



GIBRALTAR RESOLUTION
AND COMPENSATION UNIT

Gibraltar Resolution Planning Framework


Charting the course for Gibraltar Firms



Today's Content

- Background to Bank Resolution & Gibraltar's Bank Resolution Structure
- Resolution Regime progress to date
- RCU current priorities
- Crisis Management Mechanism - BRR
- Resolution Planning Steps
- Industry Dialogue Workshops
- Questions/Comments


Background to Bank Resolution

2008 

- Collapse of Lehman Brothers

Banks too big or too interconnected to fail

- The threat of bank failures meant that the health of government finances became more important than ever
- What started as a banking crisis became a sovereign debt crisis

2008  BANK CRISIS
2009

- Banks failed in Europe
- Market losses
- EU governments came to the rescue
- Damage to the taxpayer
- Ensuing economic crisis & recession
 - >GDP damage
 - >General Unemployment soared
 - >Youth unemployment rose

1

Following the Financial Crisis, G20 Leaders called for a '**review of resolution regimes**' after bank failures highlighted serious shortcomings in existing tools tackling failures of systemic banks

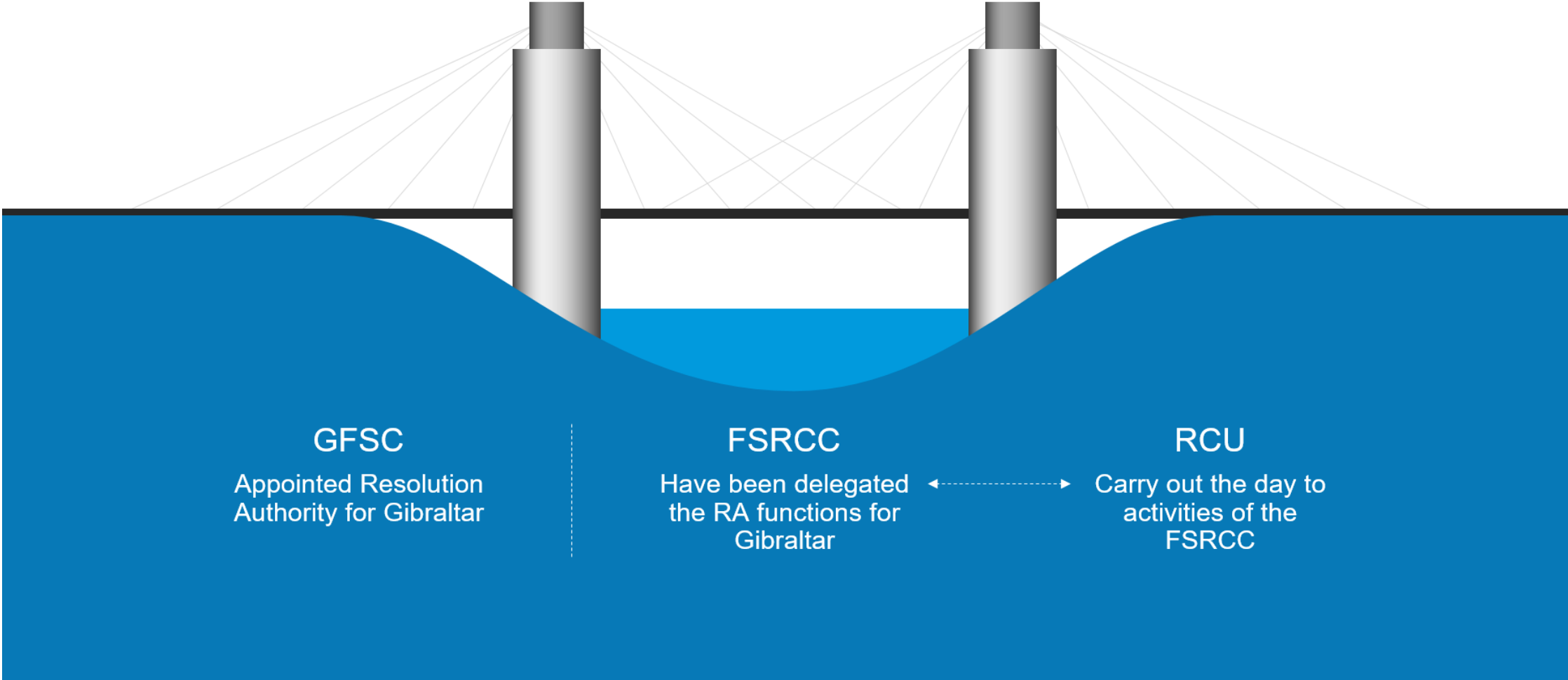
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In 2011 the G20 endorsed the Financial Stability Board's recommendations on the implementation of effective resolution regimes

