



Occasional Paper

No 25

Cross-border crisis simulation exercise in Northwest Africa

By Financial Stability Institute

October 2025

JEL classification: G01, G21, G28, G33

Keywords: crisis simulation exercise, crisis management, bank resolution, cross-border cooperation, information-sharing, resolution funding

This report was jointly prepared by members of the Financial Stability Institute (FSI) of the Bank for International Settlements (BIS) and consultants from Oliver Wyman. The views expressed in this report do not necessarily reflect those of the BIS or the Basel-based committees.

Authorised by the Chair of the FSI, Fernando Restoy.

This publication is available on the BIS website (www.bis.org). To contact the BIS Global Media and Public Relations team, please email media@bis.org. You can sign up for email alerts at www.bis.org/emailalerts.htm.

© *Bank for International Settlements 2025. All rights reserved. Brief excerpts may be reproduced or translated provided the source is stated.*

ISSN 1020-9999 (online)

Abstract

In February 2025, the Financial Stability Institute (FSI) of the BIS, with the support of experts from the advisory firm Oliver Wyman, conducted a cross-border crisis simulation exercise (CSE) involving authorities with responsibilities for crisis response and bank failure management from four jurisdictions in Northwest Africa: Morocco, Mauritania, Tunisia and the West African Monetary Union (WAMU).

During the CSE, participants responded to events in a fictional scenario that modelled the increasing financial distress and eventual failure of a regionally systemic cross-border banking group. The objective of the exercise was to provide an opportunity for authorities to test their crisis management frameworks and arrangements for domestic and cross-border cooperation.

This report was prepared by the FSI and consultants following the CSE. It sets out general observations about the conduct of the exercise, divided into three categories: cross-border cooperation, domestic inter-agency cooperation, and resolution frameworks and tools.

Contents

Section 1 – Introduction	1
Section 2 – Observations and findings	2
2.1 Cross-border cooperation	2
2.2 Domestic inter-agency cooperation	4
2.3 Resolution framework and tools	5
Section 3 – Recommendations	7
3.1 Review of resolution framework and available tools	7
3.2 Crisis management protocols and procedures	9
3.3 Engage in bank-specific recovery and resolution planning	11
3.4 Cross-border coordination in resolution planning	13
3.5 Crisis simulation exercises	14
Annex	16
Participants	16
Operational aspects	17
Structure	17
Exercise design	18
Details of the scenario	18

Cross-border crisis simulation exercise in Northwest Africa

Section 1 – Introduction

Crisis simulation exercises (CSEs) are an important part of contingency planning and preparedness. They give authorities the opportunity to test their crisis procedures and arrangements for cooperation and communication in a controlled environment. As jurisdictions make progress in adopting resolution frameworks and in resolution planning, there is increasing focus on the role of simulations in developing authorities' capabilities to execute a resolution. Lack of clarity about who should be doing what, and when, can hamper timely and effective intervention. Exercises of this kind familiarise staff with procedures and can help authorities develop or improve their crisis playbooks to support timely and effective intervention.

In February 2025, central banks, supervisory and resolution authorities, and deposit insurers from Morocco, Mauritania, Tunisia and the West African Monetary Union (WAMU)¹ took part in a CSE to simulate the failure of a fictional systemic banking group. The participating authorities had responsibilities under their national frameworks for managing a troubled international bank operating in their jurisdictions. Each participating authority was represented by senior decision-makers (eg central bank Governors and Deputy Governors), supported by a team of experts from relevant operational units. Each authority was assigned an observer who was present at all interactions and meetings of that authority. The observers' feedback is reflected in the findings and recommendations of this report.

The fictional scenario used in the simulation was designed to test cross-border cooperation and communication in managing the failure of a regionally systemic banking group. The scenario focused on Banque Soleil, a leading international banking group based in Morocco. The group operated through seven subsidiaries, all under its Moroccan entity: one in Mauritania, one in Tunisia and five located in five WAMU member countries. Each subsidiary ranked among the top financial players in the jurisdiction where it was established and was considered locally systemic. Banque Soleil had a group recovery plan that specified a range of options (eg sale of subsidiaries, raising capital at group level). Its resolution plan outlined a single point-of-entry preferred resolution strategy that involved writedown and conversion of loss-absorbing capacity issued by the holding company to preserve the group and its operating synergies.

The exercise started with the bank attempting recovery measures and ended shortly after each jurisdiction had developed a resolution strategy. It took place in three rounds: round 1 focused on understanding the bank's situation, overseeing the implementation of the bank's recovery measures and considering or imposing supervisory early intervention measures; round 2 focused on keeping the bank afloat in distress through liquidity support and preparing for a likely resolution; and round 3 centred on the decisions about the resolution strategy at local and regional levels. To stimulate cross-border debate and coordination, the impact of the failure differed across subsidiaries and a shared service company owned by one of the banking subsidiaries increased interdependencies and operational complexity.

At the end of the exercise, authorities adopted domestic measures to manage the failure of the local entity. The measures varied, reflecting options under domestic framework and offers received within the narrative of the exercise. For example, in one jurisdiction the authorities transferred the local subsidiary to a domestic bank, while in another the deposit insurer took 90% ownership of the failing bank and its non-performing loans were transferred to a bridge bank for management, to facilitate sale of the bank at a later stage. Some participating jurisdictions did not reach a clear decision about the action to be taken before the end of the exercise since they had expected a sale of the group to be achieved.

¹ The member countries of WAMU are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

This report compiles observations made during the exercise and makes recommendations for reflection by authorities as they continue to shape and improve their internal frameworks and cross-border cooperative arrangements. As a general conclusion, participants managed the simulated crisis well. There was fluid and cooperative communication among the participating authorities, with the home authority taking a leadership role in the interactions with host authorities. However, the primary objective of most interactions was to exchange information about the local situation and decisions taken, and discussions aimed at agreeing a coordinated resolution took place only at the peak of the crisis. Although participating authorities made efforts to align interests across jurisdictions and find a group solution that addressed national concerns, this proved impossible within the framework of the exercise and time available. A group sale was not possible in part because of national actions in some jurisdictions. Discrepancies in the timing of national actions might have been avoided if forward-looking coordination had started earlier and there had been a clearer understanding of the resolution strategy.

Section 2 – Observations and findings

The main purpose of the exercise was to enable participants to test their current cross-border cooperative arrangements for managing systemic bank failures. Accordingly, the findings focus on cross-border coordination and the authorities' ability to consider and, where relevant, support a group-level resolution. The exercise was not designed to assess the resolution frameworks of participating jurisdictions against international standards and therefore did not benchmark or grade those frameworks against the Financial Stability Board's Key Attributes of Effective Resolution Regimes ('the Key Attributes').

