A MULTIPLE RESOLUTION SCHEME FOR SPANISH GLOBAL SYSTEMICALLY IMPORTANT BANKING GROUPS

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1 Introduction

The global financial crisis that broke in 2007 and the subsequent bail-outs of banks in different countries have underscored the need to have in place effective resolution arrangements. With their objective the preservation of financial stability, these arrangements would impose the cost of failure on a financial institution's shareholders and creditors, and not on taxpayers.

With this objective in mind, and in order to avoid the "moral hazard" problem that global systemically important financial institutions (G-SIFI) pose, the Heads of Government and State of the G-20 countries have endorsed different initiatives put forward by the Financial Stability Board (FSB), aimed at solving the conundrum of banks which are too big to fail (TBTF) by promoting effective resolution regimes across the different national jurisdictions.

At the European level, these initiatives have taken the form of the European Directive on Bank Recovery and Resolution (BRRD)[1] (see Box 1 for further details). In Spain, the support programme for the recapitalisation of Spanish banks required the enactment of Law 9/2012 of 14 November 2012 on the restructuring and resolution of credit institutions.

In July 2013 the FSB published its guidelines for the development of effective resolution strategies, where two non-excluding approaches to the selection of a preferred resolution strategy are foreseen. These approaches have been named "single point of entry" (SPE) and "multiple point of entry" (MPE) resolution. Choosing between them will be determined by the structures, the business model and the specific characteristics of each G-SIFI.

In Spain, the two largest banking groups with an international footprint have been designated as globally systemic (G-SIB), as per the methodology developed by the Basel Committee on Banking Supervision (BCBS).

In this context, the elements constituting an appropriate strategy for the orderly resolution of the international Spanish banks are identified on the basis of the main characteristics of their business models and of how they have expanded internationally. In this connection, the recommendations, regulatory guidance and the foreseeable contents of upcoming regulation on the matter, together with earlier statements by the Banco de España on good practices in respect of the international activity of Spanish banks, are taken into consideration.

It may be concluded from the analysis that the preferred strategy for multinational Spanish groups is resolution through multiple points of entry (or MPE), where resolution tools and powers are applied to the different parts of the group by one or more resolution authorities, acting in coordination.

1 Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, which has to be transposed by the Member States before 31 December 2014.

Many key matters relating to resolution are still to be settled. Those on which the FSB is currently working include most notably: the legal recognition locally of resolution action taken by foreign resolution authorities;[2] the effectiveness of loss absorption in resolution;[3] the effective valuation of assets in a resolution balance sheet; and the maintenance of operational support to the different legal entities in a group under resolution.

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2 On 29 September 2014 the FSB published for consultation the document "Cross-border Recognition of Resolution Action", which proposes an initial solution based on a contractual approach to ensure the cross-border recognition of resolution actions (through a protocol for derivatives contracts, and through the inclusion of appropriate clauses in debt issuances); and a long-term solution based on the development of statutory mechanisms (see http://www.financialstabilityboard.org/2014/09/c_140929/).

3 On 10 November 2014 the FSB published for consultation the document "Adequacy of loss-absorbing capacity of global systemically important banks in resolution", which proposes a common international loss absorption capacity standard for G-SIBs (see http://www.financialstabilityboard.org/2014/11/adequacy-of-loss-absorbing-capacity-of-global-systemically-important-banks-in-resolution/).

THE EUROPEAN DIRECTIVE ON BANKING RECOVERY AND RESOLUTION — BOX 1

The BRRD establishes that the aims of resolution are to maintain the continuity of essential functions; to avert significant adverse effects on financial stability; to safeguard public funds by minimising reliance on extraordinary public financial support; and to protectdepositors and investors covered by guarantee schemes. So as not to arrive at this situation, the Directive sets out several preventive measures and grants powers to the resolution authorities to reduce the potential impact of resolution for an institution.

Planning and early intervention

First, institutions have to plan the recovery measures – the Recovery Plan – they could take given a significant deterioration of their financial position, in terms of capital and liquidity, owing to idiosyncratic or systemic reasons, or a combination of the two. These plans are assessed by the supervisory authorities and, if not satisfactory, a series of mitigating measures may be implemented ranging from simple changes and improvements to the plan to more intrusive measures such as recapitalisation, strategic reviews or changes in the governance of the institution.

If the financial deterioration materialises and the institution has not activated its Recovery Plan, or the measures in it are considered insufficient, the authorities can take "early intervention measures", which are highly intrusive, including the removal of senior management and/or the management body or the appointment of a temporary administrator.

As for resolution, the Directive requires a planning phase – the Resolution Plan – that has to be drafted by the resolution authorities in collaboration with the supervisory authorities. The effectiveness of this plan has to be assessed by the authorities and, if material barriers to resolvability are identified, the authorities can impose organisational measures, de-risking measures and/or recapitalisation measures, among others, to remove such barriers to resolution.

Resolution powers and tools

Another matter is the assignment to the resolution authorities of the power to activate resolution powers and tools in order to bring about an orderly resolution of any bank that has failed or is about to fail, when no private sector solution is at hand, and when its failure may destabilise the financial system. The resolution tools available to the authorities are: the sale of business tool, the bridge bank tool, the asset separation tool and the bail-in tool.

For the last of these tools – bail-in – to be effective, the Directive imposes a minimum requirement of own funds and eligible liabilities (MREL) with which the institutions, based on their characteristics and systemic footprint, have to comply. This requirement will be calculated as a percentage of own funds and total liabilities in the form of eligible own funds and senior debt with qualifying characteristics that make them suitable to absorb losses and provide effectively and credibly for recapitalisation. .

Changes in creditor hierarchy

It is also worth mentioning that, for resolution and insolvency purposes, the Directive introduces material changes to the creditor hierarchy regime, giving a super-preference, in the current ordinary creditor category, to deposits covered by the Deposit Guarantee Fund (DGF), and a preference – with respect to other ordinary creditors – to deposits from natural persons and micro, small and medium-sized enterprises that exceed the coverage level provided by the DGS.

2 Global systemically important financial institutions

2.1 RISKS TO FINANCIAL STABILITY. *TOO BIG TO FAIL*

The 2007-2011 financial crisis, through its impact on large international financial institutions, highlighted the risk that these institutions pose given their capacity to destabilise the real economies of the countries in which they run their businesses. The effects are not only local. Given globalisation and the interconnectedness of institutions and financial markets, together with the interdependence of national economies, the effects spilled over from one country to another, and the financial crisis became the Great Recession.

