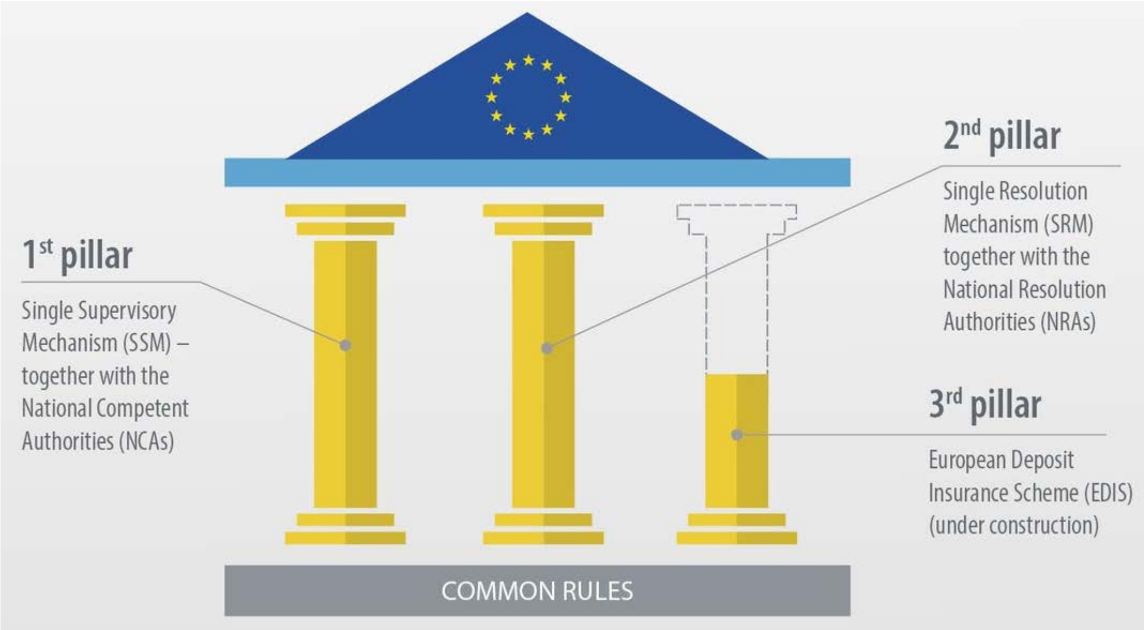
# Session 2: Resolution and early supervisory intervention

**Elisa Ferreira**
Vice-Governor of Banco de Portugal

**BCBS-FSI High-level Meeting for Europe on Banking Supervision**

BANCO DE PORTUGAL
EUROSYSTEM

# The incomplete Banking Union seriously jeopardises its key benefits




## Unstable balance

Supervisory and resolution decisions are mostly European, whilst the ultimate guarantor of financial stability remains national, with limited tools to act.

Examples of issues to address:

1. Treatment of cross-border banking groups;
2. Resolution/winding-down of medium-sized banks;
3. The return of too-big-to-fail?

# 1 Treatment of cross-border banking groups

- **Specific regime needs to be developed** to ameliorate Member States' concerns over the risks of potential failures of cross-border banking groups.

- **Transformation of subsidiaries into branches?** That implies, at least, that for local undertakings of systemic relevance:
  - ➢ NRAs need to be involved in the definition of resolution plans and actions; and
  - ➢ domestic supervisors should have the capacity to react to strategic decisions.

## Resolution/winding-down of medium-sized banks

- **Sustainability of business models of medium-sized institutions** predominantly financed by capital and deposits **currently endangered** → insufficient instruments available.
- Resolution authorities need to be able to rely on alternative sources to support resolution actions → **explore the IMF's 'financial stability exemption' proposal** (usage of the SRF's funds).
- Is **harmonisation of EU banks' liquidation regimes** a solution?
  - ➢ What does it mean? Do we have the right tools to ensure its orderliness?
  - ➢ Discuss alternatives to a further straitjacketing of nations' room for manoeuvre.

## 2 Resolution/winding-down of medium-sized banks

- **Enabling framework for the winding-down of locally systemic relevant banks**:
  - create special insolvency proceedings (recourse to administrative options) with additional instruments (e.g. receivership functions available to the American FDIC);
  - ensure effective deposit insurance system’s financing of deposit transfers abiding by the least cost principle → revise the applicable state aid rules.

Calls to form a sort of **European FDIC** deserve our attention

# 3 The return of too-big-to-fail?

- **Regulation-driven consolidation has become an imminent risk**, fostering the comeback of too-big-to-fail.

  ➢ *"'Too-big-to-fail' remains a problem as banks grow in size and complexity. There has still not been enough progress on how to resolve failing banks, especially across borders. A lot of the murkier activities are moving toward the shadow banking sector. On top of this, continued financial innovation—including from high frequency trading and fintech—adds to financial stability challenges. In addition, and perhaps most worryingly of all, policymakers are facing substantial pressure from industry to roll back post-crisis regulations".* Christine Lagarde, September 5, 2018