

ALMA
ASSET & LIABILITY MANAGEMENT ASSOCIATION

**Funding in Resolution
- from a Treasury
perspective**

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Funding in Resolution - UK Policy

- Bank of England Consultation Paper December 2018
- Funding in Resolution is one aspect of an overall **Resolvability Assessment Framework (RAF)**
- Target = UK banks to be resolvable by **2022**

Bank of England Consultation Paper *The Bank of England's approach to assessing resolvability* December 2018

Global Post Crisis Developments

- Basel Committee Basel III: **universal liquidity metrics** of Liquidity Coverage Ratio & Net Stable Funding Ratio
- Financial Stability Board (FSB): aim to **solve “To Big To Fail”**. In particular increased loss absorbing capacity, recovery and resolution planning, credible resolution strategies

BCBS *Liquidity Coverage Ratio and liquidity risk monitoring tools* Jan 2013

BCBS *Principles for Sound Liquidity Risk Management and Supervision* Sept 2008 reissued Jan 2019

FSB *Principles on the temporary funding needed to support the orderly resolution of a G-SIB* August 2016

FSB *Funding strategy elements of an implementable Resolution Plan* June 2018

UK RAF Scope

Firms where Bank of England expects to use resolution powers of bail-in or partial transfer:

Retail deposits
>=£50bn

- **Firms carry out a Resolvability Assessment**
- **Public disclosure:** firms & BoE
- Bank of England public assessment

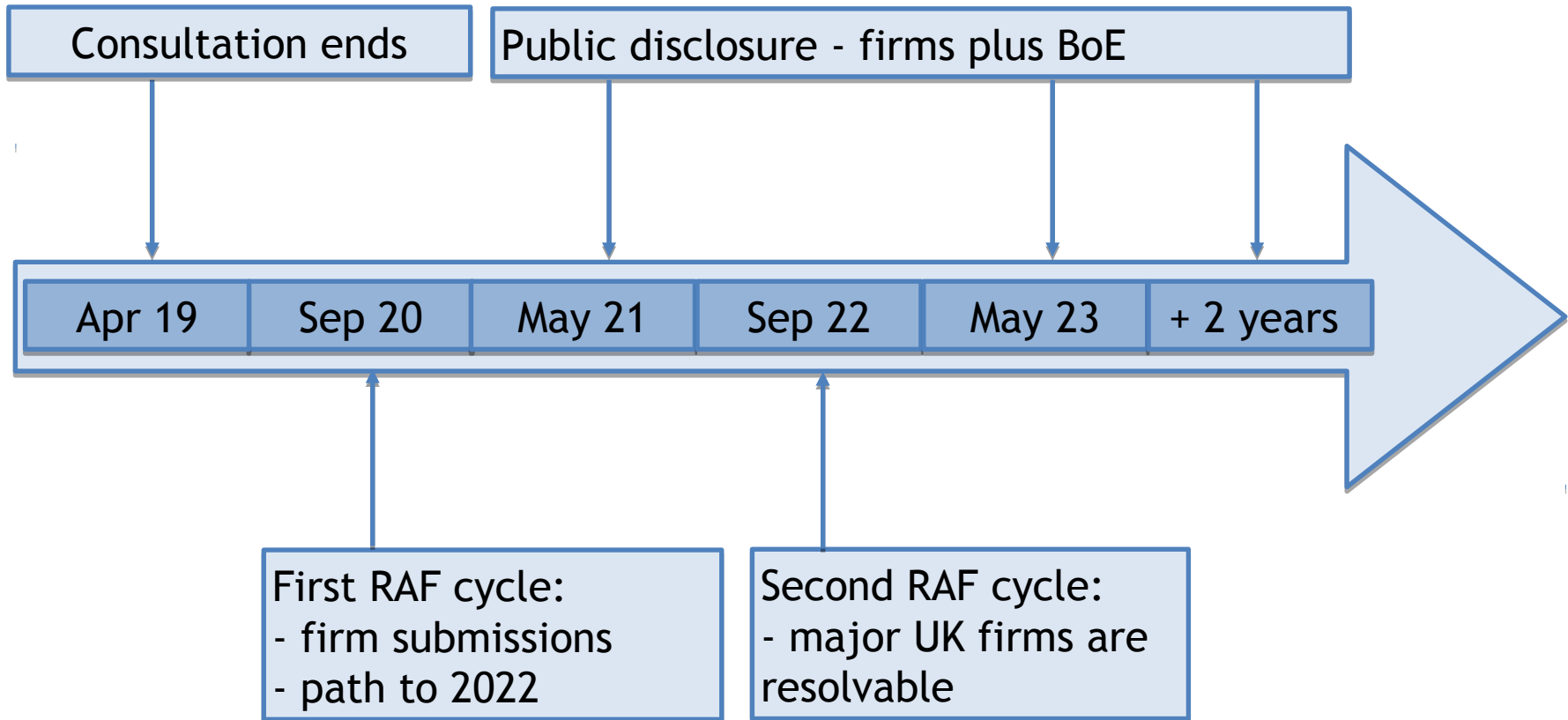
Smaller UK Banks
and building
societies

- **PRA makes assessment**
- No public disclosure
- **Proportionate: Linked to level of critical functions**