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In 2014, the **Bank Recovery and Resolution Directive** was published, creating a harmonized framework across Europe for failing credit institutions and investment firms. **This has since been transposed into local Legislation.**

Gibraltar's Bank Resolution Structure



Role of the FSRCC

The mission of the FSRCC is to ensure an orderly resolution of the critical functions of failing banks with minimum impact on the real economy and the public finances of the Gibraltar and Home Resolution jurisdictions



- Establish **rules and** procedures **for the resolution of entities**
- Establish a **credible and feasible resolution regime**
- **Remove obstacles** to resolution
- **Ensure unified decision-making process** for Group resolution
- **Minimise the cost of resolution and avoid destruction of value** unless necessary to achieve the resolution objectives
- **Provide key benefits** for taxpayers, banks, deposit-holders and contribute to financial and economic stability

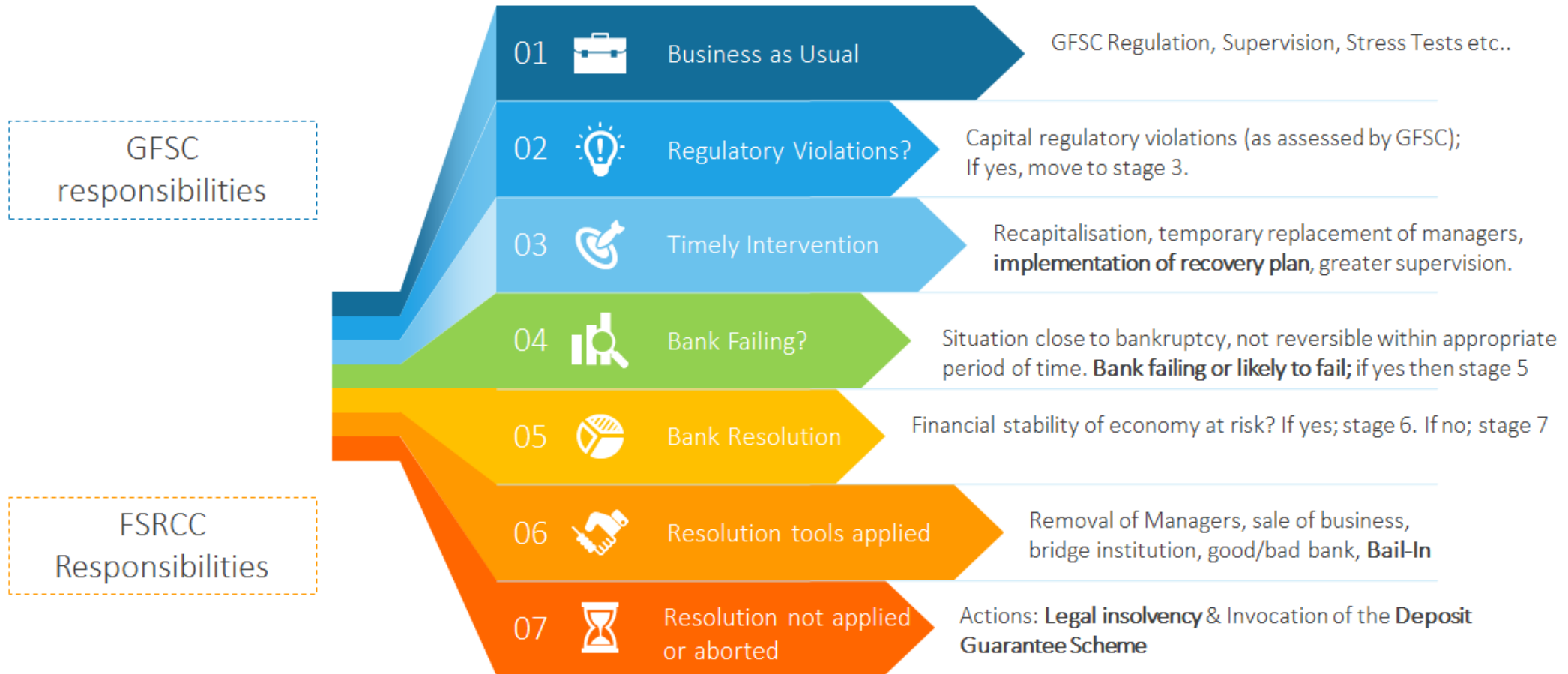
Resolution Regime Progress to Date

- **FSRCC & RCU established** with appropriately skilled professionals
- The development the **Resolution Planning and Crisis Management Process** as well as policy orientations for the use of resolution tools
- Defining of the funding and financing arrangements and calculations for the **BRR Ex-Ante Fund** and ensuring timely contributions
- RCU now the **centre of expertise** for resolution-related topics
- RCU contributing to **the review of existing legislation on resolution** and to other relevant regulatory activities
- The **development of MoU's / cooperation agreements** with the GFSC
- **Cross Border engagement** with relevant Home Resolution Authorities (including Resolution Colleges) and development a culture of efficient cooperation with NRAs
- RCU **pan-EU exposure to Resolution Authority regimes** and peer group.
- **EBA and International body** collaboration

