

# Funding Strategy Elements of an Implementable Resolution Plan

## Overview of Responses to the Public Consultation

### Introduction

On 30 November 2017, the FSB published a consultative document – [\*Funding Strategy Elements of an Implementable Resolution Plan\*](#) – that proposed guidance on the development of a plan for funding in resolution building on the FSB’s August 2016 [\*Guiding Principles on the temporary funding needed to support the orderly resolution of a global systemically important bank \(G-SIB\)\*](#) and existing supervisory and resolution guidance on liquidity risk management and resolution planning. It identified a set of key funding strategy elements covering:

- firm capabilities to support monitoring, reporting and estimating funding needs in resolution and to facilitate execution of the funding strategy;
- the development of a resolution funding plan by the authorities;
- the use of firm assets and private sources of funding;
- access to temporary public sector backstop funding mechanisms and ordinary central bank facilities; and
- information sharing and coordination between authorities.

The FSB received eight responses to the public consultation from G-SIBs, industry associations, settlement system operators and official sector bodies.<sup>1</sup> Respondents generally welcomed the consultative document and its focus on the operational aspects of executing a funding strategy in resolution. In particular, they supported the emphasis on the maintenance by G-SIBs of appropriate capabilities for monitoring and estimating funding needs in resolution and on the need for effective international coordination among home and host authorities in the development and execution of resolution funding plans.

This note summarises the comments raised in the public consultation and sets out the main changes that have been made to the guidance (‘the final guidance’) to address them.

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<sup>1</sup> The comment letters are published on the FSB’s website: <http://www.fsb.org/2018/02/public-responses-to-the-consultation-on-funding-strategy-elements-of-an-implementable-resolution-plan/>.

## Summary of Main Issues

### *Disclosure of resolution funding plans*

Two respondents expressed the view that home resolution authorities should publish a general overview of their resolution funding plans, or release a public version of each section of the resolution funding plan conveying key policies. These respondents argued that disclosure of resolution funding plans may increase market confidence in public authorities' exercise of their resolution powers and allow the market to assess the residual value of failed institutions more accurately. This could help to preserve financial stability.

Section 4 of the final guidance recognises the need for disclosure of the general framework for temporary public sector backstop funding mechanisms, including “how and under what conditions funding from such mechanisms could, at a general level, potentially be made available to a firm in resolution”. However, the final guidance does not contemplate disclosure of resolution funding plans as a whole. While such disclosure could increase transparency and market confidence in resolution, it may also give rise to confidentiality concerns and moral hazard risk. The FSB will consider issues relating to disclosure in further detail as part of separate work on public disclosure on resolution planning and resolvability.

### *Communication*

A number of respondents stated that the guidance should underscore the importance of home and host authority cooperation in developing a strategy for communication with stakeholders and the public. These respondents suggested that such a strategy should make clear that authorities should communicate at the point of entry into resolution that the bank is solvent and has access to liquidity sources, and outline the key elements of the funding plan (e.g., use and availability of internal and private sources of funding, availability of backstop mechanisms, availability of ordinary central bank facilities). The FSB recognises the importance of communication with stakeholders and to the public to successfully implement a resolution action. Accordingly, Section 5.2 of the final guidance identifies the need for a “market communications strategy that can be used by the relevant authorities as the firm enters into resolution to provide information to the market on the steps being taken to ensure that the firm can meet its obligations as they fall due”. Issues relating to resolution communication are also addressed in the FSB's *Principles on Bail-in Execution*.<sup>2</sup>

### *Regulatory requirements*

Some respondents expressed the view that the guidance should clarify that regulatory liquidity limits can be breached in resolution as well as in a stress period. One of these respondents also suggested that the draft guidance should clarify the scope and timing for a firm in resolution to resume full compliance with regulatory requirements on liquidity. Accordingly, section 2.2 of the final guidance clarifies that a firm could fall below minimum liquidity coverage ratio (LCR) requirements during recovery “and resolution”. The FSB considers that compliance with

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<sup>2</sup> See *Principles on Bail-in Execution* (<http://www.fsb.org/2018/06/principles-on-bail-in-execution-2>), 21 June 2018.

regulatory requirements for a firm in resolution is a supervisory matter that falls outside the scope of the work to provide guidance on the development of a resolution funding plan.

#### *Role of correspondent banks/nostro agents*

One respondent argued that correspondent banks / nostro agents play an important role with respect to funding in foreign currencies and should therefore be specifically identified in resolution funding plans. For that reason, this respondent stated, there is a need for information sharing and coordination with the relevant authorities in jurisdictions where nostro agents are located and that resolution funding plans should identify requirements that nostro agents may impose and establish a plan to ensure that such requirements are met. To address this, Section 4.4 of the final guidance explains that the resolution funding plan should “identify correspondent banks or nostro agents used by the firm to facilitate access to central bank and non-central bank operated payment and settlement systems”. The FSB 2017 guidance on *Continuity of Access to Financial Market Infrastructures (FMIs) for a Firm in Resolution* includes additional measures related to FMI intermediaries, which may include correspondent banks or nostro agents.<sup>3</sup>

#### *Failure scenarios*

Several respondents commented on the “slow burn” and “fast burn” failure scenarios described in Section 3.2 of the guidance. One respondent said the guidance should more clearly distinguish between the two scenarios and their implications for firms’ funding capacity, while three other respondents argued that analysis and modelling of alternative failure or resolution scenarios should be less of a priority, and that the focus should instead be on the preferred resolution strategy and the central scenario defined by the resolution authority. Section 3.2 of the final guidance no longer refers to the need for authorities to consider “different scenarios” and instead adopts a more general reference to a consideration by authorities of how the circumstances leading to the potential failure of a firm may affect funding needs. In this context, the “slow burn” and “fast burn” failures are listed as examples only.

#### *Information sharing and coordination between authorities*

A few respondents commented on Section 5 of the draft guidance on information sharing and coordination between authorities. Two respondents expressed the view that authorities need to establish credible and comprehensive cooperation agreements to mitigate obstacles to funding in resolution, including in particular the cross-border mobilisation of collateral. One respondent stressed the need for greater clarity on the respective responsibilities of supervisory and resolution authorities, while two other respondents suggested that communication between resolution authorities and banks themselves should also be considered. Section 5.2 of the final guidance highlights the need for authorities to consider how to address impediments to the mobilisation of collateral located in different jurisdictions. As regards the division of responsibilities between different authorities and banks, no further detail has been introduced

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<sup>3</sup> The guidance defines an FMI intermediary as “an entity that provides clearing, payment, securities settlement and/or custody services to other firms in order to facilitate the firms’ direct or indirect access to an FMI” and sets out arrangements to support continuity of access to such intermediaries for a firm in resolution. See *Guidance on Continuity of Access to Financial Market Infrastructures (“FMIs”) for a Firm in Resolution* (<http://www.fsb.org/wp-content/uploads/P060717-2.pdf>), 6 July 2017.

in the final guidance as institutional frameworks and arrangements differ across FSB jurisdictions.

*Scope of the guidance*

The guidance focusses on the development of resolution funding plans for G-SIBs. Two respondents suggested that the FSB should clarify the application of the guidance to firms other than G-SIBs. The application of the guidance to different types of firms is the responsibility of national authorities. Nevertheless, the final guidance notes that “the guidance, or parts thereof, may also be relevant for other firms subject to resolution planning requirements at a jurisdictional level”.