

**9th DICJ Roundtable
“Lessons Learned
from Respective Countries”**

**Resolution of Global Systemically
Important Financial Institutions (G-SIFIs)
- Overview of International Efforts -**

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** Any views expressed in this presentation are those of the speaker, and not necessarily identical to those of the JFSA or any other institution.*

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1. Overview of FSB work on resolution

Policy Framework for Systemically Important Financial Institutions (SIFIs)

G20 Cannes Summit (November 2011)

- **Agreed on comprehensive measures so that no financial firm can be deemed “too big to fail” and to protect taxpayers from bearing the costs of resolution**
 - i) Additional loss absorbency for G-SIFIs**
 - ii) A new international standard for resolution regimes (“The Key Attributes”)**
 - iii) More intensive and effective supervision**
- **Identification of global systemically important financial institutions (G-SIFIs) updated each year in November**

Assessing and Designating Systemically Important Financial Institutions (SIFIs)

- **Currently 30 banking groups are selected as global systemically important banks (G-SIBs) based on an agreed assessment methodology**
- **The assessment methodology uses indicators which reflect 5 risk categories:**
 - 1. Size**
 - 2. Global Activity**
 - 3. Interconnectedness**
 - 4. Complexity**
 - 5. Substitutability**

The G-SIBs List

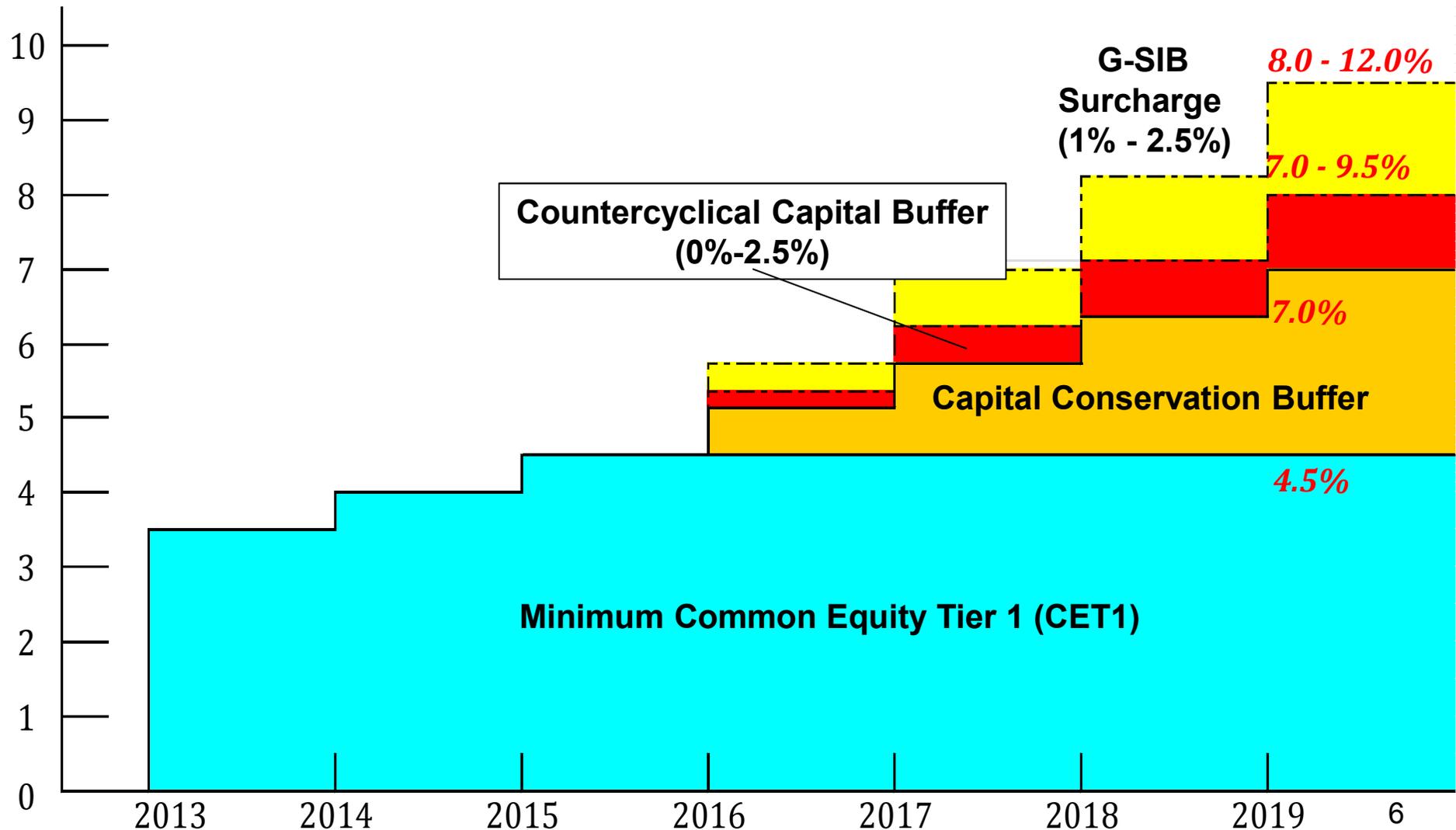
30 financial Institutions identified as G-SIBs based on end-2014 data
(Published in November 2015)

