

**2014 IADI APRC International Conference**

**Session 1: Global Trends in Deposit Insurance  
and Bank Resolution Frameworks**

**An Overview of Work on Resolution  
at the Financial Stability Board**

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*\* Any views expressed in this presentation are those of the speaker, and not necessarily identical to those of the JFSA or any other institution.*

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# **1. FSB Work for Ending Too-Big-To-Fail**

# **FSB Policy Framework for Systemically Important Financial Institutions (SIFIs)**

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- **The G20 Cannes Summit (November 2011): agreement on a comprehensive policy framework to address the problem of “Too-Big-To-Fail” for Systemically Important Financial Institutions (SIFIs):**
  - ✓ **Regulatory framework for preventing failure of financial institutions – Additional loss absorbency**
  - ✓ **Framework for orderly resolution**
  - ✓ **Improving supervisory intensity and effectiveness**

# **Work to implement the FSB Policy Framework for Systemically Important Financial Institutions (SIFIs)**

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**Further work being conducted to implement the policy framework in:**

- ① Assessing and designating global systemically important financial institutions (G-SIFIs)**
- ② Requiring additional loss absorbency**
- ③ Enhancing supervisory intensity and effectiveness**
- ④ Enabling effective resolution**
- ⑤ Strengthening core infrastructure**

# Assessing and Designating Systemically Important Financial Institutions (SIFIs)

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- **Currently 29 banking groups are selected as global systemically important banks (G-SIBs) based on the assessment methodology**
- **The assessment methodology uses indicators which reflect 5 risk categories:**
  - 1. Size**
  - 2. Global Activity**
  - 3. Interconnectedness**
  - 4. Complexity**
  - 5. Substitutability**