However, cross-border resolution depends on the ability of authorities to support and give effect to a group-level approach. Therefore, the report also includes observations on the powers and tools available to authorities under their legal frameworks, with an emphasis the extent to which they empower authorities to respond effectively to the failure of a cross-border banking group. Since effective crisis management requires coordination between relevant national authorities, the report also considers domestic procedures and communication.

The findings are therefore organised into three categories: cross-border cooperation, coordination at a national level, and resolution frameworks and tools. The remainder of this section describes the findings in each area. Section 3 then sets out recommendations covering resolution frameworks and tools; crisis management protocols and procedures; recovery and resolution planning, including for cross-border groups; and testing. The Annex describes the process for developing the exercise and how it was carried out.

2.1 Cross-border cooperation

The exercise was designed to foster cross-border communication and cooperation. The scenario required actions and decisions that had cross-border implications. These included developing a group resolution strategy or local strategies that could have an impact on the group; evaluating investor offers for the sale of subsidiaries; ensuring the operational continuity of the service subsidiary (ServCo); and, where applicable, providing funding to support the resolution strategy. Key elements of the exercise encouraged communication and coordination. For example, the bank's preferred resolution strategy was based on a writedown of liabilities that aimed to keep the group together, and there was an attractive offer from a potential purchaser for the entire group.

The home supervisor and resolution authority assumed a leadership role in the interaction with host authorities. For example, they set the agenda for college meetings and acted as nexus for communication among the authorities. Participants from the home authorities were mindful of the

situation in other jurisdictions and consulted host authorities on topics such service continuity, the corruption scandal that affected one of the banking subsidiaries and the efforts of bank management to sell certain subsidiaries. Importantly, they made a material effort to find a group-level solution that aligned interests across jurisdictions and met the various concerns of host authorities.

Communication between jurisdictions was fluid and cooperative, which helped reduce information asymmetry. This was facilitated by the bilateral and college meetings organised by the home supervisor and resolution authority throughout the exercise. Most authorities were conscious of the need to involve others and proactive in requesting meetings with foreign counterparts, including some host jurisdiction deposit insurers that took the initiative to communicate with the home deposit insurer. However, this was not universally the case. Some authorities were largely reactive. Their cross-border exchanges were generally made in response to requests from others, and they were less mindful of the implications of their decisions for other jurisdictions.

The primary objective of cross-border interactions was to exchange information about the local situation and decisions taken. For the first part of the exercise, bilateral communication consisted largely of exchanging information and informing each other about the decisions that had been or would be taken. In such exchanges, authorities focused on understanding developments in other jurisdictions, such as a sale of subsidiaries as part of recovery actions, the situation of the ServCo or the corruption scandal. There was little attempt at strategic planning at a cross-border level and no structured exploration of how a group-level strategy would be executed in practice using the powers and tools available to the participating authorities. By contrast, at the peak of the crisis, communication became more forward looking and authorities shared information about the resolution or insolvency measures under consideration.

Operational continuity of the shared services provided by the ServCo received little attention, except from the ServCo's domestic authority and the group home authority. The Banque Soleil group ServCo provided (non-financial) critical shared services to all but two of the banks within the regional sub-group. However, the host authorities responsible for those banks did not devote significant time to assessing the implications of strategies entailing a break-up of the group for the provision of critical shared services to their local entities. When discussing resolution options, authorities did not explicitly consider the benefits of preserving the group, the complexities of separation and the loss of operational interdependencies. The outcome of the exercise, in which national authorities took independent resolution or insolvency actions, would almost certainly have resulted in significant operational disruption for group entities that were intended to continue operating.

The bank's supervisory college and crisis management group (CMG) were used predominantly for information-sharing, with a limited role in coordinated decision-making. In each round, the home supervisor and resolution authority convened a supervisory college or CMG (depending on the phase of the exercise) to facilitate coordination and provide a forum for participants to exchange views. Authorities used those meetings principally to provide an update on their local entity and share the measures they were planning to take. Accordingly, the sessions were largely informal, without a clear goal beyond such information-sharing. Observers noted that opportunities for regional cooperation were not always clear nor purposively discussed. Some observed that it would have been useful to exchange information on jurisdictions' legal regimes, particularly as regards the use of a bridge bank and the implications of state support.

As the crisis advanced, authorities' efforts to collaborate increased, but it would have been more effective if forward-looking coordination had started earlier. In the final round, the home supervisor and resolution authority presented an offer to acquire the whole group by Universal Bank, an international banking group. By enabling the group to be kept together, this outcome would have offered advantages for all participating jurisdictions. The exercise did not create conflicts of interest between jurisdictions through the options presented. For example, purchaser offers for individual subsidiaries were not objectively more advantageous for the jurisdiction in question than the group offer.

Despite participants' willingness to explore the group solution, it was not pursued and the exercise culminated in national measures that would have entailed the break-up of the group. That outcome was not the result of a lack of will or cooperative efforts. Most authorities considered the group solution to be most beneficial both for domestic and regional financial stability and made efforts to facilitate an outcome that would avoid the break-up of the group. For example, an authority deprioritised discussions with purchasers interested in the local subsidiary and another reversed a decision to initiate liquidation. However, others preferred to pursue an acquisition of local subsidiary by a domestic bank and decided not to participate in the group solution. Consequently, the sale to Universal Bank did not materialise. Most authorities remained cooperative once a group-wide acquisition had been abandoned, but each then had to pursue a domestic alternative given the urgency of the situation. Discrepancies in the timing of national actions might have been avoided if coordination had started earlier and agencies had had a clearer understanding of the resolution strategy.

No legal barriers to cross-border exchange were identified, although formal cooperation agreements were not in place between some participating jurisdictions. While most of the participating authorities have cooperation agreements, the existence – or absence – of such agreements was often not given explicit consideration during the exercise. Moreover, cross-border coordination often appeared unstructured. Authorities were observed to lack guidelines or protocols on cross-border communication that would have set out when and how to involve foreign authorities and the relevant counterparts at different stages of the crisis. For example, authorities from the same jurisdiction engaged in parallel with foreign counterparts with minimal coordination at domestic level.

2.2 Domestic inter-agency cooperation

In general, communication between domestic authorities was open and all parties were clearly willing to keep each other involved. All authorities communicated frequently on domestic issues and largely shared a clear understanding of their respective roles and responsibilities. Likewise, they maintained fluid dialogue with the role player acting as Minister of Finance. Bilateral and multilateral meetings were organised from the outset to assess the financial situation of the entity and discuss the potential options in the event of failure. In some cases, observers noted that the scope of the interaction between authorities focused on information exchange rather than collaborating to devise a joint solution.