【5 th bucket (3.5% ※)】	【1 st bucket (1.0% ※)】
—	Agricultural Bank of China
【4 th bucket (2.5% ※)】	Bank of China
HSBC	Bank of New York Mellon
JP Morgan Chase	China Construction Bank (New)
【3 rd bucket (2.0% ※)】	Group BPCE
Barclays	Group Crédit Agricole
BNP Paribas	Industrial and Commercial Bank of China
Citigroup	ING Bank
Deutsche Bank	<u>Mizuho FG</u>
【2 nd bucket (1.5% ※)】	Nordea
Bank of America	Royal Bank of Scotland
Credit Suisse	Santander
Goldman Sachs	Société Générale
<u>Mitsubishi UFJ FG</u>	Standard Chartered
Morgan Stanley	State Street
	<u>Sumitomo Mitsui FG</u>
	UBS
	Unicredit Group
	Wells Fargo
	(In alphabetical order for each bucket)

※G-SIBs are required to accumulate equity capital over regulatory standards of the Basel III according to each bucket.

Requiring Additional Loss Absorbency (Capital Surcharges for G-SIBs)

G-SIB capital surcharge: 1% to 2.5% according to the G-SIB bucket



Enabling Orderly Resolution

The Key Attributes of Effective Resolution Regimes for Financial Institutions (the KAs)

- **Adopted by the FSB and endorsed by the G20 in November 2011**
- **The aim of the KAs is to help address the TBTF problem by making it possible to resolve financial institutions in an orderly manner, without causing severe systemic disruption or exposing the taxpayer to the risk of loss.**
- **This is to be achieved by protecting critical functions and by using mechanisms for losses to be absorbed (in the order of seniority) by shareholders and unsecured and uninsured creditors (=bail-in).**

Enabling Orderly Resolution

The Key Attributes of Effective Resolution Regimes for Financial Institutions (the KAs)

1. Enhancement of the resolution framework: The KAs define resolution powers that resolution authorities should have at their disposal.
2. Recovery and resolution plan (RRP): The KAs require development of RRP to promote resolvability for each G-SIFI.
3. Resolvability assessment process (RAP): The RRP of each G-SIFI is evaluated for its feasibility based on internationally agreed standards.
4. Cooperation agreements (COAG): The KAs set out the essential elements of institution-specific cooperation agreements.

Establishment of an Orderly Resolution Regime for Financial Institutions in Japan

- **In Japan, the Deposit Insurance Act was revised in June 2013 to implement the KAs, and the revised Act entered into force in March 2014.**
- **The revised Act introduces an enhanced framework for orderly resolution of financial institutions, including insurers and broker-dealers in order to address risks that may spread across financial markets.**

Establishment of an Orderly Resolution Regime for Financial Institutions in Japan

Scope

- **Financial institutions including deposit-taking financial institutions, insurance companies, financial instruments business operators, financial holding companies**

Procedure

- **The Prime Minister determines the need to implement the orderly resolution mechanism for financial institutions, following deliberations of the Financial Crisis Response Council (chaired by the Prime Minister and with MOF, BOJ and FSA as participants)**

Establishment of an Orderly Resolution Regime for Financial Institutions in Japan

Measures

- **Where it is considered necessary to prevent severe market turmoil:**
 - ⇒ **Special oversight by the Deposit Insurance Corporation of Japan**
 - ⇒ **Provision of liquidity and financial support**
(Capital injection may be undertaken as necessary, when the financial institutions are not in a state of insolvency)