Internal MREL
firms

- Intention to support resolution by home resolution authority

UK RAF - Key Deadlines



Funding in Resolution - Objective

“In order to ensure they continue to meet obligations as they fall due, firms are able to estimate, anticipate and monitor their potential liquidity resources and needs and mobilise liquidity resources in the approach to and throughout resolution”

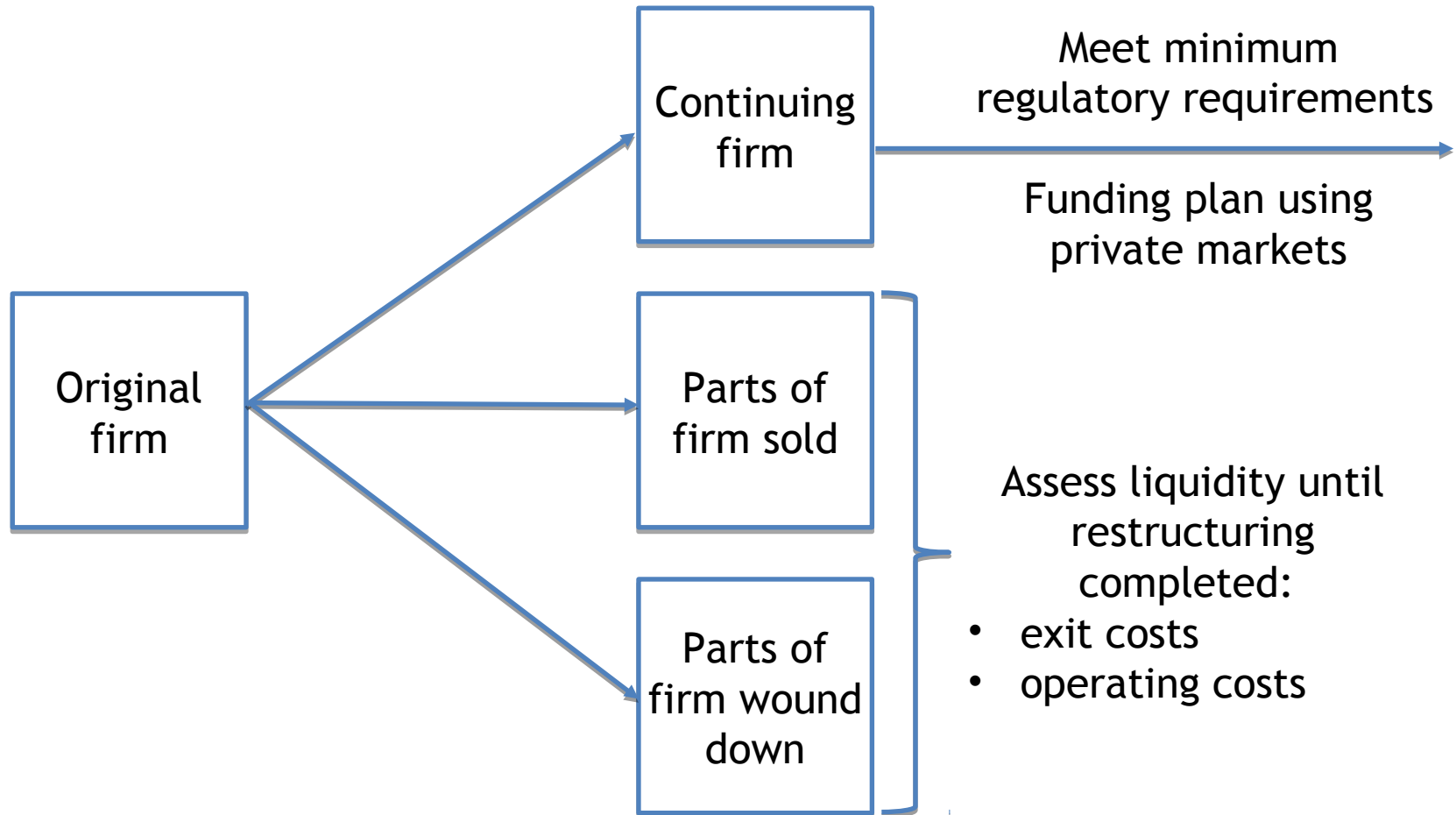
Source: P27 RAF CP

The Bank of England’s approach to assessing resolvability December 2018
The Bank of England’s approach to resolution 2017 (The Purple Book)

Where should Treasury focus?

