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Planning is everything: the FSB's Key Attributes and what we have learnt from them

10 Years of the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions

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and

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I am honoured to speak here as new Financial Stability Board (FSB) chair at this special occasion.

Last month marked 10 years since the *Key Attributes of Effective Resolution Regimes for Financial Institutions* were endorsed by G20 Leaders in Cannes as an international standard.

Developed in the aftermath of the 2008 Global Financial Crisis, as part of a sweeping reform agenda, the Key Attributes were designed to tackle the problem of "too big to fail" financial institutions. One of the lessons of the Global Financial Crisis was the need to establish effective resolution regimes. This was necessary to ensure that the cost of a failure in a systemic financial institution would not be borne by taxpayers.

The Key Attributes aim to achieve this goal -- that if a firm fails, it can be resolved without severe disruption to the financial system and without exposing taxpayers to losses. To this end, the Key Attributes set out a range of tools, aimed at providing authorities with sufficient powers and control over the resolution of financial institutions. And they ensure a consistent approach to the design of resolution regimes across jurisdictions and facilitate cross-border coordination in a crisis.

[1] The views expressed in these remarks are those of the speaker in his role as FSB Chair and do not necessarily reflect those of the FSB or its members.

The Key Attributes were developed to be the gold standard resolution framework. They have been the backbone of cross-border coordination for crisis management and resolution. They have helped guide many countries around the world in establishing national resolution regimes in a way that is consistent across jurisdictions but takes account of country-specific details. The FSB has been greatly assisted in doing this by the collaboration of the IMF and World Bank on assessment methodologies.

As a result of the Key Attributes, a whole resolution infrastructure has developed over the past 10 years. This goes for the banking sector, as well as for insurers and CCPs, albeit at a less advanced level in most jurisdictions. Today, in many countries designated resolution authorities are in place that possess the necessary legal powers and operational capacity to intervene in and resolve financial institutions that are no longer viable. For internationally active firms, crisis management groups, underpinned by cross-border cooperation agreements, have been established. Global systemically important financial institutions, or G-SIFIs, have established Recovery and Resolution Plans. They have worked on removing barriers to resolvability. And resolvability assessments are being conducted to evaluate the credibility and feasibility of resolution strategies.

But, 10 years on, can we claim success? While the Key Attributes have been instrumental in addressing the too-big-to-fail problem, the orderly resolution of a troubled G-SIFI has not yet been tested. And new challenges may arise, either from the organic evolution of a firm's business or from external influences. So let me park the question about "success" for a moment.

Let us instead recall why the resolution reforms are so important. Prior to the Key Attributes, authorities had to rely on general bankruptcy laws and insolvency liquidation that was completely unsuitable for financial institutions. Particularly for those institutions that provide critical economic functions that need to be maintained. These weaknesses in dealing with insolvent financial institutions became very clear during the Global Financial Crisis. In September and October 2008, I participated, as a senior aide to the previous governor, in the crisis management meetings in Brussels to prevent the imminent collapse of Fortis, the former Belgian-Dutch financial conglomerate. In retrospect, the issues we encountered during those days tick almost every box of the Key Attributes. But the Key Attributes did not exist at that time, so we had to improvise. For example, the authorities did not have the legal instruments to impose losses on shareholders while keeping the conglomerate running. The existing framework for information sharing and policy coordination between the home and host supervisors was flawed, to put it mildly. And there was no pre-arranged plan for funding in the case of resolution. I remember that once the agreement was struck about nationalisation of the Dutch parts of Fortis, the Dutch State Treasury had to go to the market for €50 billion practically overnight. A large part of this was needed to secure funding for Fortis Bank Netherlands. €50 billion, that was almost one fifth of our pre-crisis national debt. And I could go on. It could easily have become our European Lehman-moment.

After the Global Financial Crisis, there was widespread agreement that we needed new instruments to be able to let financial institutions fail in an orderly manner. But how to do it? Making banks and insurers resolvable was an idea that – to most countries – was completely new. How could we operationalise an idea that could work across widely different countries? An idea that until then had only existed in people's heads?