Establishment of an Orderly Resolution Regime for Financial Institutions in Japan

- **An orderly wind-down of market transactions is to be effectuated, while ensuring that the critical functions of the financial institution are maintained for the stabilization of the financial system, thereby enabling an orderly resolution of the financial institution and preventing severe market turmoil.**
- **When the above measures are implemented, contractual bail-in options (writing down of unsecured debt or converting unsecured debt into equity) are exercised.**

Establishment of an Orderly Resolution Regime for Financial Institutions in Japan

Funding

- **Government guarantee is provided for funding of the Deposit Insurance Corporation of Japan (DICJ). If losses are incurred by the DICJ, they are compensated ex post by the industry.**

The government may provide financial support in exceptional cases.

The DICJ provides financial support through its Crisis Management Account.

2. Recent progress in removing obstacles to resolvability

The G20 Leaders' Commitment to end TBTF

We welcome the FSB report on the progress made and next steps towards ending “too big to fail”. We renew our commitment to make any necessary reforms to implement fully the FSB’s Key Attributes of Effective Resolution Regimes for all parts of the financial sector that could cause systemic problems. We will undertake the necessary actions to remove obstacles to cross-border resolution. We reaffirm our commitment to ensure that supervisors have strong mandates, adequate resources and independence to act. We call on the FSB, in consultation with standard setting bodies, to assess and develop proposals by end-2014 on the adequacy of global systemically important financial institutions’ loss absorbing capacity when they fail.

**G20 LEADERS’ DECLARATION
Saint Petersburg Summit
5-6 September 2013**

Towards Full Implementation of the Key Attributes

- **Total Loss-Absorbing Capacity (TLAC)**
- **Resolvability Assessment Process (RAP)**
- **Removing impediments to resolvability**
 - **Securing cross-border effectiveness of resolution actions**
 - **Providing funding in resolution**
 - **Ensuring operational continuity**
- **Enabling an orderly resolution of global systemically important insurers (G-SIIs) and FMIs (in particular CCPs)**

Finalized the TLAC standard for G-SIBs

- **TLAC is “total loss-absorbing capacity” available in resolution to facilitate an orderly resolution of a G-SIB by absorbing losses and recapitalizing the resolved entity without imposing losses on taxpayers.**
- **In response to a call from G20 Leaders, the FSB released a consultative document on TLAC in November 2014.**
- **Based on the consultation and after assessing the findings of impact assessment studies including an analysis of market impact, the FSB finalized and agreed on a final TLAC standard in November 2015. The FSB reported the final standard to the 2015 G20 Antalya Summit.**

Overview of the TLAC standard for G-SIBs

Basic components

- **TLAC consists of (i) Basel III regulatory capital and (ii) other TLAC-eligible instruments (such as senior bail-inable debt issued by the holding company)**
- **“Credible ex-ante commitments” may be counted in (ii)**

Calibration and conformance period

- **RWA basis : 16% of RWAs from January 2019 and 18% from January 2022**
- **Basel III leverage ratio denominator basis: 6% from January 2019 and 6.75% from January 2022**
- **Extended conformance period for G-SIBs of EMEs**

Overview of the TLAC standard for G-SIBs

Internal TLAC

- To facilitate cross-border resolution, material sub-groups of a G-SIB are required to issue loss-absorbing capacity (internal TLAC) to the resolution entity (to which resolution tools are applied (e.g. the parent holding company)).
- The FSB is to specify further details for internal TLAC by 2016.

Disclosure

- The Basel Committee is responsible for developing TLAC disclosure requirements under Basel III by 2016.

Overview of the TLAC standard for G-SIBs

Regulation of TLAC holdings

- **To reduce the risk of contagion, G-SIBs must deduct their exposures to TLAC issued by other G-SIBs from their own TLAC or regulatory capital.**
- **The Basel Committee issued a consultative document to further develop and specify requirements for TLAC holdings (public comment period ended on February 12, 2016).**

Cross-border effectiveness of resolution actions

- **To support cross-border enforcement of a temporary stay on early termination rights, 18 G-SIBs signed and adhered to the ISDA Resolution Protocol in November 2014.**
- **Under the Protocol, the G-SIBs agreed to cross-border enforceability of temporary stays on early termination rights for OTC derivatives in case their counterparty G-SIBs enter into resolution.**
- **In November 2015, 21 G-SIBs signed and adhered to a revised Protocol, which is extended to cover securities lending and repo transactions.**

Cross-border effectiveness of Resolution Actions

- In parallel with the industry initiatives, in November 2015, the FSB finalized its Principles on cross-border recognition of resolution actions.
- The Principles contain elements of comprehensive statutory recognition regimes and contractual recognition clauses relevant for giving cross-border effect to resolution action.
- While emphasizing the importance of a statutory approach, the Principles also support contractual approaches as a workable solution until statutory regimes are adopted, and act as a complement to support such regimes being adopted.