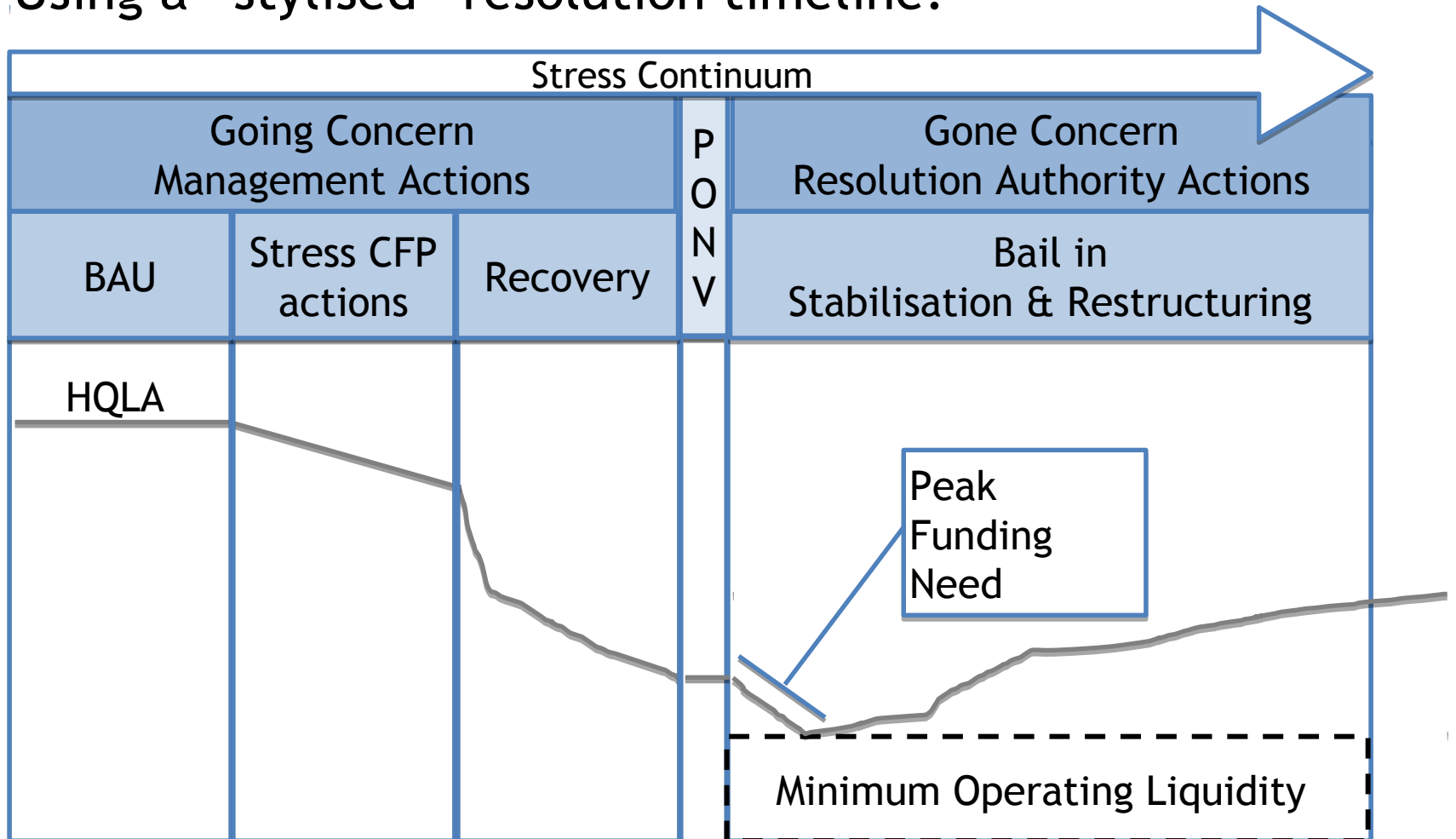
- **Gap analysis to current firm capabilities**
- **Involve key subject matter experts:**
 - Liquidity modelling
 - Market knowledge
 - Funding strategies
- **Integrate into BAU monitoring and governance frameworks**