Nevertheless, domestic interactions would have benefited from more structured procedures. In some cases, no shared protocols appeared to guide such interaction. Even where a protocol on information-sharing existed, observers noted that participants would have benefited from more detailed playbooks. This may have contributed to the perception by some authorities that they were not duly involved in decision-making by their domestic counterparts. For instance, some deposit insurers considered that decisions had not been communicated in a timely fashion, that they had insufficient information (eg no access to the resolution plan) and that they would have preferred to be more involved in specific decisions, such as those relating to liquidity assistance. More structured procedures or playbooks would have also helped ensure that communication with foreign authorities was coordinated at the national level.

Existing institutional arrangements for domestic coordination were used effectively. Communication between domestic authorities was generally carried out using formal arrangements. Most participating jurisdictions had Financial Stability Committees or equivalent structures. In general, the committees were convened early in the exercise, although, in some cases, observers noted that this was done later than expected. However, in most cases there did not appear to be clear internal procedures governing when the committees should be convened and which topics should be discussed. For example, in one jurisdiction, a meeting with the Minister of Finance was convened outside the committee structure without a clear rationale. While this could have been driven in part by the format and time limitations of

the exercise, it also points to the merits of developing a shared understanding of the procedures that will be followed and the information needed by individual authorities to pursue those procedures.

2.3 Resolution framework and tools

The CSE provided an opportunity for participants to test their crisis management frameworks. The primary objective of the exercise was for authorities to practice cross-border crisis management and decision-making with imperfect information in a situation of mounting time pressure. While the agreed purpose was not to test the adequacy of jurisdictions' frameworks and tools, the CSE allowed participants to assess how they took resolution decisions based on the options available under their current frameworks and used their tools to manage the simulated failure of a large cross-border bank.

The extent to which the resolution framework of participating jurisdictions is currently aligned with international standards varies. In most, the framework confers on authorities some or all the core resolution tools set out in the Key Attributes. Specifically, nearly all frameworks included transfer powers that would allow the authorities to design and execute purchase and assumption transactions or whole bank sales, and to use bridge banks and asset management vehicles as a resolution tool. Several also have bail-in powers, although the scope of instruments that may be written down or converted varies, and in one jurisdiction it is limited to regulatory capital. One participating jurisdiction is yet to adopt a bank-specific insolvency and resolution framework. Where resolution tools exist in a jurisdiction's framework, the authorities had options for managing the failure of a systemic domestic bank, although in some cases it was unclear how the failure management measures would be funded. The on-balance sheet loss-absorbing capacity of the fictional bank – meaning liabilities that can credibly be bailed-in in resolution – was limited, and this is also likely to be the case in reality. Ultimately, differences between national frameworks, the tools available and the timelines within which authorities were acting under those frameworks prevented the agreement of a group-level resolution strategy. Given these differences, it is not clear whether such a strategy could have been agreed on and executed successfully, even if it had been pursued from an earlier stage and all authorities had wished to support it.

In the first round, all jurisdictions increased supervisory pressure on the entity, although actions were largely driven by judgment rather than guided by an intervention framework. During the early stages of stress, supervisors interacted with the local subsidiary, requesting additional information, enhancing reporting requirements and, in some cases, conducting stress tests. In most cases, these actions were driven by judgment and observers noted an absence of internal guidelines as to which measures might be appropriate in specific circumstances. In most participating jurisdictions, no established or documented procedure exists for the exercise of early intervention powers. Participants made limited reference to early warning indicators or quantitative thresholds marking different stages in a failure management process. The interaction with the local subsidiary was generally unstructured, and, in some cases, decisions taken were not formalised in clear requirements for the supervised entity. In contrast, in the one jurisdiction where authorities did have a detailed playbook case, they demonstrated a solid understanding of the tools available at each stage and the conditions for their use. Not only was oversight increased, but early intervention measures were taken in a more structured manner and the authority examined the recovery and resolution plans in detail. This contrasted with other participants, whose observers noted that they should have engaged in a more rigorous review.

Most participating jurisdictions had a well-defined framework for dealing with requests for emergency liquidity assistance (ELA). During the second round, all participants had to assess whether to provide ELA, and no major deficiencies were apparent in that process. Where a framework was in place, the procedure and the criteria for granting ELA appeared to be well established and there were typically clear requirements relating to solvency and collateral eligibility. One participating jurisdiction had no ELA framework, although alternative channels were available to provide some liquidity. The outcomes of the ELA decisions varied, with around half of the jurisdictions granting ELA and the other half deciding

not to do so. Concerns over solvency and the absence of a credible recovery plan were the main reasons for refusing ELA. In one jurisdiction, ELA was paired with a government guarantee, which allowed the authority to grant liquidity even if solvency was deteriorating.

As the financial situation of the bank deteriorated, participants engaged in preparatory actions. In general, participants demonstrated a good understanding of the available crisis management tools and powers, although some appeared to be less clear about how these would be prioritised or put into operation. However, in some cases, participants were uncertain about the funding instruments available. All deposit insurers assessed whether their available funds were sufficient to support payout of insured deposits and the possibility of additional public backstop financing. Some took preparatory actions to ensure that they had immediately available resources to support resolution (eg by preparing a sale of part of the fund's securities portfolio).

Most authorities contemplated using public funds to address the issue. While both the group and specific subsidiaries had potential purchasers, only one jurisdiction pursued a commercial transfer. The others opted for resolution or insolvency measures that involved the use of public funds or state-backed guarantees to allow the entity to raise funds. Those local measures included the deposit insurer taking 90% ownership of the failing bank, establishing a bridge bank to manage the non-performing loans, and liquidation proceedings. It is worth noting that the preferred option of most jurisdictions was the sale of the group to the international acquirer, and the measures taken were a "plan B" once it became clear that the sale would not materialise. Limited consideration was given to the fiscal impact of the measures taken or how they would be implemented in practice. This can be partly explained by the scope of participation in the exercise, which did not include the Minister of Finance. In a real crisis, questions of public funding would almost certainly be discussed in more detail.

While decisions were guided by the objectives of preserving financial stability and protecting depositors, evaluation of options was superficial. In general, authorities had limited guidance on the evaluation criteria to support decision-making. In some cases, authorities focused on short-term implications (eg addressing the capital shortfall, avoiding a deposit run) and did not assess the wider impact (eg the impact of liquidation on financial stability where there was a high volume of uninsured depositors). Although alternative options were considered, in some cases the evaluation was superficial. In others, authorities did a more thorough assessment of the implications (eg a least-cost analysis by depositor insurers). There was also limited reference to the resolution plan, which should have played a more central role in decision-making.

