Becoming resolvable is high on the list of the largest post-financial crisis regulatory challenges for banks

Financial Stability Board's Key Attribute of Effective Resolution Regimes:

- To improve a firm's resolvability, supervisory authorities or resolution authorities should have powers to require ...
- the adoption of appropriate measures, such as changes to a firm's business practices, structure or organisation, to reduce the complexity and costliness of resolution...
- To enable the continued operations of systemically important functions, authorities should evaluate whether to require that these functions be segregated in legally and operationally independent entities that are shielded from group problems.

"For five firms (…) the agencies have jointly determined that the plans are not credible or would not facilitate an orderly resolution under bankruptcy. The agencies have jointly identified a number of deficiencies in those plans (…). Those five firms are required to remedy those deficiencies by October 1st of this year (…)."

Martin J. Gruenberg, FDIC chairman

"For effective resolution to be feasible (i.e. technically practicable) and credible (i.e. widely understood and believable), firms need to be resolvable."

Andrew Gracie, Executive Director Resolution, BoE

"We are not sitting here for customers and then orchestrating nice funerals (…) We are sitting here to make sure we have adequate planning and can protect the taxpayer."

Elke Koenig, SRB chair

Tackling too-big-to-fail looks at the resolvability challenge faced by banks around the world. It sets out six "resolvability drivers" that banks should start to tackle now to meet this challenge.

The Resolvability Drivers

Legal entity structure
How can legal structures be designed to allow for separability and optionality?

What can management do to overcome internal obstacles to legal entity simplification?

Operational complexity
How can banks strengthen and simplify critical services and functions to ensure their continuity in resolution?

What can banks do when they encounter complexity in service provision that cannot easily be changed?

Data quality, reporting and valuation
How much do banks need to invest in data management to satisfy resolution authorities?

How much of the problem is rooted in the underlying data used by banks?

Where can banks find synergies between data quality enhancements needed for resolvability and other regulatory expectations?

Loss-absorbing capacity
How can loss-absorbency be positioned in the group to enhance its credibility?

What is the relationship between the internal manageability of loss absorbency and the complexity of a group's legal structure?

Booking models
How can banks rationalise and justify their global booking models?

How can solvent wind-down exercises be used to anticipate and pre-empt potential obstacles to resolvability?

Liquidity management
How can banks plan for their liquidity needs in resolution?

What kind of collateral management capabilities does a bank need to have to meet the expectations of resolution authorities?

Even though becoming resolvable will be unavoidably costly, we see a strong business case for investing early in this

Taking action early
- Identify gaps and focus efforts through self-assessments and war gaming
- Benefits: tests and exercises can be used to anticipate and pre-empt supervisory review and prove that efforts have been comprehensive and well-integrated into the organisation

Increasing efficiency & competitiveness
- Exploit synergies between changes required to become resolvable and those aimed at enhancing the business-as-usual and client-facing capabilities of the bank
- Benefits: streamlined legal entity structures; improved data quality and reporting systems; improved information, operations and cost management; clearer organisational structure; improved operational resilience

Reducing supervisory pressure
- Policy makers have signalled appetite for trade-offs between resolvability and increased supervisory scrutiny
- Resolution authorities have discretion to raise loss-absorbency requirements if a bank is deemed not resolvable
- Benefits: a resolvable bank may be eligible for lower gone-concern capital requirements (as in Switzerland) and be less likely to merit further regulatory intervention such as the ring-fencing of certain activities