



Bail-in, CoCos and TLAC – MPE perspective

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1. Bail-in and TLAC

- **Bail-in: A consistent application is necessary**
- **TLAC/MREL in Europe: current status**

2. Decentralized model and MPE

- Retrenchment of global banks?
- Overseas structure of global banks
- Decentralized model & MPE resolution scheme
- MPE: Two key aspects of resolution planning
- MPE model and regulation

Bail-in: A consistent application of is necessary

1

A new legal framework is in place

- Taxpayers should no longer pay for the banking crises
- Bail-in is the cornerstone of the new resolution regime
- The real test is practical application

2

Bail-in can and should be applied

- Is there enough political will to apply bail-in?
- Spanish experience

3

Who will invest?

- Problem of miss-selling: Compensate retail investors?
- Retroactivity: should bail-in be introduced with a phase-in like TLAC?
- Should retail investors be allowed to buy hybrids?

TLAC/MREL in Europe: current status

ISSUES

Calibration
G-SIIs vs. the rest

Subordination
Mandatory for G-SIIs only.
A harmonized solution

TLAC Holdings
(by other financial institutions)
More favourable than BCBS

Pillar 1 vs. Pillar 2

Breaches of MREL
Unlike UK policy, triggers MDA

IHC requirement
For foreign banks with significant presence in EU

Ring-fencing?

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1. Section 1: Bail-in and TLAC

- A consistent application of bail-in is necessary
- TLAC/MREL in Europe: current status

2. Decentralized model and MPE

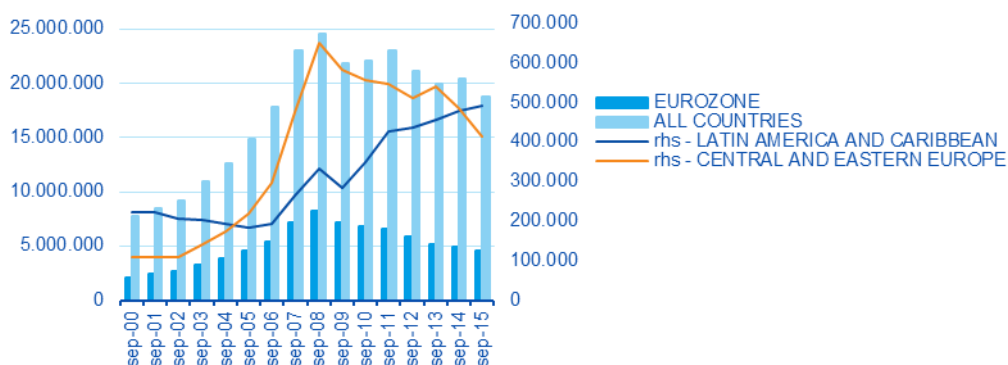
- Retrenchment of global banks?
- Overseas structure of global banks
- Decentralized model & MPE resolution scheme
- MPE: Two key aspects of resolution planning
- How should regulators treat MPE?

Retrenchment of global banks?

- Financial de-globalization? After the crisis, **retrenchment** of global banks



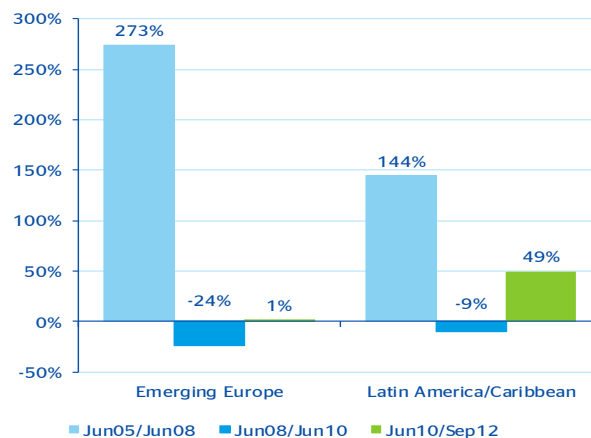
Cross-border loans to all sectors in... (mill. of US\$)