In most jurisdictions, authorities adopted a crisis communication plan, although many also identified it as an area for improvement. Participants were mindful of the importance of managing public sentiment in containing the crisis. While most authorities developed a communication plan and engaged in actions to execute it (eg issued a press release, organised a press conference, asked the local bank to prepare a communication plan), in many instances the approach was reactive and unstructured. In general, external communication was not guided by an established strategy and participants showed significant hesitation in this regard. This led to delays in public communications that might, in real life, make actions less effective than if they had been taken earlier. Lack of inter-agency playbooks and clear procedures governing public communications meant that participants dedicated significant time to brainstorming how to approach public communication. In contrast, in jurisdictions where a detailed crisis management playbook was in place, authorities were more proactive. In one such case, authorities established an internal working group at an early stage to track expressions of public and market sentiment through the media and provide regular updates to management. During the first round, those authorities required Banque Soleil to issue a press release to respond to posts on social media, and, as the crisis escalated, they published a joint statement containing assurances about the sufficiency of funds to cover depositors' claims and to confirm that they were collaborating with foreign authorities to manage the crisis.

Section 3 – Recommendations

This section sets out recommendations that build on the findings of the exercise. The recommendations are offered for the consideration of authorities, and focus on the following aspects:

- resolution frameworks and tools
- crisis management protocols and procedures
- recovery and resolution planning
- crisis simulation exercises

3.1 Review of resolution framework and available tools

The Key Attributes should inform any improvement of local frameworks and tools. The Key Attributes are the international standard for resolution frameworks, and their core tools and arrangements are considered international best practice irrespective of the country.² While the jurisdictions that participated in this CSE have tried and tested frameworks to deal with bank failures, some cases saw an overreliance on public funding rather than privately funded solutions. A regime based on the Key Attributes gives authorities the powers and tools to develop resolution strategies and adopt measures tailored to market conditions and the circumstances of the bank at the point of failure, without being constrained to rely on public funding. The core powers and tools include the following:

- general resolution powers (eg to take control of and operate the bank, either directly or through an administrator; to purchase or sell assets; to terminate, continue, or enter into new, contracts to ensure the continuity of essential services and functions; and to restructure or wind-down its operations)
- powers to transfer all or selected assets and liabilities of the failed bank to a third party such as a private sector purchaser or a bridge bank (see Box 1)
- the power to establish and operate a bridge bank to take over and continue operating certain critical functions and viable operations of a failed bank
- the power to write down unsecured liabilities of the failed bank or convert them to equity in the bank or a successor institution to absorb losses and/or generate capital (ie to carry out bail-in within resolution without putting the failed bank into insolvency)
- ancillary powers to support a resolution (eg to remove and replace senior management, to ensure continuity of essential services provided by affiliated entities or third-party providers and to prevent or stay enforcement actions by creditors)
- powers to secure the orderly wind-down and liquidation of parts of the failing bank

Authorities must be able to exercise any resolution power without needing the consent of shareholders or creditors of the failed bank.

Most participating countries have a resolution toolkit aligned with international standards, but gaps remain in operational implementation and readiness. All participating jurisdictions had recently modernised their resolution framework, or were in the process of doing so, and consequently had

² Several key attributes are specific to global systemically important banks, but most of the provisions are applicable to any bank that could be systemic if it fails. While some resolution tools, such as bail-in, may not be appropriate for countries with a banking system that is predominantly deposit-funded, the transfer-based tools, funding arrangements and provisions on administrative resolution authorities, recovery and resolution planning, domestic and cross-border cooperative arrangements and information sharing are relevant and can be adapted for all jurisdictions.

access to a “menu” of tools in line with the Key Attributes (eg bail-in powers and transfer tools that allowed them to execute a sale, a bridge bank or an asset management vehicle) backed by industry-funded deposit insurance fund. Nonetheless, the exercise demonstrated the need to ensure that the tools are operational. For instance, banks could be required to maintain additional loss absorbing, which can be used in resolution to help finance resolution action. Also, there should be no legal ambiguity in the ranking of claims, since a lack of clarity about the creditor hierarchy increases the risks of legal challenge to resolution actions. Finally, a pre-funded resolution fund of appropriate capacity facilitates bridge-bank funding and lowers reliance on public backstops.

Box 1

Resolution transfers

Transfers are a core resolution tool that allows authorities to deal swiftly with a failing bank. Transfers to a suitable purchaser can preserve access to deposits and maintain other critical functions of the failing bank. This can reduce contagion by avoiding a fire sale of assets in liquidation and preventing a more general loss of depositor confidence. The tool can be combined with a partial bail-in or a bridge bank.

There are two broad types of resolution transfer: (i) share deals, in which a purchaser acquires the ownership of the failing bank, and (ii) transfers of some or all assets and liabilities. Share deals (used in the CSE) are comparatively simpler and faster, as all assets and liabilities pass to a purchaser through the acquisition of the legal entity, and legal and operational questions of the transferability of individual classes of assets and liabilities do not arise. Transfers of assets and liabilities are likely to involve greater complexity in defining the transfer perimeter and structuring the transaction. However, this has the advantage of allowing authorities to tailor the transfer in a way that maximises the number and value of offers received, which in turn can reduce the costs of the resolution. This can be important if transfers are funded by a depositor insurer that is subject to a “least cost test” that compares the funds needed to support a transfer with deposits to the deposit insurer’s costs in a liquidation and payout. Resolution frameworks should allow bulk transfer of asset and liabilities without creditor consent.

The swift execution of a transfer in resolution depends on preparation. Preparatory activities can be undertaken in advance of any failure to facilitate the search for potential purchasers and to increase the likelihood of achieving a reasonable price. For example, where a transfer transaction is the preferred resolution strategy, the bank must ensure that its systems can produce the required information and documentation rapidly in a stress scenario.

Access to the failing bank’s information in advance is key to improving bidder’s offers. Banks should therefore have the capacity to set up a data room quickly to enable potential purchasers to assess the assets, perform due diligence and price their bids. Access to information should be subject to strict confidentiality undertakings on the part of potential bidders.

Considering the complexity and time pressure of transfer transactions, authorities should prepare by developing guiding principles and a playbook and by ensuring that the necessary capabilities and skills are available in-house or on call externally.

More generally, identifying a pool of suitable bidders is a key element of contingency planning in advance of a likely failure. Potential purchasers should be properly analysed in terms of their likely interest and suitability. Factors to be considered include the following:

- the amount and quality of capital they hold
- their size compared to failing bank
- the compatibility of their business models and systems and challenges to effective integration of the transferred business of the failing bank
- assessment of long-term viability and profitability of the combined entity
- ability to carry on the transferred business, including appropriate licensing status
- compliance standings
- the impact of competition laws (and the availability of exceptions to facilitate a rapid transaction)

The time for starting preparation varies depending on the methods used by authorities to maintain a pool of potentially suitable acquirers that can be contacted at the time of resolution. In large markets, automated tools are essential to create and maintain such a pool. For example, the US Federal Deposit Insurance Corporation maintains a list of potentially interested acquirers (filtered according to region and characteristics of the target bank) to quickly identify potential bidders that may be approached when the need arises. Pools of potential acquirers are often limited to locally licensed and supervised banks. Nevertheless, in some cases it may be beneficial to increase the bidder pool by including other types of entity that may be interested in partial or full acquisition, such as foreign banks or private equity (subject to licensing requirements and suitability criteria). Preparation for and execution of the transfer are usually done by resolution authorities with the support of valuers or investment banks that are contracted to assist the authority.