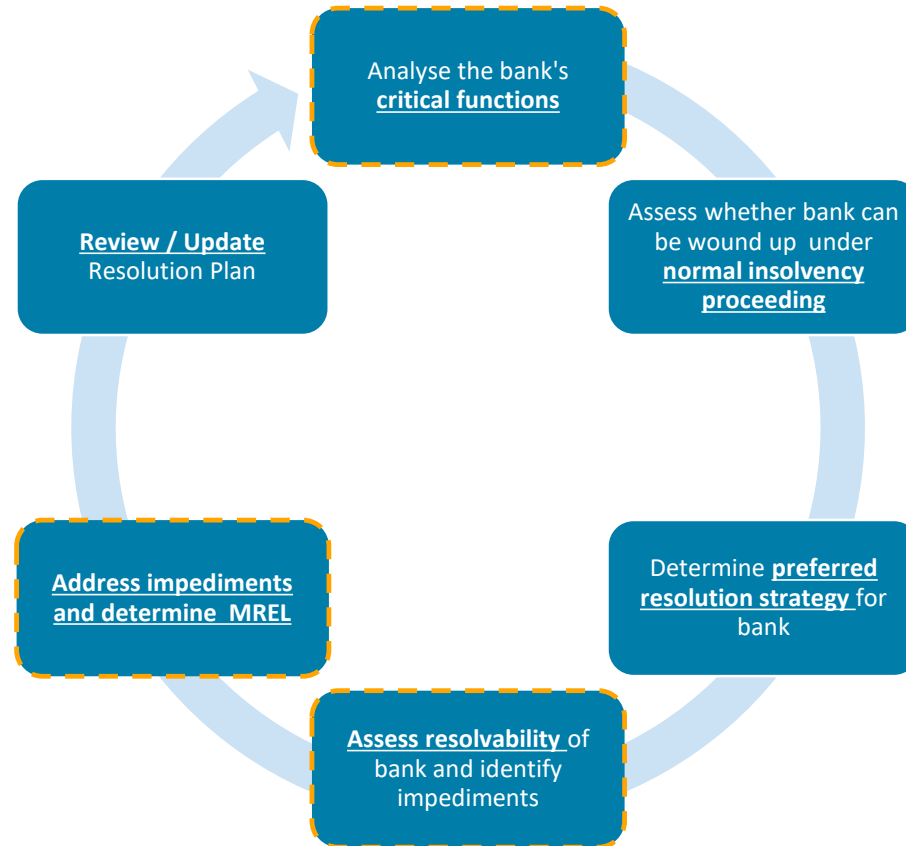
RCU Priorities

- **Resolution Plans** and transitional Resolution Plans to be completed
- **Improve understanding of banking groups** (including treasury policies) and Group resolution strategies impacting Gibraltar firms
- Make progress on enhancing resolvability by identifying barriers to resolution and by providing and implementing concrete guidance on ways to remove them, including on MREL
- Improve Resolution preparedness by carrying out crisis simulation exercises
- Resolution Planning Manual published
- The development of MREL targets in consultation with stakeholders, including detailed and results-oriented workshops with banks
- The development of other policies and templates (critical functions, liquidity, FMI's)

Gibraltar Crisis Management Mechanism



Steps for Resolution Planning: FSRCC



Phases to be delivered via
Industry Dialogue Workshops

Continuity of Critical Functions

Critical Functions are functions that a firm provide to third parties, whose sudden disruption is likely to have a material negative impact to the third parties, give rise to contagion or undermine general confidence in the market.

Ensuring Critical Functions and Financial Market Infrastructures is core to Resolution Objectives.

Identification of these is crucial for resolution planning.

This identification of Critical Functions will be facilitated by way of Industry Dialogue Workshops (template to be agreed)



What is MREL?

- As per Gibraltar legislation (and BRRD), Gibraltar BRR firms are required to hold a **minimum requirement for own funds and eligible liabilities** (MREL) determined by the FSRCC in conjunction with Industry (and Home Resolution authorities where relevant). This is expected not to become a hard requirement until circa 2022 (date may vary depending on EU Home Resolution agreements).