These negative effects on the economy and the potential consequences forced the authorities to allocate huge financial resources to bailing out failing institutions. Hence, the actions taken in the United States (mainly through the TARP) and in Europe (through the assistance programmes set up by the different national governments) meant the allocation of a significant portion of government budgets to shore up national financial systems.

These are the more visible and better quantifiable consequences of the crisis. But the uncertainty prompted on financial markets, where doubts over the solvency of banks grew exponentially, took the form of an unprecedented liquidity crisis, with banks shutting down funding channels among themselves. This prompted a fire sale of assets and portfolios, which exacerbated banks' solvency problems, and almost brought to a halt the provision of credit to the real economy, thereby significantly affecting growth prospects.

This fall in economic activity adversely impacted tax revenues for governments and, together with the cost of the bail-outs, put significant stress on the credibility and sustainability of the different countries' public finances. Those countries with the weakest economies and fiscal balances experienced what was known as "the sovereign risk crisis". The adjustment that followed in public spending and investment, to recover the lost confidence, made the consequences of the crisis even worse.

The systemic institutions – those which, given their size and characteristics, play a leading role in the international financial system – pose, in this context, particular problems. The general perception among the public (clients and investors) is that, given the systemic impact that these banks' failure will have, they will always be supported by governments and, therefore, they are "too big to fail". This gives them competitive advantages over less significant institutions, especially in funding costs, which fuel their growth even further. Eliminating this distortion to fair competition has been one of the aims of the FSB programme to tackle the TBTF challenge. The political and economic authorities of the G-20 countries have endorsed the initiatives derived from the programme. These initiatives are analysed in the following sub-section.

2.2 REGULATORY RESPONSE TO THE TBTF[4] CHALLENGE

The April 2009 (London) G-20 Summit changed the Financial Stability Forum, which was until then a consultative body, into an advisory body – the Financial Stability Board (FSB) – for the G-20 Heads of State and Government. Also, in order to provide the authorities with better tools to be able to face the TBTF challenge, the G-20 mandated the FSB to prepare a reform programme so that the cost of future crises would not be borne by taxpayers.

As a result, in 2010 the FSB proposed a set of recommendations, endorsed by the Seoul summit, which are set out in the document *Reducing the moral hazard posed by systemically important financial institutions* [see FSB (2010)] and which cover four main areas:

4 A thorough discussion of the international debate on the financial crisis and systemic institutions and the changes in international regulation can be seen in Iglesias-Sarria and Vargas (2010 and 2012).

— Strengthening of institutions' loss-absorbing capacity, and of G-SIFIs especially. In the banking domain, this has led to the new Basel III requirements set by the BCBS, which in Europe have taken the form of the recently approved CRD IV-CRR package.[5] These regulatory packages include, along with a general strengthening of the regulatory own resources of banks, a scheme for capital buffers for systemic banks (G-SIB), given the systemic risk they pose, and which, on one hand, compensates the competitive advantage mentioned in sub-section 2.1 and, on the other, makes the possibility of insolvency more remote.

— More intense and intrusive supervisory mechanisms and processes in the different jurisdictions. The 2012 review of the *Core Principles* of the BCBS is part of this, together with home-grown initiatives in the different jurisdictions, which have likewise contributed. In this connection, the United States have enacted the Dodd-Frank Act and, in the European Union, banking regulation has been centralised in the European Banking Authority (EBA) while in the Eurozone banking supervision has been assigned to the European Central Bank through the Single Supervisory Mechanism (SSM), with a view to making regulation and supervisory practices uniform.

— Identification and proposal of legal changes to be made in the different jurisdictions in order to implement resolution regimes for failing institutions that are more effective and capable of bringing about an orderly resolution of systemic institutions, separate from ordinary insolvency proceedings. The authorities are empowered to take control of institutions and allocate losses through an administrative procedure; a requirement for the *ex-ante* planning of the response to crisis situations is established through the drawing-up of recovery plans and resolution plans by institutions and the authorities, respectively; and the bail-in tool is introduced. All these aspects are included in the European BRRD.[6]

— Finally, a reinforcement of financial market infrastructures (FMIs), bolstering central counterparty clearing institutions to help reduce the potential contagion effect of direct interconnectedness among institutions and the lack of clarity and transparency in the levels of counterparty risk derived from the complex financial relationships among them.

2.3 RESOLUTION STRATEGIES UNDER THE FSB SCHEME

The FSB document *Key Attributes of Effective Resolution Regimes for Financial Institutions*[7] [see FSB (2014)] sets out the basic elements for implementing effective resolution regimes. The objective is to promote a legal and operational framework that provides for the orderly restructuring or resolution of financial institutions by the authorities, without exposing the taxpayer to the absorption of losses as a consequence of the financial support provided, and ensuring the continuity of the institution's critical economic functions.

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5 Directive 2013/36/UE of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms; and Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms.

6 In the BRRD framework, the conditions for the establishment of financing arrangements (resolution funds) have been included. Also, Regulation (EU) 806/2014 of 15 July 2014 has established a Single Resolution Mechanism and a common resolution fund in the Eurozone.

7 The document was first published in November 2011 and recently updated in October 2014 to include sectoral annexes, without changes to the twelve general principles.

The *Key Attributes* focus on the cross-border resolution of global systemic institutions, meaning cooperation among authorities is pivotal when implementing effective planning for recovery and resolution. The *Key Attributes* 8, 9 and 11 specifically address the creation of Crisis Management Groups[8] (CMG), the identification of the elements that make for a sound Cross-Border Cooperation Agreement (CoAg) and the drafting of recovery plans (RecPlan) and resolution plans (ResPlan).

As for resolution planning, this is organised around a yearly process with the following elements:

— Identification of a High Level Resolution Strategy (HLRS) that requires agreement by the authorities in the CMG on the main guiding principles to address the resolution of a TBTF institution in a crisis.

— This strategy is conducive to agreements by the authorities to that end, namely the Cross-Border Cooperation Agreement.

— On the basis of these two agreements – the Resolution Strategy and the Cross-Border Cooperation Agreement – the authorities should be able to draw up Operational Resolution Plans.

— Finally, the authorities in the CMG would have to judge the feasibility ("can it be done?") and the credibility ("will it be done?") of the Resolution Plan for the institution as part of a Resolvability Assessment (RessAss) exercise. Its main objective is to identify the potential barriers to an orderly resolution and to implement effective supervisory or resolution action to eliminate or mitigate them. This may involve requiring changes to legal frameworks and to legal and organisational structures, or to the businesses or risk levels of the systemic institutions.