To prepare the terms of offers that are likely to be attractive to the potential bidders, authorities need detailed information on the bank's operations, its balance sheet, and the nature of assets and liabilities. As indicated above, banks should have the capacities to provide such information quickly and in a form required by the authority, and they should be able to demonstrate those capabilities in business as usual, as part of the resolution planning and resolvability assessment process.

Source: P Baudino, E Johnston Ross, B Van Roosebeke and R Vrbaski, "Bank transfers in resolution – practices and lessons", *FSI Insights on policy implementation*, no 55, December 2023.

Operational readiness for resolution can be improved by developing procedures and targeted capacity building. To make bail-in a credible option, authorities could also develop granular bail-in procedures, setting out the operational steps that will be taken to write down or convert liabilities and ensure that the procedures are understood by relevant market infrastructure, such as securities depositories and stock exchanges. Additionally, authorities should invest in internal capacity building to support effective use of their resolution tools. A typical area where capacity building is often needed is the ability to carry out timely and credible valuation of assets and liabilities, since this underpins decisions on recapitalisation, bail-in and asset transfers.

Jurisdictions should consider formalising the conditions and procedures for the use of public funds. Irrespective of the range of tools and privately sourced funding arrangements that are available, public resources still might be required to manage a systemic failure. This is particularly the case if the safety net capacity is not sufficient for that purpose or full use of that capacity could significantly deplete, or even exhaust, the deposit insurance fund (which risks undermining depositor confidence generally) or impose stress on the banking sector through increased contributions to replenish the deposit insurance fund. Situations where fiscal authority support may be needed should be identified in advance, ideally as part of the firm-specific resolution planning process. Measures should be taken to limit the probability and size of such support. Crisis management protocols should address those situations and set out clear procedures (eg what funds are available, who needs to approve the support, and the process for doing so) without being excessively burdensome or time consuming. When designing public support tools, consideration should be given to how losses incurred by the state would ultimately be recovered.³

3.2 Crisis management protocols and procedures

Crisis management protocols can support timely and effective action. Clear documentation setting out qualitative and quantitative indicators for action at various phases of a bank's deterioration will provide common definitions for the authorities to guide their responses as a bank's situation worsens. The framework should link intervention measures, tools and communication expectations to those indicators,

³ The Key Attributes specify that to minimise the moral hazard associated with public support, arrangements should be in place to recover funds as far as possible from the shareholders and creditors of the failed bank and, where appropriate, from the industry more generally through mechanisms such as ex-post assessments or levies. They further specify that the mechanism for recovery from the industry of losses arising from the provision of public funding should be based on explicit provision in the legal framework. See Financial Stability Board, [Key Attributes assessment methodology for the banking sector](#), 19 October 2016.

with the aim of creating a shared understanding of available measures and consistent and coordinated actions during the run-up and execution of a resolution or insolvency procedure. Communication strategies are also vital and should be considered in advance (see Box 2).

Governance arrangements should be set out clearly to facilitate coordination among authorities. The roles and responsibilities of the relevant authorities should be detailed and formalised, clearly delineating who should intervene in a specific process and when. RACI matrixes can perform this function as they categorise roles in four key categories – responsible, accountable, consulted and informed – and set out the type of role each authority will play in relation to a specific task or decision. The extent to which existing crisis management committees facilitate decision-making should be reviewed to ensure clarity about which authorities have for example, rights to comment on proposals or to provide independent views. Authorities’ data and information requirements need to be mapped out in advance and should be clear to all parties to ensure accuracy and consistency in their decision-making. Additionally, infrastructure (eg data rooms or joint information technology platforms) and key contact points are essential for quick and efficient information exchange.

Internal protocols should include decision principles and/or evaluation criteria to support decision-making. A guiding framework for evaluation should not be a prescriptive and detailed “checklist”, but rather a set of overarching principles derived from the existing frameworks, which ideally are developed jointly by the authorities that are involved in or affected by the decision.

Box 2

Communication plans

Communication with external stakeholders is a key element of internal crisis management playbooks. The general aim of public communication in connection with a banking failure is to support financial stability by preserving or restoring public trust and minimising the risks of panic among depositors and markets. The communication plan should emphasise the delivery of accurate, trustworthy and timely information about the nature of the crisis; its impacts; and the steps being taken to address it. It should contemplate use of a range of channels to disseminate information quickly and broadly (eg traditional media, social media and direct communication methods). Communication plans should outline the level of engagement and the nature of the content depending on the circumstances and the audience targeted. They should also establish roles and responsibilities for different types of communication among and within authorities. Such plans often include templates or draft materials to standardise communications where appropriate and to aid rapid production in a fast-moving situation.

The communication plans should consider activities related to media monitoring. During a crisis, authorities should monitor news outlets and social media to track changes in public sentiment and identify narratives that may exacerbate public panic. The spread of false information poses a significant risk to the bank in question and the financial system more generally. Communication plans must take account of this risk, assign monitoring responsibilities and include a strategy for addressing false information (which may include not engaging with that information). The plan should also outline how and when information obtained from monitoring is reported to other actors within the institutional arrangements for crisis management, such as a Financial Stability Committee.

Training in communication ensures that all relevant officials within an authority are equipped to respond swiftly and effectively when a crisis occurs. Regular training sessions allow officials who will be involved in public communications to become familiar with crisis management procedures, reducing uncertainty and improving the efficiency of the response when a crisis occurs. Training should include strategies for effective communication with various stakeholders: that is, how to craft clear, concise messages, respond to inquiries, manage external communications, and handle difficult conversations. Although most officials within an authority do not deal directly with the press and the public, training should be available beyond the communications team to all management and staff who are likely to play a role in communications.

3.3 Engage in bank-specific recovery and resolution planning

Banks should be required to develop credible recovery plans during business as usual, which serve as roadmaps for action when the bank encounters stress. Recovery planning should take place in advance of any stress, as part of business-as-usual supervision. A framework that only requires recovery planning when a bank's financial situation is already deteriorating falls short of international standards and best practices. Detailed, realistic and scenario-based advance planning is needed to provide bank management with credible options and to determine a bank's overall recovery capacity.