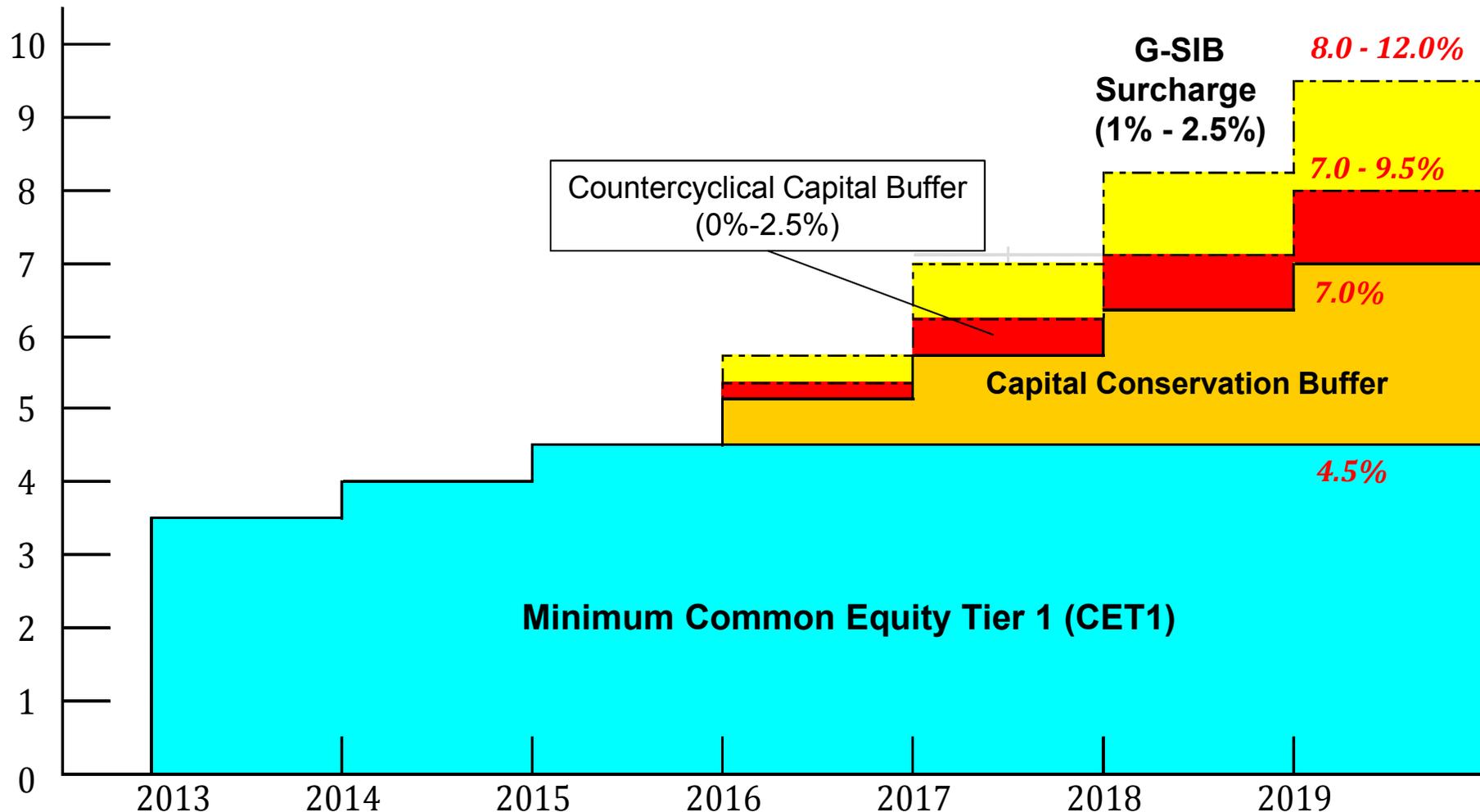
# The G-SIBs List

Financial Institutions identified as G-SIBs based on end-2012 data (Published in November 2013)		
<b>【5<sup>th</sup> bucket (3.5% ※)】</b> —	<b>【2<sup>nd</sup> bucket (1.5% ※)】</b> Bank of America Credit Suisse	<b>【1<sup>st</sup> bucket (1.0% ※) cont.】</b> Industrial and Commercial Bank of China Limited
<b>【4<sup>th</sup> bucket (2.5% ※)】</b> HSBC JP Morgan Chase	Goldman Sachs Group Crédit Agricole Mitsubishi UFJ FG Morgan Stanley Royal Bank of Scotland	ING Bank Mizuho FG Nordea Santander Société Générale
<b>【3<sup>rd</sup> bucket (2.0% ※)】</b> Barclays BNP Paribas Citigroup Deutsche Bank	UBS  <b>【1<sup>st</sup> bucket (1.0% ※)】</b> Bank of China Bank of New York Mellon BBVA (New) Group BPCE	Standard Chartered State Street Sumitomo Mitsui FG Unicredit Group Wells Fargo
Total 29 (Alphabetical order in each bucket)		

※ G-SIBs are required to accumulate equity capital in line with the regulatory standards of Basel III according to each bucket.

# Requiring Additional Loss Absorbency (Capital Surcharges for G-SIBs)

**G-SIB capital surcharge: 1% to 2.5% according to the bucket**



# **Enabling Effective Resolution – The Key Attributes of Effective Resolution Regimes for Financial Institutions (the KAs)**

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- **The aim of the KAs is to help address the TBTF problem by making it possible to resolve financial institutions in an orderly manner, without severe systemic disruption or exposing the taxpayer to the risk of loss.**
- **This is to be achieved by protecting critical functions and by using mechanisms for losses to be absorbed (in order of seniority) by shareholders and unsecured and uninsured creditors (=bail-in).**

## **Enabling Effective Resolution – The Key Attributes of Effective Resolution Regimes for Financial Institutions (the KAs)**

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- 1. Enhancement of the resolution framework:** The KAs define resolution powers that resolution authorities should have at their disposal.
- 2. Recovery and resolution plan (RRP):** The KAs require development of RRP to promote resolvability for each G-SIFI.
- 3. Resolvability assessment process (RAP):** The RRP of each G-SIFI is evaluated for its feasibility based on certain standards.
- 4. Cooperation agreements (COAG):** The KAs set out the essential elements for institution-specific cooperation agreements.