The High Level Resolution Strategy aims to identify the broad courses of action the authorities may take in applying the resolution tools available to them. Selection will be based on the specific characteristics of the institutions, including, among others: their business strategies; the geographical distribution of their activities; their degree of centralisation in decision-making; the organisation of the supporting functions of the businesses; and the distribution of capital and liquidity among the different units in the group.

In the FSB framework and analyses, these High Level Resolution Strategies have been categorised as single point of entry (SPE) or multiple point of entry (MPE) strategies [see FSB (2013)].

Under an SPE approach, the resolution authorities agree on an implementation of resolution decisions by the consolidated authorities in their jurisdictions, and the extension of the effects of the resolution measures, though suitable mechanisms, to the different parts of the group that need them. An initial analysis considers that this kind of strategy is most appropriate for institutions whose key characteristics are the following:

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8 The Crisis Management Groups are formed by the authorities in the jurisdiction of the parent bank of a Group together with the authorities of the jurisdictions in which the Group has significant activities. Their objective is to promote readiness and to facilitate the resolution of a cross-border crisis at an institution. Potential members of CMGs are supervisors, central banks, resolution authorities, ministries of finance and deposit guarantee schemes. The CMGs could be placed on an equal footing with the Resolution Colleges established by the BRRD.

— A significant weight of business segments with a a global and centralised approach, such as investment and wholesale banking, or asset management.

— A concentration of their business in a limited number of geographical locations, typically large international financial centres.

— Centralised management of capital and liquidity.

— Strong internal connectedness, financially and operationally, where some units support others in the provision of financial and operational services.

The greater weight of of global business segments and the significant interdependencies among units make it advisable that resolution actions be taken from the jurisdiction of the parent in the group and that the resources to make them effective be contributed by investors in capital and debt issued by the parent. Although, in principle, this strategy could be implemented with any combination of resolution tools (asset transfers, asset management vehicles, bridge bank, bail-in), only the latter, with an adequate structuring of intra-group liabilities, seems feasible from an SPE point of view, in order to absorb losses and recapitalise the institution by the amounts needed. All the other tools, appropriate for the later restructuring phase, would require the active cooperation of the local authorities, as they would need implementation according to the local legal regimes, making it *de facto* an MPE strategy. As a consequence, the SPE model requires very solid guarantees from the consolidating authorities that the necessary resources will be available at the local level, so the local authorities can be confident that, in a crisis situation, their responsibilities will be adequately covered.

At the root of the MPE strategy is the recognition that the international legal framework is fragmented, and that the local authorities are responsible in their respective legal regimes regarding the legal entities established in their countries, including the subsidiaries of international financial groups.[9] On this basis, resolution will be implemented in a coordinated fashion by the authorities of the different jurisdictions, in step with their respective legal regimes and with how developed and adapted their legislation is to the *Key Attributes.* The authorities would apply the resolution tools they consider most appropriate, or those that are available, to the legal entities in their jurisdictions. The usual characteristics of institutions most liable to be subject to an MPE resolution are:

— High importance of the businesses that require adaptation to the specific conditions of local markets; in general, these are retail and commercial banking activities. The critical economic functions are of a local nature.

— Presence in a large number of countries, typically with a significant market shares.

— The activities in each jurisdiction are conducted by the local legal entities, which have autonomous and sufficient management teams and are accountable to the local supervisory, financial and resolution authorities.

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9 Currently, few countries have a recognised *Key Attributes* framework. More detail is provided in the FSB report “Thematic Review on Resolution Regimes. Peer Review Report” (April 2013) and in the document “Towards full implementation of the FSB Key Attributes of Effective Resolution Regimes” submitted to the G-20 Summit of November 2014.

— The capital is distributed across the different jurisdictions and legal entities, complying with local requirements on the basis of the risk levels borne by each.

— A markedly autonomous activity-funding policy in each jurisdiction, with balance sheets that are mainly funded by local deposits and with a credit gap, if any, financed under the conditions prevailing in the local capital markets. The group to which the subsidiary belongs does not act as a structural provider of funds for local activities, except for the investment in capital.

— The operational inter-dependencies among group banking and financial subsidiaries are non-existent, or very limited. This is either because each subsidiary has its own operational capabilities, or because the group operations are arranged through non-banking operational subsidiaries, whose sole purpose is the provision of services (back office, information technology, accounting, facilities management, procurement payments, payroll, taxes, buying centre, etc.).

In principle, the MPE model allows for greater flexibility in using the tools available in each jurisdiction. As resolution is planned on the basis of local implementation, the local authorities may use any tool they consider effective and that is available under their legislation. In that way, it would be possible to implement an asset transfer in one jurisdiction, a bail-in in another and a bridge bank in a third one. The MPE strategy requires a high degree of belief on the authorities' side that each unit in the group has a sound capacity to operate on its own, as a result of their prior analyses of the organisational strategies and policies of the group, and it provides for control by the resolution authorities over the resolution process in their respective jurisdictions.

Undoubtedly, the SPE and MPE models are ideal models that have to be applied to specific institutions with business and organisational practices spread along a business continuum, with different weightings for each business, different levels of centralisation-decentralisation, and different organisational practices in the provision of services. Also, future crises will be so diverse and so different from the past that they will make it impossible to anticipate the characteristics of the next crisis and how it will impact each institution. There is, then, foreseeably a need to implement mixed or intermediate strategies, depending on the specific circumstances of the crisis. As usual, there are rarely simple solutions for complex problems and the no-one-size-fits-all principle is fully applicable to resolution strategies.

3 The Spanish global systemically important banking groups

3.1 THE GENERAL SUPERVISORY APPROACH IN SPAIN

In order to fully understand the organisational and business practices that Spanish banking groups with an international presence have followed, which will to a large extent determine the choices that the authorities make in the area of resolution, it is necessary to review the supervisory approach followed by the Banco de España when supervising these groups on a consolidated basis.