Resolvability Assessment Process (“RAP”)

- **Senior policymakers from the home and key host jurisdictions are to assess the resolvability of each G-SIB in the framework of the Resolvability Assessment Process (RAP).**
- **The FSB has been addressing the key impediments to resolvability of G-SIBs identified in the first round of RAP completed in 2015:**
 - **Funding and liquidity needs in resolution**
 - **Operational Continuity of critical services**
 - **Cross-border effectiveness of resolution actions**

Funding in resolution and operational continuity

- **The FSB released consultative documents in the following areas in November 2015.**
 - **Funding in resolution: addresses the risk of banks having insufficient liquidity to maintain critical operations during a resolution**
 - **Operational continuity: identifies a number of arrangements that could support continuity of critical shared services (e.g. risk management and treasury-related functions, IT infrastructures) in resolution**
- **The relevant documents containing guidance are expected to be finalized in 2016.**

Resolvability in the Insurance Sector

- **Implementation of the KAs in the insurance sector is less advanced than in the banking sector. (Japan has taken a cross-sectoral approach and introduced an orderly resolution regime that covers the insurance sector.)**
- **CMGs have been established for G-SIIs and resolution planning is being developed.**
- **To support this process, FSB will finalize the draft guidance on “developing effective resolution strategies and plans for systemically important insurers” by Q2 2016.**

Resolvability of CCPs

- **Based on a growing concern over risk concentration for CCPs resulted from mandatory CCP clearing, policymakers have focused more recently on central counterparties (“CCPs.”)**
- **FSB ReSG is undertaking the work of CCP resolution regimes regarding resolution strategies & planning and resolution tools for CCPs, cross-border cooperation and implementation, and the potential need for additional prefunded resources in resolution, and develop a proposal as needed.**
- **By the end of 2016, the FSB will examine the need for and, if appropriate, develop proposals for further guidance to support CCP resolvability.**

Further work towards ending TBTF

- **Remaining challenges identified in the first RAP**
 - **Making a bail-in operational**
 - **Ensuring continuity of access to FMIs**
 - **Supporting implementation of the TLAC standard by developing further guidance on internal TLAC & rules for disclosure and for holdings of TLAC, as mentioned above**

- **The ISDA Protocol**
 - **More G-SIBs to adhere to the revised 2015 ISDA Protocol**
 - **ISDA to develop a Protocol for non-G-SIBs and for the buy-side**
 - **Introduction of regulatory measures by national authorities to promote adherence to the Protocol**

Further work towards ending TBTF

- **RAP**
 - **Crisis Management Groups (CMGs) for G-SIBs to conduct a second RAP**
 - **CMGs for G-SIIs to conduct a first RAP**

- **Monitoring implementation of the KAs**
 - **Finalizing the Assessment Methodology for KAs**

3. The critical role of deposit insurance

The critical role of deposit insurance

- **Deposit insurance is a key element in preventing systemic crises and ensuring financial stability**
- **No one-size-fits-all model for a deposit insurer's functions, but its role in enhancing confidence among retail depositors and preventing bank runs is critical for financial stability; i.e. it prevents systemic risk from materializing**
- **Ex ante funding and development of skills, procurement of necessary resources may be critical for deposit insurance schemes to function effectively in a crisis**

The critical role of deposit insurance

- **In many jurisdictions, deposit insurers play important roles in resolution, including as receivers and as resolution authority as well as providers of liquidity in resolution.**
- **Its role in mutualizing the costs of a bank failure can also be extremely useful in enabling an orderly resolution without taxpayers bearing losses**

The critical role of deposit insurance

- **Cross-border cooperation between deposit insurers is critical in operationalizing an orderly resolution**
- **The IADI is expected to actively participate in the FSB work and contribute to building an orderly resolution process in each jurisdiction**
- **Resolution infrastructure is still being built around the world**

Thank you very much for your kind attention!



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