Recovery plans should be required, at a minimum, for all entities that are potentially systemic, although recovery planning is good practice for any bank. The requirement should have regard to proportionality in the contents of the plan. A banking group should maintain a group-level plan covering all entities included in the scope of prudential consolidation, although the extent to which they are detailed may vary in line with their importance for the group and for the real economy of the jurisdiction where they are located. Where host authorities also require specific recovery plans for local subsidiaries, those plans should be compatible with those for other entities within the group. The group recovery plan is generally submitted to the group home supervisor and discussed with host authorities with the supervisory college. Country-specific recovery plans for individual group entities are generally reviewed by the relevant host supervisor. However, authorities need to coordinate to ensure that the recovery options, triggers and governance arrangements in the group and entity-specific plans are consistent and take account of interdependencies. The college may be a suitable forum for that coordination. In summary, supervisors must assess both the completeness and credibility of the plan, including the feasibility and consistency of the recovery options

Bank-specific resolution plans should be developed and maintained, at a minimum, for banks that could be systemic if they fail. However, resolution planning is not advanced in the participating jurisdictions, only some of which have explicit requirements and procedures in this regard. Resolution authorities should have primary responsibility for resolution planning since the plan sets out the actions the authority would expect to take, using powers under the resolution framework. Nevertheless, resolution planning requires detailed information from the bank; and an explicit framework for resolution planning allows authorities to impose obligations on banks and require their support in the planning process. Developing a firm-specific resolution strategy and operational plan in advance of any failure should give a common starting point for discussions and a shared understanding of the implications of the strategy, such as risks and contagion effects. (Box 3 sets out essential elements of a resolution plan.)

The resolution strategy for a banking group will either be single point of entry (SPE) or multiple point of entry (MPE). Under an SPE strategy, the group would be resolved using resolution powers at the level of the parent entity by a single resolution authority, while an MPE strategy involves the coordinated use of resolution powers in relation to several group entities in different jurisdictions. The strategy is highly dependent on the legal, financial and operational structure of the banking group; the nature of its activities and how they are organised in the group; operational dependencies between group entities or with third parties; and the nature of its funding arrangements. Importantly, the location of the loss-absorbing capacity that will be used to fund the resolution must be consistent with the resolution strategy. If a group has an SPE strategy, the parent entity should issue sufficient loss-absorbing capacity that can be bailed-in to ensure that subsidiaries can be recapitalised. For an MPE strategy, loss-absorbing capacity will need to be issued by all the entities that are expected to be put into resolution. To be executed successfully, both types of strategy require significant advance planning and close coordination between home and host authorities in the run-up to and during the resolution.

The resolution strategy should take different scenarios and bank characteristics into account. For example, host authorities should be prepared for the event that the parent bank cannot provide funding to subsidiaries and that strong operational interdependencies within the group would complicate any strategy based on separating subsidiaries. As banks increasingly make use of outsourced

and digitised services, this can also increase or complicate those inter-group dependencies. SPE strategies are generally better suited to maintaining operational continuity of shared intra-group services since the group is kept together. Nevertheless, in planning for an SPE strategy, authorities should consider how to ensure that the services will continue to be funded. For an MPE strategy, authorities will need to be satisfied that the bank removes operational dependencies that would be broken in resolution and, as a result, would jeopardise continuity of critical functions by entities that were formerly part of the group. In planning for any strategy, authorities should also ensure as far as possible that all service contracts, within a banking group and with third parties, are “resolution proof”, meaning that the service provider cannot terminate the contract solely on the grounds that a group entity is in resolution.

The resolution strategy should be set out in an operational resolution plan that details how the strategy would be implemented. This includes the resolution tools that will be used to execute the strategy and how they will be applied; assumptions about sources of liquidity and funding for the bank while in resolution; the intragroup and third-party support arrangements needed to ensure that the bank’s critical functions can continue to operate during and immediately after resolution; and obstacles to the effective application of those tools that have been identified and how they will be addressed.

Box 3

Essential elements of a resolution plan

For any bank that is subject to resolution planning, authorities should develop the preferred resolution strategy (or strategies) and assess the necessary conditions and operational requirements for its implementation, including arrangements for cross-border coordination. To support the execution of the strategy, the banks’ resolution plan should identify:

- the resolution powers and tools that would be used to execute the resolution strategy and any restrictions on their use
- regulatory thresholds and legal conditions that provide grounds for the initiation of official actions (including thresholds for entry into resolution) and scope for authorities’ discretion (eg the extent to which authorities can refrain from taking actions or not avoid acting under certain conditions)
- the critical interdependencies and the impact of resolution actions on other business lines and legal entities (Would other entities be able to continue to operate?); financial contracts (Do authorities have powers to limit or suspend termination or close-out rights?); and markets and other firms with similar business lines; and include a comparative estimate of losses to be borne by creditors and any premium associated with various resolution strategies
- the range of sources available for resolution funding and any conditions for or limitations on their use
- where relevant, the process for payout by deposit insurance funds and other insurance schemes (including identification of insured and uninsured depositors)
- the processes for preserving uninterrupted access to payment, clearing and settlement facilities, exchanges and trading platforms
- the internal processes and systems necessary to support the continued operation of critical functions
- processes for their cross-border implementation, including actions required by authorities in other jurisdictions to support that implementation and any necessary procedures (notifications, information, formal applications, etc) to facilitate those actions
- communication strategies and processes to coordinate communication with foreign authorities

Source: Financial Stability Board, “I-Annex 4 – Essential Elements of Recovery and Resolution Plans”, in *Key Attributes of effective resolution regimes for financial institutions*, 25 April 2024, pp 41–7.

Resolution plans should be reviewed regularly to ensure they remain credible and executable, reflecting any changes in the bank's organisation or activities. This process generally includes conducting regular resolvability assessments and addressing identified gaps. Resolution plans should also be reviewed as soon as bank's business model, legal entity structure or risk profile changes. Resolvability assessments should be carried out by the responsible resolution authority to evaluate whether the strategy being developed is credible and can be feasibly executed under the detailed operational plan. For larger, complex banks, resolution planning and resolvability assessments are an iterative process. A core objective is to identify potential obstacles to banks' resolvability. Authorities should have adequate powers to require banks to make changes in their legal or capital structure or business organisation that are necessary to remove impediments to their resolution under the strategy identified during this process.

As a key element of resolvability, authorities should ensure that banks build the appropriate capabilities and can mobilise them quickly as stress increases. For example, authorities should work with banks to ensure that their information management systems can support resolution. This may involve testing the ability to provide detailed and accurate information in the format and (short) time frame needed by the resolution authority, to conduct different types of valuation in the run-up to resolution (or supporting external parties in doing so) or to assess the funding and liquidity situation and accessibility of collateral. Banks should be required to demonstrate that they have governance and funding arrangements to support protection of critical functions and services in any resolution strategy.

Authorities should review domestic resolution regimes to ensure that they can support a group resolution. Any features that may hinder the successful execution of a group resolution plan should be identified and, where possible, mitigated or removed.