This approach was enunciated in the *Report on Banking Supervision in Spain, 2001* [see Banco de España (2002), pp. 81-83]. It is based on the experience of supervising institutions that commenced their international expansion in the 1990s, mainly in Latin America, in countries that they already knew well, having long operated in them on a smaller scale. It should be considered, moreover, that during that decade the various Latin American countries went through a significant number of financial crises, which continued to occur during the early years of the current century.[10]

10 Mexico (1994-1995), Argentina (1995), Brazil (1998-1999), Argentina (2001-2002) and Uruguay (2002).

This process of internationalisation brought about a change in the risk profile of the two largest banking groups (Santander and BBVA), which developed from being domestically focused banks to having businesses spread across different countries, with different levels of economic and financial development and with different economic policies. This caused the institutions to organise their businesses, and the Banco de España to require the appropriate measures, in order to mitigate the potential impact that a systemic or idiosyncratic crisis might have on the Spanish parent banks and on the country's financial stability.

The general approach of the Banco de España, derived from its own practice and from the practice of Spanish banks, was based on:

- Group culture and information management. The parent bank has to manage its subsidiaries effectively, with information systems that allow for the monitoring of activities, the harmonisation of the consolidated accounting information, the analysis of businesses and the control of risks at the individual and consolidated level alike. A strong Internal Audit function, at local and corporate levels, is key to compliance with the internal control policies, rules and procedures throughout the group. The board of directors of the parent bank is responsible for implementation of the appropriate policies. The local boards of directors and management teams are accountable to the local supervisory authorities.

- Prudent and harmonised accounting policies, with adequate provisions to cover unforeseen future losses.

- Group solvency and individual solvency. Strengthening the amount and quality of the group's own funds. The own funds must be distributed among the different countries according to the risks in each and must be sufficient to allow for growth of the business and to comply with local requirements.

- Ownership chart. The structure of shareholdings among the different group companies must be straightforward and public.

- Financial autonomy. Banking subsidiaries must be financially independent of the parent bank or other units in the group. Their funding and liquidity must be managed independently, based on the prevailing conditions in their local markets and subject to the risk premiums applicable to them. Intra-group transactions, except when on a commercial basis, must be exceptional and at market prices.

- Liquidity control. Each banking subsidiary must have its own systems to constantly monitor liquidity in the different currencies in which it operates, and also have access to mechanisms for ordinary liquidity management and contingency plans for stressed situations.

In short, the strength of the consolidated financial statements should be based on the strength of the individual financial statements of each component of the group. The aim is the implementation of efficient corporate policies in the management of subsidiaries in diverse local environments that enable adequate risk control and limit the potential for contagion among entities in crisis situations.

3.2 THE BUSINESS MODEL OF THE SPANISH G-SIBs

The two major Spanish banking groups that have been designated as G-SIBs[11] have a number of similarities in the way they conduct their business:

— Businesses are organised on a geographical basis in the different jurisdictions in which they operate.

— Subsidiaries attempt to attain large shares of the main markets in which they operate. Therefore they tend to be locally systemic, which allows them to achieve economies of scale and scope when developing their businesses and commercial activity. Being locally systemic, however, means that a crisis in a subsidiary would have a significant impact on the financial stability of the country in which it operates. Whether a subsidiary is identified as being locally systemic depends on the criteria of the local authorities, which may differ from one jurisdiction to another.

— Local vision and management, as a result of the model of expansion based on financially autonomous subsidiaries. Each subsidiary accesses markets with its own rating.

— The business is focused on commercial banking.

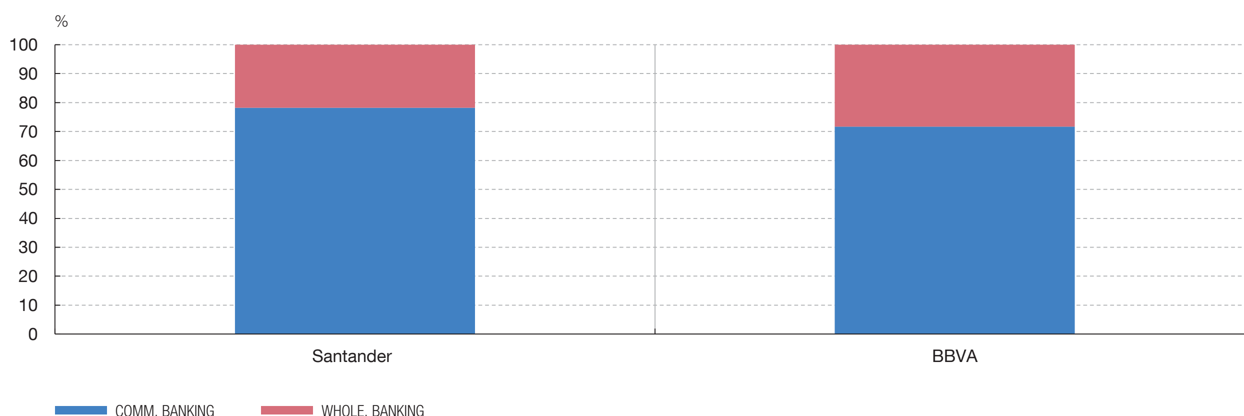
— High levels of operational efficiency, as reflected in the cost-to-income ratio.

The information in the annual and quarterly reports is broken down by primary segments of a geographical nature. In the case of the Santander Group, the ten main jurisdictions in which it conducts business [see Banco Santander (2014)]; and, for the BBVA Group, the five geographical areas in which it operates [see BBVA (2014a)].

The activity and profit breakdowns provided in the above-mentioned reports highlight the fact that commercial banking, i.e. retail banking for individuals and SMEs, is core to their businesses, representing around three quarters of the attributable profit of all business segments. Wholesale banking, in financial markets and for large corporations, together

11 Santander Group was designated a G-SIB in accordance with the BCBS methodology in 2011, while BBVA Group was so designated by a supervisory decision in 2012.

CONTRIBUTION TO ATTRIBUTABLE PROFIT OF BUSINESS AREAS — CHART 1



SOURCE: Author's calculations based on the 2013 annual reports of the institutions.

with asset management and insurance, account for around a quarter of turnover and profit, as seen in Chart 1. This ratio has remained stable over time.

3.2.1 Autonomy and operational efficiency

Although it may be thought, a priori, that the autonomous management of different subgroups operating in different geographical locations will lead to inefficiency in the management of resources, capital and liquidity, the fact is that Spanish banks consistently have cost-to-income ratios that compare favourably with their international competitors (Chart 2). Admittedly, this can be attributed to the fact that the Spanish groups participate in emerging markets with large interest margins (Latin America, Turkey, etc.). But it is also true that the cost-to-income ratios for their activity in the European and US markets are also generally competitive in the local market.