This is what has made the Key Attributes ground-breaking. They not only answered the questions: what does an effective resolution regime look like? And what are its key building blocks? They also provided the building instructions. Starting from the end goal and then working backwards. Concrete enough to get to work, and high level enough so that it would be applicable in widely different jurisdictions. In that way, it made the translation from the drawing board to actual practice. That was an extraordinary achievement.

But perhaps the most important change the Key Attributes have brought about is that, apart from setting a standard for resolution regimes, they also introduced a planning requirement. As US President Eisenhower said, "plans are worthless, but planning is everything". This is true for all forms of crisis management. Resolution planning for systemic financial firms has been instrumental in identifying and addressing a multitude of legal and operational issues that could form an obstacle to orderly resolution. This has also greatly improved capabilities at firms and other stakeholders to support resolution.

Making financial firms resolvable is a long process. The FSB's Too-Big-To-Fail evaluation that was completed earlier this year showed that implementation is very advanced in jurisdictions that are home to banks designated as globally systemically important, more commonly known as G-SIBs. But implementation could still be improved in jurisdictions that are not home to G-SIBs. After all, other banks can also be systemic nationally or cross-border. And while authorities and firms may now on paper be better prepared for a crisis, this also needs to be tested through dry-runs and other means to gain assurance. And external stakeholders may need to also play their part if a firm were to be resolved. So, practical and operational cooperation and communication deserve specific attention as part of this.

I guess the job will never be completely finished and it is not meant to be. Resolution planning is an ongoing process that has become an indispensable complement to going concern prudential supervision. Indeed, the FSB's Resolution Report – published today – flags digital innovation as an emerging challenge that will need be addressed in resolution planning. But, returning, to my earlier question: in light of the very significant progress made, and conscious of the work still to be done, I think it is altogether fitting that we celebrate this 10-year anniversary as a success. We have come a long way.

That raises the question: what broader lessons does the story of the Key Attributes teach us? How can we use these lessons from the past to meet the financial stability challenge we face today?

In my view, the success of the Key Attributes was due to three things. First, a strong political commitment across nations to take action on 'too-big-to-fail' as a problem that requires a global solution. Second, bringing the key decision- and policymakers together to develop an analytically sound and hands-on approach. And third, keeping track of implementation progress across jurisdictions along the way and exerting peer pressure to ensure progress on a global scale.

The FSB, set up by G20 Leaders to develop and implement the post-2008 crisis reforms, was the perfect organisation to perform that role. Its global and cross-sectoral membership, of central banks, finance ministries, bank supervisors, market regulators and international organisations brings together the key policymakers on global financial stability. It provides a unique forum to forge consensus. It operates with active involvement of senior-level officials in a collegial spirit of mutual trust. The FSB, through the G20 process, also provides for a strong link to political decision makers, including the heads of state.

The FSB has played a vital role in bringing domestic and foreign regulators together to build the capacity, trust, and communication necessary to make the effective resolution of systemic financial institutions possible. In that sense, Tim Geithner was right when he said that the FSB is the fourth pillar of the global architecture of cooperation alongside the IMF, World Bank and WTO.

I'm convinced these three ingredients of success can also guide us in dealing with the new challenges to global financial stability that we face today. Indeed, most new challenges facing the global financial system cut across sectors and jurisdictions and cannot easily be classified in the typical bank, insurance or securities buckets.

This has been evident in our work to address climate-related financial risks, where our roadmap aims to support a consistent approach amongst authorities in the coming years.

It is also evident in our roadmap to enhance cross-border payments. Here we are working with the Committee on Payments and Market Infrastructures and other relevant international organisations and standard-setting bodies to address the challenges which affect cross-border payments.

And, finally, on crypto assets and global "stablecoins", the FSB has developed 10 high-level recommendations that promote coordinated and effective regulation, supervision and oversight of global "stablecoin" arrangements to address the financial stability risks posed by them, both at the domestic and international level.

These challenges have one thing in common: they are global in nature. Therefore, they require solutions that are globally adopted, and globally consistent. Yet, in order to be effective, these global solutions have to take account of country-specific details when it comes to implementation.

These are big challenges but compared to 10 years ago we have one big advantage. We can rely on a framework of international cooperation that has been tested and proven to work. For over a decade, the FSB has promoted and coordinated important financial reforms and it will continue to do so in the future. So let's continue our work in this spirit of international cooperation and operational excellence that made the Key Attributes a success.