3.4 Cross-border coordination in resolution planning

Where banks have a significant cross-border presence, cooperative resolution planning is imperative. Resolution colleges are a suitable forum for information exchange and coordination on resolution planning and consideration of the implications of a resolution strategy for the host jurisdictions. Regular discussion in resolution colleges can help build trust and establish a pattern of cooperation at all stages of resolution planning that should facilitate contingency planning and execution if resolution is required. A resolution college is generally bank specific and may be a free-standing arrangement or an extended formation of a supervisory college (with additional members if the resolution authorities of all the countries material to the resolution to the bank in question are not represented in the supervisory college). Colleges typically consist of the relevant authorities from the bank's home and material host jurisdictions and are chaired by the home authority. It would be beneficial to establish resolution colleges with a CMG-like structure for any groups with material cross-border operations that could be systemic if they fail, even though the Key Attributes only require CMGs to be maintained for global systemically important financial institutions. (Box 4 sets out good practices for the organisation and operation of CMGs that are also relevant to resolution colleges.)

Box 4

Good practices for crisis management groups*

Structure and operation of CMGs:

- CMG membership and structures reflect the specificities of the firm, its business model and its geographic footprint. In "business as usual" and when working to enhance crisis preparedness, CMGs generally include the resolution authorities and prudential authorities of the home and material host authorities. Some also include central banks, deposit insurers, ministries of finance and other regulatory bodies, largely reflecting

the allocation of responsibilities for bank crisis management in the jurisdictions represented. Some home authorities have supplemented a CMG with regional structures.

- Members' representation in a CMG combines appropriate decision-making capacity and relevant expertise. CMG meetings are generally attended by key decision-makers and technical experts from each authority.
- The CMG is underpinned by an institution-specific cooperation agreement that facilitates the necessary crisis management planning, cooperation and information-sharing between the member authorities. Such agreements have been adopted for most CMGs. However, their existence has not been a prerequisite for the CMG to operate in practice.

Resolution policy, strategy and resolvability assessments:

- CMG members are kept informed of firm-specific developments and any relevant changes in resolution frameworks in home and participating host jurisdictions. CMG members have shared updates on ongoing or planned policy developments relating to resolution, and in some cases recovery, planning and firm-specific effects of the application of new international standards or guidance.
- CMG members review the resolution strategy and operational resolution plan annually or when there are material changes to a firm's business or structure.
- The CMG serves as a forum for coordinating resolvability assessments, sharing findings and discussing any remaining barriers to resolvability and plans to remove them.

* This box summarises selected practices set out in the Financial Stability Board paper: [Good practices for crisis management groups](#) (30 November 2021). While that paper is based on the experience of home and host authorities involved in CMGs for global systemically important banks, many of the practices highlighted are relevant to other forms of cross-border cooperative arrangements for regional banking groups.

Colleges can be used to build shared understanding and knowledge of other jurisdictions' frameworks and tools and the impacts of the firm's preferred resolution strategy. Authorities should invest time in educating members about the resolution frameworks of the participating jurisdictions, including the conditions for entry into resolution or grounds for insolvency and any conditions relevant to the implementation of the resolution strategy. College members should have a clear understanding of how a resolution would proceed during the run-up and its execution, and of the tools available in other jurisdictions. The exchange should also increase members' understanding of impacts of the preferred resolution strategy on the participating jurisdictions and their financial stability concerns in the event of a resolution. This is to foster a mutual understanding of and trust among the host jurisdictions in the actions that may be taken. The process of building knowledge can be assisted through the preparation of college playbooks. Those playbooks could detail decisions and actions to be taken, conditions that must be met, and procedures and time frames.

3.5 Crisis simulation exercises

Authorities should engage in tabletop and simulation exercises to test different elements of the resolution framework and to enhance crisis preparedness. Such testing activities provide an opportunity to gain practical experience and to identify areas where frameworks and tools need to be enhanced. Playbooks can be tested and refined, and informal networks among participating departments, authorities and jurisdictions will be strengthened. Exercises could be included in authorities' annual workplans and be tailored in content and scope to current needs. It is recommended that exercises be conducted periodically to regularly test and update tools. For example, tabletop or war-gaming exercises could be conducted annually and cross-authority simulations every three to five years depending on needs and resources. Topics that can be tested in CSEs include use of a specific tool (eg purchase and assumption or bridge bank); coordination between authorities; interaction between the Board and senior management of a specific authority; interaction with service providers or market infrastructure in executing a resolution; depositor payout; and public communications. Exercises could also test the capabilities of banks: for

example, to set up and populate a data room or rapidly provide the information required by authorities for contingency planning or resolution execution.

Annex

Participants

The participating authorities comprised central banks, supervisory authorities, resolution authorities and deposit insurers. This composition was based on the roles of those authorities in managing bank failures under their domestic frameworks. Central banks participated given their role as macro-prudential authorities with financial stability mandates and providers of emergency liquidity (in addition to supervision or resolution functions, where relevant). Where banking supervision is separate from the central bank, the supervisory authority also participated.

Finance ministries did not participate in the exercise, but their involvement was reflected by role players. Despite significant progress on bank liquidation and resolution frameworks, fiscal resources could still possibly be required in a systemic banking crisis. Existing sources of funding (such as the deposit insurance fund) might not be sufficient to preserve financial stability. However, this should be the exception, not the norm. For this reason and to limit the complexity of the exercise, Finance ministries were not represented as active participants. This also helped to increase incentives for participants to work out a solution that would not require the use of public solvency backstops.

The private sector did not participate. Effective crisis management requires strong cooperation with banks. This includes provision of information, increasingly intense application of supervisory powers, interactions on recovery and resolution strategies, and their implementation. Industry participation could have further increased the realism of the exercise, and simulations do take place between banks and authorities. However, such exercises are of a very different nature. They typically involve fewer authorities and are generally more limited in scope than this exercise – for example, focusing on technical competencies to carry out operational procedures rather than official sector decision-making and cooperation. The inclusion of banks in this exercise would have been inconsistent with the stated objectives of testing the crisis management frameworks and arrangements of the authorities.

Stakeholders that did not participate directly were incorporated in the exercise through written material and role plays. While the core qualitative and quantitative information was provided in documentary form, role players provided an interactive element. This allowed participants to ask questions and receive feedback on the decisions they took. Role players represented the ministries of finance (for questions related to public backstops, but also to put political pressure on participants), bank executives (for questions about the situation of the bank) and investors (for sales negotiations). The role players included members of the project team that had helped to develop the exercise.