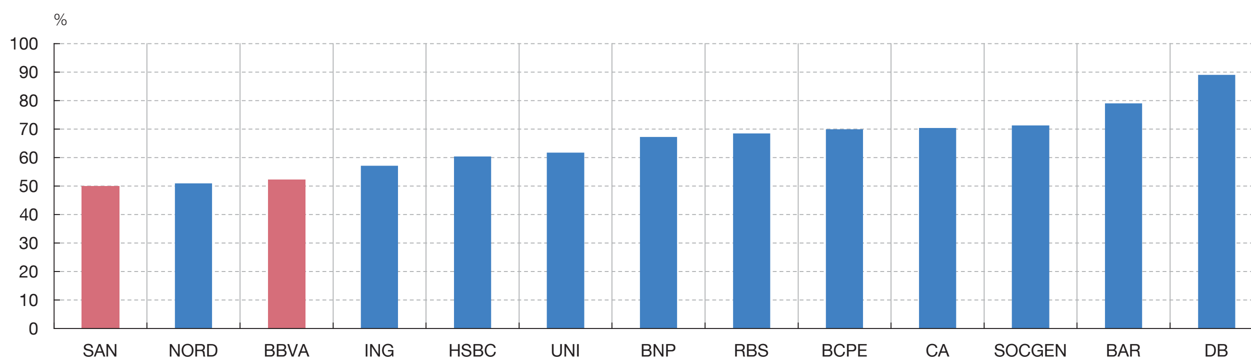
An important element in the optimal management of operations is the continuous policy, in each Spanish group with its own particular characteristics, of aiming to "outsource" to specialised operational subsidiaries[12] all the back office and information technology (IT) functions that support the purely financial businesses (software development, data centre operation, back office management, facilities management, procurement management, etc.) [see Banco Santander (2014), p. 36, and BBVA (2014b), pp. 40-41]. This policy thus takes the form of a process that has been referred to as "operational subsidiarisation" or "in-sourcing", in contrast to the outsourcing of services to true third parties.

Operational efficiency is achieved through the economies of scale generated in these support functions; the large number of "internal clients" provides a critical mass that allows costs to be optimised. Of no less importance is the improvement in the operational risk management entailed by the centralised adoption of international standards and best practices in these areas for the whole group.

Also, and particularly from the point of view of dealing with a crisis situation that could lead to resolution, the fact that these support functions are "external" to the banks, and not provided by the banks of the group themselves, ensures the continuity of the businesses as the critical support services are provided by specialised independent units that invoice their "customer" at market based prices.

12 Legal entities (limited companies, etc.), typically 100% owned by the banking group (usually the parent entity), that have no financial activity, but provide IT, back office and similar support services to the banks in the group. In a resolution scenario, these companies continue to provide their services to the different banks and countries since, as long as their bills continue to be paid, they will not be affected by a capital or liquidity crisis in the group. The Group or resolution authorities may decide, in a crisis situation, to sell these companies to specialised third party firms, to recover the capital invested and, also, to ensure continuity in the future provision of services.

COST-TO-INCOME EUROPEAN G-SIBs — CHART 2



SOURCE: Based on the Anual Report 2013 of the institutions.

3.2.2 Autonomy and legal structure

From the point of view of the legal structure of the group, the policies followed by Spanish banks are based on the principles of clarity and hierarchy. The head of the group is the parent bank in Spain, which is also the holding company for the equity interests in the parent subsidiaries in the different countries, as well as the specialised Spanish subsidiaries (asset management companies, broker-dealers insurance companies, securities issuance vehicles…). In some countries, as a result of local legislation and requirements or owing to the historical chain of acquisitions, there is a holding company with a subsidiary local bank, which performs the main business activity, and other specialised subsidiaries. There are no material cross-holdings among business entities in the local sub-group, or among different sub-groups in different countries.

The branches, located in the main international financial centres (London, New York, etc.), are not material in relation to the whole group and play a complementary role to the main business lines. For a description of its subsidiaries model see Banco Santander (2014), p. 33.

In conclusion, it may be appropriate to designate the large Spanish banking groups as multi-national instead of international.

3.3 CHARACTERISATION OF THE BUSINESS MODEL OF THE SPANISH G-SIBs

An interesting approach to the characterisation of the Spanish banks is provided by Merck *et al.* (2012), who classify international banks according to two dimensions: the type of business (commercial or investment), and the degree of diversification (specialised or diversified). Under this approach the Spanish banks are included in the category of diversified commercial (or universal) banks,[13] whose main characteristics are [see Merck *et al.* (2012), pp. 102]:

— "A funding structure dominated by customer deposits, although with a more diversified profile than in the case of specialised commercial banks".

— "A finance structure with low exposure to trading and derivatives".

— "An asset structure with a relatively low contribution from trading activities".

— "The activities of customer lending and customer deposit funding (retail/wholesale) are more important than in diversified investment banks".

It is also worth mentioning the characterisation by Gambacorta and Van Rixtel [see Gambacorta and Van Rixtel (2013), p. 15], as regards the different lending and funding strategies of global banks, when defining business models. The Spanish banks are characterised by lending activity that is described as being "strongly multinational", as more than 70% of their lending activity outside Spain is done locally, in the country in which the subsidiary is domiciled. Also their deposit funding activity is described as "strongly decentralised", given that local funding accounts for more than 70% of the liabilities outside Spain.

However, perhaps the most interesting way of analysing the characteristics of the business of the Spanish banks, is implicit in the methodological work of the BCBS [see BCBS (2013)] relating to the identification of G-SIBs.

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13 In this category they include JP Morgan Chase, Citigroup, Dexia, Commerzbank, Nordea, Bank of America, HSBC, ING Bank, Banque Populaire CDE, Lloyds Banking Group, Unicredit Group, BBVA and Santander.

The BCBS methodology generates a score for a set of twelve individual indicators which are grouped into the categories cross-border activity, size, interconnectedness, substitutability, and complexity. The categories as well as the individual indicators are weighted equally when determining the overall score. On the basis of this overall score, each entity is placed into one of five buckets, each of which has a different surcharge assigned to it under the capital requirements.[14]

For the Spanish G-SIBs, the most important factor in determining their overall score is the cross-border activity category, which is because of the large number of jurisdictions in which they are present and the fact that their subsidiaries tend to be systemic from a local perspective. Their scores in the other categories are well below their final scores.