- **The purpose of MREL** is to ensure that BRR firms have sufficient loss absorbing and recapitalisation capacity at all times, i.e.
 - a minimum amount of own funds and liabilities that can credibly and feasibly be written down or converted into equity without violating the no creditor worse-off principle (NCWO)
- Where liquidation, rather than resolution, is to be the preferred strategy MREL will only be made of a loss absorption amount (ie equal to that of the current Capital requirement).
- MREL eligible liabilities represent a subset of liabilities that are eligible for bail-in. BRRD enable RA's to bail-in **all** eligible liabilities when required. MREL is a minimum requirement for these liabilities.



MREL: Next Steps

- The RCU to develop MREL policy in consultation with stakeholders
- **Informative, non-binding MREL** to be discussed to firms in Q4 2017 – this will give firms a sense of what future requirements may look like – note that this will be an iterative process over the coming years until a final binding MREL is in place

A firm by firm **assessment of eligible liabilities** is required to aid the decision making process on resolution strategy and the implementation of resolution measures in a crisis

These next steps will be facilitated by way of results-orientated Industry Dialogue Workshops



Industry Dialogue Workshops



Collaborative Process

- Introduction to Minimum Requirement for Own Funds and Eligible (MREL)
- Setting MREL
- Liability data template (analysis the liability structure)
- BRR Firm Critical Functions and template
- Resolution Plans (incl input from firms)
- Resolvability Assessments
- Resolution Manual (future RCU publication)
- Simplified Obligations*

**SO may be applied if the failure of the institution is not likely to have significant adverse consequences for the financial system or be a threat to financial stability*



Questions



Comments