Participating authorities were each represented by a team of people assembled from those departments that would be involved in a crisis. In all cases, the teams included top leadership, who are the persons that would take the critical decisions in the event of a real banking crisis. This was important for several reasons. First, the decision-making structures and operational setups within the simulation mirrored reality, which strengthens the robustness of the simulation findings. Second, the direct experience of senior management will foster understanding of the issues and high-level support for any follow-up action. Third, senior-level involvement facilitated the commitment by authorities of significant resources to the preparation and execution of the exercise. And finally, the exercise allowed senior decision-makers of various authorities to cooperate, which will strengthen confidence and mutual trust.

The simulation was orchestrated and supported by a team that consisted of:

- representatives of the FSI and Oliver Wyman, who ran the exercise;
- role players acting as stakeholders (such as senior management of the fictional bank) to interact with participants as required; and

- neutral observers, one for each participating authority team, who were present at all interactions and compiled observations on the conduct of the exercise in accordance with a checklist. That information was one basis for the findings.

Operational aspects

The simulation was conducted in a hybrid format, with participating authorities typically gathering physically on site. Interactions across authorities and with the operations team took place virtually.

Video conferencing was used for discussions and negotiations. In addition to a “Plenary Room” where all participants gathered for introductions and debrief for each session, virtual “Breakout Rooms” were used to provide group rooms for each authority and additional meeting rooms for bilateral or multilateral discussions between authorities. Overall, the video conferencing facilities worked well. Although moving the 80 or so participants to virtual meeting rooms had to be carried out manually, participants did not experience material dropouts. Communication was mainly clear, apart from occasional audio problems in conference systems in the physical meeting rooms.

A messaging tool allowed participants and the operations team to exchange written messages and documents. The tool provided multiple channels so that messages could be exchanged within defined groups, such as all participants of a single authority or jurisdiction. The messaging tool also provided the channel by which the operations team disseminated scenario material and authorities recorded their decisions. The tool came with two important advantages. All interactions were recorded, so that the operations team could rely on these records in their analysis. At the same time, textual communication was confined to the platform, clearly separating simulation-related communication from real-life communication.

The exercise was tested with a “dry run” with project team members. This was necessary to verify that the exercise would work as planned and that the material for participants did not include unintended ambiguities. While the dry run did not reveal substantial problems, it helped identify issues that were addressed to make the exercise smoother, and to increase the confidence of the central team that the exercise was tightly scheduled with no material margin for error.

Structure

The exercise was divided into three rounds, each focusing on a phase in a stylised trajectory of a bank failure. In real life, banking failures develop as a sequence of events over days, weeks or months, and actions and the pace of authorities’ response and actions will vary over that period. However, time, resource and conceptual constraints do not allow a simulation to fully replicate this, nor is it necessary to do so to achieve the stated objectives. For that reason, the team opted for a themed, round-based approach. Round 1 focused on early intervention strategies. Round 2 centred on keeping the bank afloat in distress and preparing for resolution. Round 3 focused on the decisions to go ahead with resolution.

Each round took around three hours and started with the operations team providing material to participants, setting the scene for required analysis and decision-taking. Information, including financial statements and media reports, was released at the start of each round. Additional information was provided during each round to increase the dynamism of the exercise and to nudge participants in certain directions. Most of the information released was scripted, although ad-hoc adjustments were made to reflect the flow of the simulation or prior decisions by participants (eg reflecting ELA in simplified balance sheets that were provided for each round). All material used in the exercise was fictional.

Authority teams usually took some time to review and internalise the information received. In doing so, they relied on their teams, which for many authorities included subject-matter experts for the

issues to be covered. Based on that, participants discussed and decided on the course of action. Authorities could take any decisions within their legal powers. The decisions were generally communicated to the operations team at the end of each round.

During each round, participants discussed the situation and potential strategies and implications with peers domestically and across borders. In addition to their internal work, authorities had the option to meet other domestic and foreign authorities to deepen their understanding of the situation, to get additional insights on issues that might not have been conveyed to them by the material provided and to discuss and coordinate actions.

Exercise design

Scenario and exercise dynamics were designed jointly with teams nominated by the participating authorities, who worked closely with the FSI and Oliver Wyman to ensure the exercise was relevant and realistic for their jurisdictions. The design was guided by the following principles.

- The purpose of the CSE is to provide an opportunity for participating authorities to test existing crisis management and cooperation frameworks. It is not intended to:
 - constitute a test that is “passed” or “failed” by participants. Rather, the aim is to provide independent insights for participants’ consideration.
 - test the capacity of internal toolkits to perform technical analysis. Any technical analysis required are simplified, since the focus is on testing policy and decision-making frameworks.
- The scenario should be realistic though not overly complex in order to focus on critical decision-making and cooperation.
- The exercise is based on a fictional banking failure scenario leading to a regional systemic crisis.
- To simulate real-world experience, the design incorporates a significant degree of complexity and uncertainty, including gaps in information.
- Participants are expected to act in the same way as in reality (while recognising that the exercise was a simulation) – for example, maintain a sense of urgency, act in accordance with own functions and within actual statutory powers, legal constraints and safeguards.

Details of the scenario

The scenario centred on the failure of a regionally systemic bank – the fictional Banque Soleil – and was designed to achieve a similar level of engagement for all jurisdictions. It included a background story that framed the events in the simulation, including macro-economic and geopolitical circumstances. Banque Soleil was a regional banking group headquartered Morocco, with a strong presence in each of participating jurisdictions, where the local subsidiaries ranked among the top financial players and were considered locally systemic. Banque Soleil had a group recovery plan that specified a range of options (eg sale of subsidiaries, raise of capital at group level) and a resolution plan that detailed a preferred resolution strategy based on SPE resolution at the level of the Moroccan holding company.

The crisis was rooted in a deterioration of regional macro-economic conditions that caused the bank to reach non-viability in all countries. While several crisis triggers were considered, a macro-economic scenario that led to a broad recession and corresponding losses in the bank’s loan book proved to be the most feasible, as all participating countries could credibly be exposed to it. The balance sheet weakened and equity was consumed, due mostly to a growing share of non-performing loans and increasing provisions. As in real life, participants faced a significant degree of uncertainty about asset quality

deterioration. The profitability of the group also diminished, undermining the bank's ability to absorb losses through internal capital generation.

Idiosyncratic crisis events were included to add further challenges to the exercise. Bank failures are often accompanied by exogenous shocks and unforeseen events – which may be unrelated to the root cause of the crisis – that increase urgency, limit room for manoeuvre or require modification of agreed resolution strategies. For this reason, the simulation also included events such as the bankruptcy of a large corporate, negative and media deposit withdrawals.

The scenario did not have an ideal outcome. That said, it was designed to make cooperative solutions less costly from a broader perspective and better able to deal with intra-group operational dependencies. The objective of this approach was to trigger cross-border discussions and decision-making while acknowledging that group-wide action must meet local objectives, such as protecting domestic depositors, preserving jobs in the local entity or containing spillovers to other banks.