For example, in the complexity category the Spanish institutions have extremely low scores as it is associated with indicators of market activity (notional value of derivatives, level 3 assets, size of the trading and available for sale portfolios). The Spanish groups, with their focus on commercial banking, have very limited wholesale banking activity, which is normally linked to relationship banking for corporate customers, rather than to market making and proprietary trading.

Finally, it is worth analysing the details of the cross-border activity category, as considered by the BCBS methodology. This category is assessed on the basis of two indicators: cross-border lending and cross-border deposits. The underlying idea is that the international impact of the failure of a global bank will be determined by the size of the loan and deposit books and by the fact that the larger these cross-border activities the more difficult it will be to coordinate resolution and the more extensive the associated contagion effects.

In this regard, the recent literature has been building a new consensus around the fact that decentralised funding policies, where each jurisdiction funds its activities according the conditions of the local markets, without significant cross-border funding, as historically has been the practice of the Spanish institutions, have been a factor of stability during the recent financial crisis [see De Haas and Van Lelyveld (2014), pp. 345-347].

In short, the Spanish globally systemic institutions are characterised by a business model which is highly focussed on commercial banking, with a decentralised organisation that seeks to adjust to the local regulatory framework the local developments in economic activity and the credit cycle, and to the funding conditions and level of development of the local capital market.

4 Resolution strategies for the Spanish G-SIBs

An effective resolution strategy depends on environmental variables and by variables internal to the institution for which the strategy is designed.

The environmental variables depend on the jurisdictions in which the banking groups perform their activities, the legal and supervisory frameworks to which they are subject and the general macroeconomic and financial situation.

The internal characteristics of the institutions basically relate to their business model, risk profile, organisational and operational policies, funding policies, etc.

14 From 1% to 3.5% of risk-weighted assets in CET1 instruments.

Despite the efforts of the FSB, whose proposals have been endorsed by the G-20 at the international level, and, in the European context, the approval of the BRRD for the implementation at national level of homogeneous legal frameworks to facilitate the orderly resolution of G-SIBs, large banking groups perform their activities in an international setting characterised by:

- National legal frameworks, the modification of which depends on the national parliaments.

- Supervisory and resolution authorities that are accountable to their governments and national parliaments for the stability of their banks and financial system.

- Political cycles in the different countries that are independent and uncoordinated, and follow their own rhythm.

All these elements introduce a high degree of complexity into the search for harmonised and homogeneous solutions at the international level. For evidence of this one only needs to consider the different responses of different jurisdictions to the need to limit the impact of crises at TBTF institutions through the adoption of structural reforms:

- The United States has, among other measures, introduced the Volcker rule, which prohibits proprietary trading by banks and imposes limits on their relations with certain customers (hedge funds, private equity funds, etc.). Also, the rules applicable to Foreign Bank Organisations (FBOs) have recently been published, which require the establishment of local banking holding structures and compliance with stricter capital and liquidity requirements.

- The United Kingdom has opted for the separation of activities and the protection of deposit commercial banking activities (the Vickers reforms), under a local holding structure.

- The European Union is considering a proposal for a Regulation prohibiting proprietary activities, with the separation of wholesale activities beyond a certain threshold.

All these reforms respond in a heterogeneous way to common problems and, in some cases (FBO, Vickers), seek to ring-fence the local business of international groups, isolating them from potential contagion from the rest of the group, and thereby protecting the country's domestic financial stability. Time is, then, of the essence in generating mutual confidence and in identifying global international solutions, as the improvements in these legal and regulatory areas can only take shape gradually and in the long term.

As for the specific characteristics of the Spanish G-SIBs, we have already described them briefly in Sections 3.2 and 3.3 above. Basically these banking groups share:

- A risk profile corresponding to commercial banking in each country in which they operate.

- A structure organised around a local bank with specialised local subsidiaries (asset management companies, broker-dealers, consumer finance companies, etc.).

— Levels of regulatory capital sufficient to comply with the local requirements, with room to provide for business development and capital planning needs.

— Funding at the local level mainly in the form of local deposits in the local currency, with the protection provided by the local DGF, or is obtained on the local capital markets. There is no material structural funding provided by the group.

— Operationally, the local units are supported by specialised IT and operations companies that are owned by the group itself. There is no material provision of services among the different banking and financial institutions of the group.

— The local banking sub-groups are managed under the control of boards of directors that comply with all the governance requirements imposed by local legislation, and have their own full management teams. All of them are accountable, in the local corporate legal framework, for their management decisions, and are fully supervised by the local authorities.

— The corporate centre/parent bank provides the guidelines for corporate management policies for all the units in the group. These policies are adopted at the local level after any adaptation that may be deemed necessary to the local requirements, which may be legal or regulatory, but also commercial or business requirements.

— The local units are, generally, systemic at the domestic level (D-SIBs) and, thus, significant for the local authorities responsible for regulation and supervision.

Consequently, when designing a resolution strategy for the international Spanish institutions, we are dealing with highly heterogeneous legal, regulatory and political frameworks; in countries with different levels of economic and financial development; and, with institutions that focus mainly on the local commercial banking segment and that are organised autonomously and are financially self-sufficient.

4.1 THE SPE STRATEGY AND THE SPANISH G-SIBs

Given the above analysis, the choice of a resolution strategy based on the single point of entry (SPE) approach is difficult to reconcile with the environmental and organisational conditions described. As mentioned in Section 2.3, this approach is appropriate for centrally organised banking groups, with a large amount of shared resources, in which the funding available to absorb losses and recapitalise is raised from the markets centrally and distributed to the different units in the group through internal intra-group funding mechanisms.

The main reasons why the SPE approach is not appropriate for the Spanish G-SIBs are:

— When the parent/holding company of the group is incorporated in a jurisdiction outside the large international financial centres, the significant amount of issuance required usually takes place under the legislation of those international financial centres in order to gain access to a wide investor base. This real need to issue under foreign legislation generallymakes any resolution decision by the consolidating resolution authority ineffective insofar as creditors' property rights are concerned. Currently, most local legislation and case law does not recognise the resolution actions taken by foreign administrative authorities

and, even when resolution is ordered by the local authority, the creditors affected have the right to challenge that decision with a high probability of success in the jurisdiction in which the financial instruments have been issued,[15] rendering the resolution actions ineffective.