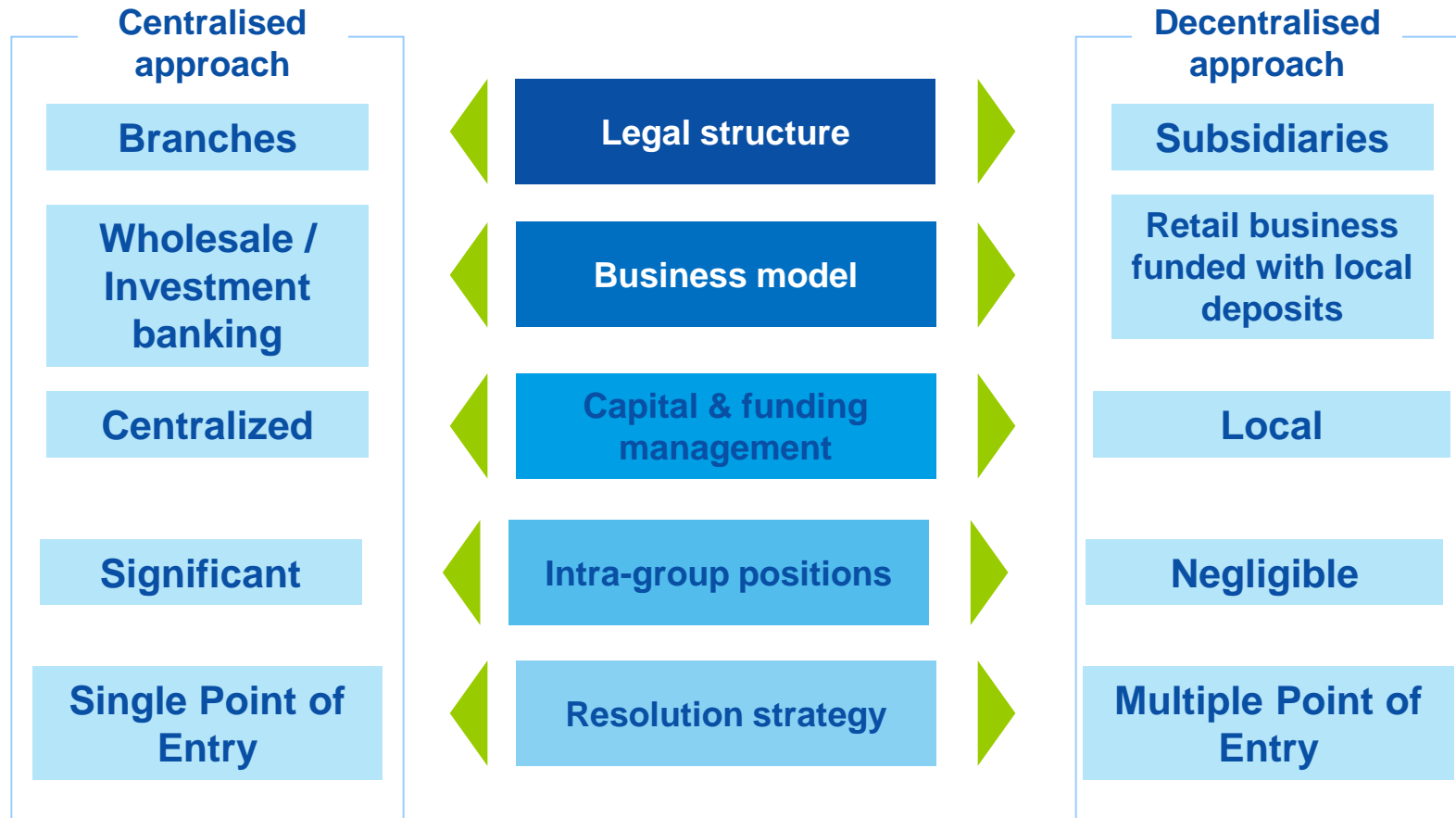
- Resilience of the de-centralized model



