

Liquidity in resolution

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- Very substantial progress on resolvability, with a particular focus on loss absorbing capacity
- It is important that there is a clear and credible framework for the provision of liquidity to banks in resolution
- Private sources should remain the primary means of funding in resolution, supported by resolution planning
- However, as acknowledged in the FSB Guiding Principles, there is a need for a temporary public sector backstop for liquidity provision. This should encourage private funding and market confidence in the resolution.
- It is important to distinguish temporary liquidity provision from solvency support

- In order to be effective, the temporary public sector backstop should:
 - Be credible in terms of size and capable of supporting multiple large banks simultaneously;
 - Be capable of provision with sufficient speed;
 - Support the resolution objectives including the bank regaining access to private funding; and
 - Minimise moral hazard through the presence of safeguards and conditions for lending, as per the FSB Guiding Principles.

- Clarity is important: how, when and under what conditions the resolution authority can utilise the facility.
- Constructive ambiguity is no longer necessary in the context of the strengthened prudential and resolution framework
- Potential safeguards (see FSB Key Attributes and Guiding Principles):
 - Necessary to foster financial stability and achieve resolution objectives;
 - Private sources have been exhausted or cannot achieve the resolution objectives effectively;
 - The bank has been, or is in the process of being recapitalised through bail-in or other resolution tool(s);
 - Accompanied by intensified supervision by supervisory and/or resolution authorities;
 - The financing is temporary and must be replaced by private funding as soon as possible;
 - Provided at a penalty rate but without deteriorating the solvency of the institution;
 - the funding is secured, with some flexibility depending on the situation – eg if the SRF is used as a guarantor; and
 - allocation of any losses to the institution and the industry through ex-post assessments.

- SRF (with backstop): sufficient size/speed?
- Central banks (ECB/national): natural lender of last resort with credible capacity, but need to address conditions eg solvency, collateral eligibility
- Combination?
- Cross-border context: currencies and cross-border operations

The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society.

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