— When banking groups have a presence in a large number of markets/ jurisdictions, a SPE strategy imposes the losses and resolution costs on the investors in the parent bank, regardless of the specific circumstances which originated the losses in each jurisdiction, be they managerial, macroeconomic or political. In that regard, the SPE strategy could lack feasibility if the support to the foreign subsidiaries were to undermine the viability of the parent bank and the rest of the group.

— The SPE strategy does not promote strong and active local supervision and regulation contributing to instil discipline in the management of local subsidiaries and in risk-taking at local level. As the loss absorption capacity is provided from the centre, the authorities have less incentive to improve local financial markets and their regulation, so as to contribute to that absorption of losses. It would be enough for them to require, at local level, the loss absorption capacity they consider adequate, which would be provided through subordinated debt or an equivalent from the parent.

— Finally, from an operational point of view, the SPE strategy, since it transfers automatically the losses to the parent bank and assigns the resolution decision to a single authority, could be more effective. It should also be easier to implement because the resolution process resides mainly with the consolidating authority. But in order to achieve these practical effects the local authorities have to rely on, and trust, the consolidating authority. This trust may be difficult to achieve, especially when the subsidiary is locally systemic and is basically funded with local deposits.

4.2 THE MPE STRATEGY AND THE SPANISH G-SIBs

Taking into consideration what has been said above, the environmental conditions in which the large Spanish banking groups have to operate and, above all, the internal characteristics of their business models, it seems appropriate to conclude that a strategy based on a multiple point of entry (MPE) would be the right one in a resolution scenario. Let us have a look at why this is so:

— Under strategies, each authority in the relevant jurisdiction would take the resolution decision that was suitable, as provided for in the local regulation, when the losses cannot be fully absorbed by the subsidiary's own resources and the parent company is not in a position to support it. This minimises the contagion effect among the different units in the group.

— The parent bank is considered as a local institution, in this case, under Spanish jurisdiction. Besides the recapitalisation tools available, the group and the

15 This is unquestionably an issue of the highest importance. The FSB, through its Legal Experts Group, is working on the characteristics of a scheme for mutual recognition of resolution actions taken by resolution authorities. The process of structural reforms on these matters is anticipated to be slow and difficult. In the short term, in order to alleviate this problem, and as far as loss absorption and recapitalisation are concerned (bail-in of financial instruments), it is necessary to opt for contractual solutions in the documents supporting those instruments (issuance programmes, brochures, financial contracts, etc.).

Spanish authorities also have the option of recovering capital through the total or partial sale of those subsidiaries not affected by the losses, through procedures that could be activated in an early phase of the crisis, as they require time and administrative authorisations derived from change of control issues in those subsidiaries.

— This strategy allows for the drafting of the resolution plans in consonance with the legal tools and powers that exist in each jurisdiction and for the adaptation of those plans to the evolution of the legislation itself. The resolution strategy in each entry point could change progressively as the local legislation evolves and at a pace be determined by the local authorities.

— The local authorities are fully involved in both the ordinary supervisory process and the resolution planning process of the subsidiary and they are also responsible for ensuring that the appropriate measures are taken at local level so there is an adequate level of loss absorption capacity in the institutions under their jurisdictions. From a different angle, the local management in the subsidiary – Board of Directors and executive team – have to comply with this requirement, *i.e.,* to have enough absorption capacity, as per the local regulation and the local financial market. Corporate discipline is reinforced at all levels in the group.

— Undoubtedly, a MPE strategy requires a high degree of coordination among the authorities of the material parts of the banking group. There is a certain risk of a “race to resolution”, although the decentralised structure of Spanish groups would make this “race” almost futile, given that the capital resources are already distributed in the subsidiaries.

— An important barrier to resolution in a MPE strategy is the operational interconnectedness of banks. Logically, a banking group requires complex and specialised operational support and back office services. How would the detachment of the new recapitalised and independent bank from the old banking group affect its operational capabilities? As for the Spanish international banks, we think that this impact is manageable. We have described how operational support is organised through specialised companies that provide technological and operational services. These services are provided through contractual Service Level Agreements at market prices. This means that the new independent bank would be able to receive the same level of services as if it were under an outsourcing agreement, for so long as the new owners consider that agreement necessary and renegotiate it with the “surviving” banking group.

It is critical, then, that the supervisory and resolution authorities, when drafting the resolution plan and signing the supporting cooperation agreements, reach a common view to ensure a peaceful transition in the provision of operational services, when a part of the group moves towards independence after the resolution actions.

4.3 LOSS ABSORPTION CAPACITY IN THE MPE STRATEGY

As mentioned at the beginning, one of the main objectives of the new international resolution framework is that the taxpayer should not be forced in the future to bear the cost of banking crises, and that these costs be borne by the shareholders and creditors. This requires G-SIBs to have liabilities that, in a credible way, could be subject to bail-in.

An instrument that seems to meet this requirement is the issuance of senior debt, whether at the parent level (SPE strategy) or at different entry points (MPE strategy).

The possibility of issuance in the jurisdictions in which the banking group operates is dependent on the degree of development of the local financial markets and has two main effects. The first relates to the cost of issuance, which will be determined by the local conditions. This means that the carry trade implicit in centralised issuance under a SPE strategy disappears and financial discipline is reinforced. Second, since issuance takes place in each unit and not centrally, the need to turn to the large international centres is reduced, and the above-mentioned legal uncertainty regarding resolution actions is avoided.

The investor base affected by a resolution action in a MPE strategy is smaller because resolution actions would only be implemented in the jurisdictions that so require. Although reputational risk is always present, healthy subsidiaries and their creditors would not be affected by resolution actions taken in other jurisdictions. The same goes for the parent bank, as only its direct investment in the subsidiary would be affected, provided that the intra-group exposures are small, as is the case with Spanish institutions. If the crisis hits the local business of the parent bank, this could always replenish capital by selling businesses not impacted by the crisis, or by recapitalisation drawing on its own base of investorsin qualifying debt (hybrids, subordinated debt, or senior “bail-inable” debt). There is still reputational risk, but this is not greater than in institutions with centralised management and operations, more suited to a SPE strategy.

The MPE resolution strategy requires the break-up of the banking group at those entry points at which the authorities decide to act, as the subsidiary cannot be recapitalised by the parent bank. In this case, the recapitalisation would be funded by investors in bail-inable debt,[16] who would become the new owners of the subsidiary subjected to a local resolution process.

5 Implementation of a potential resolution of a G-SIB

In Spain, the resolution of banks is regulated by Law 9/2012, which gives effect to the main elements of the international resolution framework set forth in the *Key Attributes,* and which is basically in line with the then draft BRRD.