Assess the preferred strategy



Estimate funding needs in resolution

Using a “stylised” resolution timeline:



Point of Non-viability

Going Concern Management Actions			P O N V	Gone Concern Resolution Authority Actions
BAU	Stress CFP actions	Recovery		Bail in Stabilisation & Restructuring
Monitor HQLA Buffers	Monetise HQLA Raise liquidity	Monetise non-HQLA Actions to reduce business	Execute preferred resolution strategy: <ul style="list-style-type: none"> - Continue critical activities - Reduce certain businesses - Sell assets - Wind down 	
LCR > 100%	LCR < 100%		> Minimum Operating Liquidity	

PONV = determined by resolution authorities

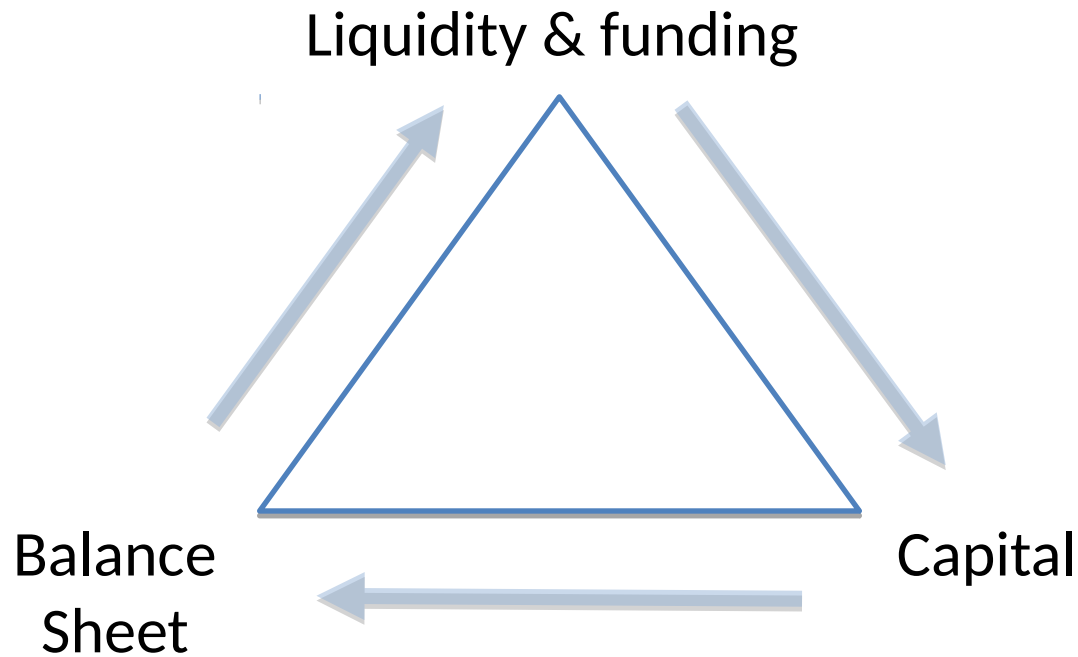
Capabilities - Gap analysis

- Extend **BAU liquidity modelling** practices
- Assess liquidity requirements to **continue critical functions and ongoing business activities**: intraday, initial margin, third party providers
- Forecast balance sheet; forecast available collateral
- Consistent and timely **management reporting**

Liquidity Needs in Resolution

- Assess liquidity needs to support **preferred resolution strategy**:
 - Group, material legal entity, material currency
 - Intra-group funding: are there additional frictions?
 - Cross reference to going concern policies & governance: Recovery Plan, LCP(CFP), ILAAP, PRA 110
 - Estimate operational and exit costs for **wind down** entities and businesses

Integrated forecasting required



Minimum Operating Liquidity

Amount required to maintain critical services during resolution:

- Operating Costs
- Intraday

Assess Funding Strategies

- **Existing** internal sources of funding
- Access private markets for new borrowing
- Public sector backstops - **temporary** basis
- Exit from resolution - **credible future strategies**

Many Outstanding Questions

- Central bank funding - How to factor into assessment
- Consistency across group wide resolution strategies
- Intra-group frictions e.g. centralised Treasury functions



Iterative dialogue with regulators

Key Challenges

Competing priorities e.g. technology budgets

Developing regulation

- Limited “use cases” since new regulations developed
- What does proportionality mean?
- How to assess internal planning as “credible”



Iterative dialogue with regulators

Summary

Current focus on closing gaps in **capabilities**

Establish credible **restructuring plans** covering liquidity, capital, balance sheet

Ongoing dialogue with regulators on key outstanding questions

Overall deadline of 2022