# **Establishment of an Orderly Resolution Regime for Financial Institutions in Japan (1)**

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- **In Japan, the Deposit Insurance Act was revised in June 2013 to implement the KAs, and the revised Act entered into force in March 2014.**
- **The revised Act introduces an enhanced framework for orderly resolution of financial institutions, in order to address risks that may spread across financial markets.**

# Establishment of an Orderly Resolution Regime for Financial Institutions in Japan (2)

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## Scope

- **Financial institutions including deposit-taking financial institutions, insurance companies, financial instruments business operators, financial holding companies**

## Procedure

- **The Prime Minister determines the need to implement the orderly resolution mechanism of financial institutions, following deliberations of the Financial Crisis Response Council**

# Establishment of an Orderly Resolution Regime for Financial Institutions in Japan (3)

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## Measures

- **Where it is considered necessary to prevent severe market turmoil:**
  - ⇒ **Special oversight by the Deposit Insurance Corporation of Japan**
  - ⇒ **Provision of liquidity and financial support**  
**(Capital injection may be undertaken as necessary, when the financial institutions are not in a state of insolvency)**

## **Establishment of an Orderly Resolution Regime for Financial Institutions in Japan (4)**

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- **An orderly wind-down of market transactions is to be effectuated, while ensuring that the critical functions of the financial institution are maintained for the stabilization of the financial system, thereby enabling an orderly resolution of the financial institution and preventing severe market turmoil.**
- **When these above measures are implemented, contractual bail-in options (writing down of unsecured debt or converting unsecured debt into equity) are exercised.**

# Establishment of an Orderly Resolution Regime for Financial Institutions in Japan (5)

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## Funding

- **Provide government guarantee for financing by the Deposit Insurance Corporation of Japan. Should losses be incurred, the expenses shall be in principle borne ex post by the financial industry.**

**The government may provide financial support in exceptional cases.**

**The Deposit Insurance Corporation of Japan shall record its expenses in the Crisis Management Account.**

## **G20 Leaders' commitment towards ending TBTF**

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**We welcome the FSB report on the progress made and next steps towards ending “too big to fail”. We renew our commitment to make any necessary reforms to implement fully the FSB’s Key Attributes of Effective Resolution Regimes for all parts of the financial sector that could cause systemic problems. We will undertake the necessary actions to remove obstacles to cross-border resolution. We reaffirm our commitment to ensure that supervisors have strong mandates, adequate resources and independence to act. We call on the FSB, in consultation with standard setting bodies, to assess and develop proposals by end-2014 on the adequacy of global systemically important financial institutions’ loss absorbing capacity when they fail.**

***G20 LEADERS’ DECLARATION  
Saint Petersburg Summit  
5-6 September 2013***

## Further Work at National Level

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### **1. Remove obstacles to cross-border resolution**

**⇒ Remove legal uncertainties in regard to the cross-border effectiveness of bail-in and temporary stays, and of other resolution measures by passing legislation, if necessary**

### **2. Remove obstacles to the sharing of information for resolution purposes**

### **3. Address impediments to resolvability in legal and operational structures**

## **Further Work at International Level: Information sharing mechanisms**

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- **Design the required information sharing mechanisms and ensure their implementation**
- **Need for consistent and comparable firm-specific information for resolution planning purposes**
- **Information sharing within CMGs, and within core supervisory colleges must be strengthened**
- **Information sharing with host authorities in jurisdictions where a G-SIFI has a systemic presence but that are not participating in the CMG for the G-SIFI**

## Further Work at International Level: GLAC (1)

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**The FSB, in consultation with standard-setting bodies, will prepare proposals on the adequacy of G-SIFI loss absorbing capacity in resolution. To avoid the need for a bail-out with public funds a SIFI needs to have sufficient resources to absorb losses in resolution ('gone concern loss absorbing capacity' GLAC). An adequate amount of GLAC should facilitate the implementation of a resolution strategy with a recapitalisation at a level that promotes market confidence and, at a minimum, meets going-concern regulatory capital requirements. The FSB will prepare proposals for consideration by end-2014 on the nature, amount, location within the group structure, and possible disclosure of GLAC.**