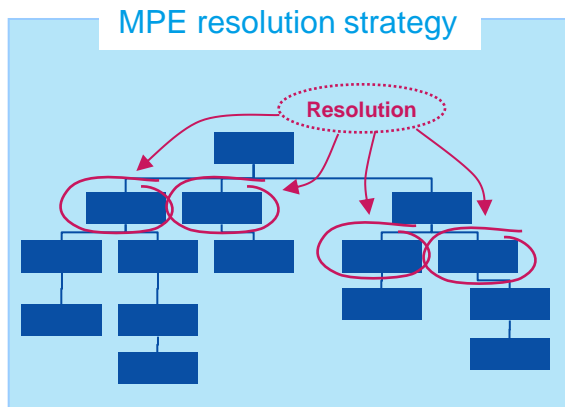
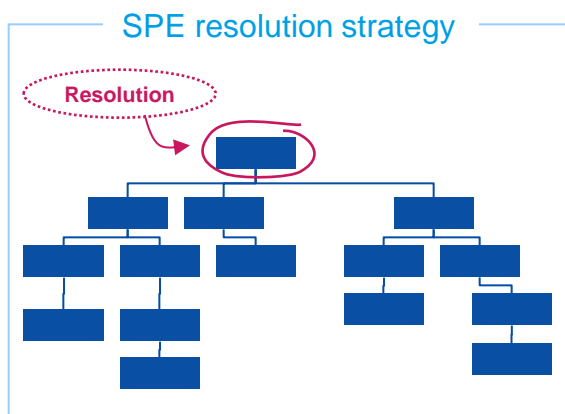
Changes in external loans of BIS-reporting banks to the bank sector Source: BIS



Overseas structure of global banks



Decentralised Model & MPE resolution scheme



Multiple-Point-of-Entry

Point-of-entry	Subsidiary – failure individual subsidiaries
Resolution powers	Host authority – subsidiary
Authority role	Home – Coordinator & local executor Host – Executor (local)
Losses / bail-in	Local losses – parent voluntary support
How is TLAC allocated?	External TLAC at individual level

MPE: Two key aspects of resolution planning

Operational Continuity

- Maintaining shared services in or for a particular entity when the bank or another part of the group enters into resolution
- Link with Cloud computing. It is no longer relevant where the information is stored

Funding in Resolution

- **Lender of Last Resort:** the elephant in the room in resolution discussions
- **Private sources: first option** If not available: public backstop
- When resolution happens, the central bank is often involved already in the form of LOLR / ELA
- FSB: "For SPE banks, the home authority is responsible for coordinating liquidity provision, whereas for **MPE banks this role corresponds to the host authority.**"

MPE

- **In theory, MPE banks may adopt a Centralized/Decentralized model for operational subsidiarisation**
- **Cloud: Limit risks by contracting with several robust providers. SLAs are crucial.**

- **Liquidity is local**
- **Currency denomination is key**

MPE model & Regulation

Level of application

- **MPE: at individual level. Avoid consolidated requirement**
 - This avoids inconsistencies of instruments' eligibility on a local and consolidated basis
 - Minority interests will fully absorb losses on a local basis.
 - Consolidated regulation often implies extra-territoriality for MPE banks

Deductions

- Deductions of exposures to TLAC/MREL do not take into account advantages of diversification
- In MPE crises are idiosyncratic and not correlated

TLAC for deposit-funded banks in EMEs

- TLAC paper in local markets have **limited loss-absorption capacity**
- Avoid artificial increase in leverage and/or forcing issuance in foreign markets
- **Host should retain flexibility in definition of TLAC requirements**

Capital / Liquidity

- **AT1 & T2 issued locally and Basel compliant should count in the consolidated requirement**
- **Avoid consolidated LCR & NSFR requirements for MPE**

Internal vs external

- MPE: Relies on external TLAC/MREL
- Avoid mandatory issuance of internal TLAC/MREL which increases intra-group exposures and is inconsistent with the MPE model
- Internal TLAC/MREL can be used on a voluntary basis

Home vs host

- Host leads the resolution process in their own jurisdiction and should require TLAC/MREL accordingly.
- Home coordinates the Crisis Management Group

Thanks!



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