrance and 2. operational transferability.

1. Unless a bank has solid reporting on asset encumbrance down to the entity level it is difficult for it to fully establish what its pledging capacity is.
2. Then there is the issue of operationally how to effect the pledge especially if one entity has the assets and another needs them (this complexity increases if the entities are in different jurisdictions). This issue can potentially be even more problematic if we consider concerns around intercompany frictions or ring fencing.

Question 5. Are there any other actions that should be taken by G-SIBs and authorities to support the development and implementation of resolution funding plans?

None currently identified although we would emphasise that whilst considerable work needs to be done by the banks in this space it is equally important that regulators establish credible and comprehensive cooperation agreements between themselves to help mitigate obstacles to funding in resolution.

In case of any queries or questions on our comments, please do not hesitate to contact us.

Yours sincerely

CREDIT SUISSE AG

Will Davey
Managing Director

Volker Baetz
Managing Director

cc: FINMA