***Progress and Next Steps Towards Ending "Too-Big-To-Fail"  
(TBTF)***

***(FSB, September 2013)***

## Further Work at International Level: GLAC (2)

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**As part of our commitment to end the problem of too-big-to-fail, we welcome progress in the development of proposals by the Brisbane Summit on the adequacy of gone-concern loss absorbing capacity of global systemically important banks (G-SIBs) if they fail. The proposals should give home and host authorities and markets confidence that an orderly resolution of a G-SIB without exposing taxpayers to loss can be implemented.**

***Meeting of G20 Finance Ministers and Central Bank Governors***

***Washington D.C., 10-11 April 2014***

## **Further Work at International Level: Addressing other remaining impediments to resolvability**

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- **Enhancement of legal certainty in cross-border resolution**
- **Analysis of funding and liquidity needs that arise in resolution, sources of resolution funding and mechanisms for providing such funding**
- **Measures that support operational continuity in resolution (service level agreements, transitional support arrangements etc. to secure continuity of services that support the provision the provision of critical functions)**

## Other Related Work:

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- **Implementing policy measures for D-SIBs**
- **Implementing policy measures for G-SIBs**
- **Developing a framework for global systemically important non-bank, non-insurance (NBNI) G-SIFIs**
- **More intense and effective supervision**
- **Strengthen core financial market infrastructures**

## **Further Work at International Level: Resolvability Assessment Process (“RAP”)**

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- **Senior policymakers from home and key host jurisdictions to assess the resolvability of each G-SIFI within the Resolvability Assessment Process (RAP)**
- **Assessment template covering critical resolvability conditions, including the availability of sufficient loss absorbing capacity, the cross-border effectiveness of resolution actions, the operational continuity of core critical services etc.**

## **2. FSB Regional Consultative Group for Asia**

## **The Outreach Activities of the FSB: The role of RCGs**

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- **The mandate of the FSB Regional Consultative Groups (RCG) is to provide a mechanism for interactions between the FSB and non-members.**
- **For this purpose, the regional group consists of both FSB members and non-members; e.g. for RCG Asia, there are 8 FSB members and 8 non-members.**
- **RCGs play the role of forming the contributions of regional members and non-members to the FSB's work, and in identifying and providing feedback on any issues/concerns that arise in the course of implementing the agreed policy measures.**

### **3. The Asian Financial Partnership Center**

# **FSA's New Initiative: "AFPAC"**

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- **The FSA established the Asian Financial Partnership Center ("AFPAC") in April 2014, located within the FSA in Tokyo, Japan and operated by the FSA.**
- **To pursue its mission, the AFPAC offers a fellowship program and invites government officials from Asian financial authorities to work at the FSA as "Visiting Fellows" and participate in the broad range of programs provided by the AFPAC.**

# Objectives of AFPAC

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- **The mission of AFPAC is:**
  - (1) to contribute to the strengthening of the regulatory framework and market infrastructures in Asia;**
  - (2) to promote regulatory and supervisory cooperation among Asian financial regulatory and supervisory authorities; and**
  - (3) to coordinate Asia's input and feedback towards global financial regulatory reform.**
- **The AFPAC's ultimate goal is to contribute to the development of financial markets and support economic growth in Asia**

## Activities of AFPAC – Visiting Fellowship Program

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- **Visiting Fellowship Program: A Visiting Fellow is invited to conduct research with a focus on specific areas of interest, and to actively work together with the FSA officials specializing in such areas.**
- **Areas for research may include the following:**
  - **Issues of interest for the home country's financial authority in financial market development**
  - **Challenges for financial systems in Asia**
  - **Global financial regulatory reform and its impact on Asian financial markets**

# Opportunities for the AFPAC Visiting Fellow

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- **A Visiting Fellow has the opportunity to;**
  - **Make use of the facilities of the FSA; and**
  - **Participate in and make presentations at international conferences or seminars hosted by the AFPAC and/or other organizations.**
  
- **The FSA, together with the Visiting Fellow, will consider and arrange work programs in accordance with the proposed areas of interest. The work programs will include participation in the FSA's internal policy discussions, as well as in the interaction between the FSA and the public (industry, professional bodies, etc.)**

***Thank you very much for your kind attention!***



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