FSB FINANCIAL STABILITY BOARD

Press release

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FSB releases consultation documents on measures to address systemically important financial institutions

The Financial Stability Board (FSB) and the Basel Committee on Banking Supervision are today launching a public consultation on two documents that set out proposed measures to address the systemic and moral hazard risks posed by systemically important financial institutions (SIFIs). The measures implement the framework contained in the FSB's recommendations endorsed by the G20 Leaders in November 2010.

The consultative document on **Effective Resolution of Systemically Important Financial Institutions** sets out a comprehensive package of proposed policy measures to improve the capacity of authorities to resolve failing SIFIs without systemic disruption and without exposing the taxpayer to the risk of loss. The proposed measures comprise four key building blocks:

- **Strengthened national resolution regimes** that give a designated resolution authority a broad range of powers and tools, including statutory bail-in, to resolve a financial institution that is no longer viable.
- **Cross-border cooperation arrangements** in the form of institution-specific cooperation agreements, underpinned by national law, that will enable resolution authorities to act collectively to resolve cross-border firms in a more orderly, less costly, way.
- **Improved resolution planning by firms and authorities** based on *ex ante* resolvability assessments that should inform the preparation of Recovery and Resolution Plans.
- **Measures to remove obstacles to resolution** arising from complex firm structures and business practices, fragmented information systems, intra-group transactions, reliance on service providers and the provision of global payment services.

To help inform its final resolution related recommendations, the FSB is also releasing two discussion notes for comments. A note on **Creditor hierarchy, depositor preference and depositor protection in resolution** seeks views on the impact on effective resolution of differences in the ranking of creditors' claims, in particular in the treatment of deposit claims. Another note on **Conditions for imposing temporary stays** discusses the possible conditions under which a temporary suspension of contractual early termination rights should apply to support the implementation of certain resolution tools.

The second consultative document on **Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement** sets out a methodology for assessing the global systemic importance of banks, the magnitude of added loss absorbency that globally systemic banks should have, and the proposed arrangements by which these requirements will be phased in. This document was prepared by the Basel

Committee on Banking Supervision, in close cooperation with the FSB. A separate press release on this document has been issued by the Basel Committee.

The two consultation documents form part of the broader FSB policy framework for SIFIs which also includes more intensive and effective supervisory oversight and improvements in financial market infrastructures to reduce contagion risks. The FSB, in cooperation with the international standard setting bodies, will carry out further work to address global systemically important insurers, domestic systemically important banks, other systemic financial firms and financial market infrastructure.

Mario Draghi, Chairman of the Financial Stability Board, noted that "Many countries entered this crisis without a proper resolution regime. Where effective resolution tools existed, these did not address the cross border dimension or obstacles to resolution stemming from complex firm structures and business practices. This meant that proper market discipline was not in place in the years preceding the crisis and made the handling of the crisis more difficult. The proposed resolution measures will address these shortcomings. Alongside the strengthening of the loss absorbency of globally systemic banks, these measures will create strong incentives for institutions to reduce their systemic importance and foster a safer and sounder financial system over time."

The FSB welcomes comments and responses to the questions raised in the consultative documents. Responses to the FSB resolution document should be sent to fsb@bis.org by **Friday 2 September 2011,** and those on the Basel Committee's document to baselcommittee@bis.org by **Friday 26 August 2011**.

The final recommendations will be submitted to the G20 Leaders Summit in Cannes on 3-4 November 2011.

Notes to editors

The G20 Leaders at the Seoul Summit on 11-12 November 2010 endorsed the FSB policy framework for reducing the moral hazard of SIFIs whose disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity. The framework calls for action in five areas:

- First, improvements to resolution regimes so that any financial institution can be resolved without disruptions to the financial system and without taxpayer support.
- Second, a requirement that SIFIs and initially in particular global SIFIs (G-SIFIs) have additional loss absorption capacity beyond the Basel III standards to reflect the greater risks that these institutions pose to the global financial system.
- Third, more intensive supervisory oversight for financial institutions which may pose systemic risk.
- Fourth, stronger standards for the robustness of core financial market infrastructure to reduce contagion risks from the failure of individual institutions.
- Fifth, peer reviews by an FSB Peer Review Council of the effectiveness and consistency of national policy measures for G-SIFIs.

Home jurisdictions for G-SIFIs will coordinate assessments of the risks facing the G-SIFIs through international supervisory colleges; make international recovery and resolution planning mandatory for G-SIFIs; negotiate institution-specific crisis cooperation agreements within cross-border crisis management groups; and subject their G-SIFI policy measures to review by the FSB Peer Review Council.

The FSB Peer Review Council will consist of senior members of the relevant home and host national authorities having G-SIFIs operating in their jurisdictions. It will conduct an initial assessment of implementation of national G-SIFI policies by end-2012 and thereafter report annually to the FSB on the adequacy and global consistency of national G-SIFI policies.

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 is chaired by Mario Draghi, Governor of the Bank of Italy. 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.financialstabilityboard.org.