Under this Law, the Banco de España, and specifically its Executive Commission, is in charge or determining when an institution has reached the point of non-viability (PONV).[17]

Once a bank is deemed to be at the PONV, the *Fondo de Reestructuración Ordenada Bancaria* (Fund for the Orderly Restructuring of the Banking Sector, “FROB” by its Spanish abbreviation)[18] takes control of it, usually through the appointment of a temporary administrator and assesses the situation from the point of view of the systemic risk that the institution under resolution represents for the Spanish financial markets and economy. If that risk is non-existent or low, the FROB would be expected to wind up the institution. If this is not the case, the FROB will submit for approval to the Banco de España a resolution

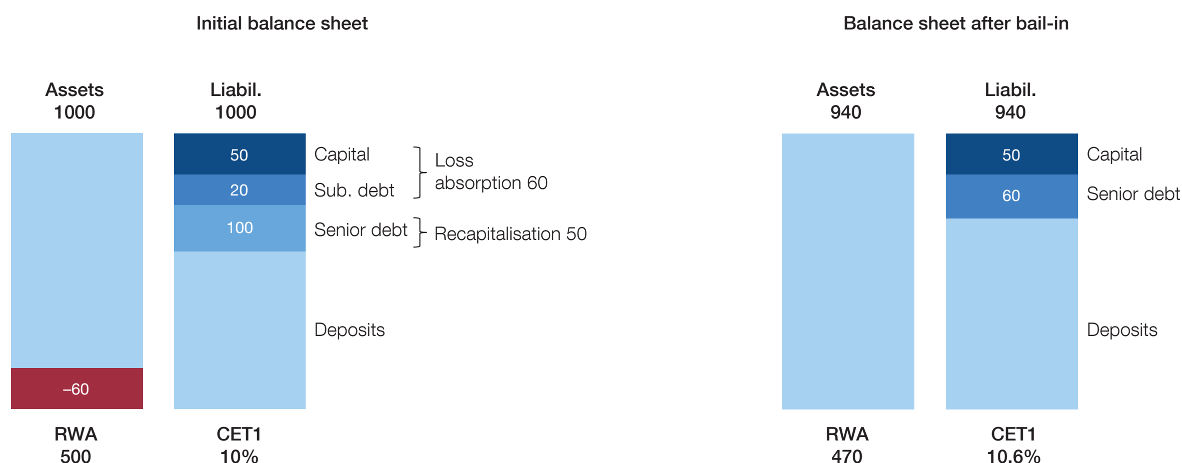
16 The local authority could also apply the general insolvency regime and wind up the subsidiary, or could apply other resolution tools if the bail-in option is not available.

17 The PONV is defined in Law 9/2012 and in the BRRD (point 81 of the Preamble), as “the point at which the relevant authority determines that the institution meets the conditions for resolution or the point at which the authority decides that the institution would cease to be viable if those capital instruments [AT1 and T2] were not written down or converted”, that is, they absorb losses or are converted into capital.

18 This is a public law entity with legal personality and full public and private legal capacity to pursue its objects. The purpose of the FROB is to manage the restructuring and resolution processes of banks in crisis.

BASIC BAIL-IN SCHEME

CHART 3



SOURCE: Authors' elaboration.

plan in which the appropriate recapitalisation and financial support measures are identified, together with the compulsory restructuring plan.

Law 9/2012 is a provisional instrument until the BRRD is transposed into nationallaw. Currently the loss absorption and recapitalisation exercise (bail-in) that can be implemented in Spain is limited to capital instruments (shares, preference shares, AT1 instruments and subordinated debt). Therefore, if these instruments were not sufficient, there would be a need to resort to public support, which would have to comply with the European Union regime for government aid.

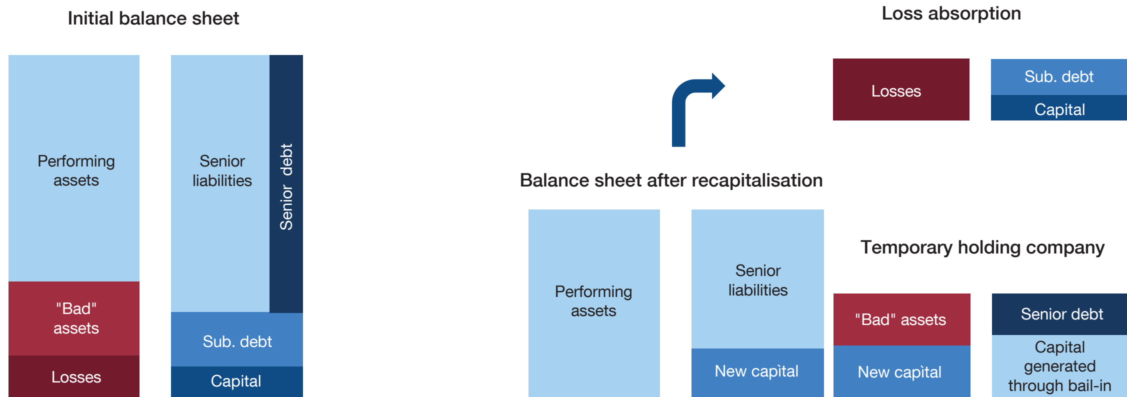
Once the European directive is transposed, the Banco de España and the FROB (or whatever new authorities may be established in the Single Resolution Mechanism), will have all the powers and tools defined in the BRRD: declaration of resolution; transfer of assets and liabilities; bridge bank; asset separation tool; and bail-in.

Given the size and complexity of G-SIBs, it seems clear that the initial step in resolution would be loss absorption and recapitalisation. To that end, following the creditor hierarchy, capital would be written down in order to absorb losses, fully if needed; next, preference shares would be affected; then, additional capital instruments and subordinated debt; and finally, other senior liabilities according to their eligibility and order in the hierarchy. Chart 3 shows a basic bail-in scheme, with a recapitalisation sufficient to restore market confidence. In the example, the losses (–60) are absorbed, first, by the shareholders (50), and then by subordinated debt (10), which incurs a write down of 50% of its nominal value. The recapitalisation needed (50) is provided by the remaining subordinated debt (10) plus the conversion into capital (40) of senior debt. The surviving bank after the bail-in has 50 in capital and a CET1 ratio of 10.6%.

Under the BRRD, the amount of losses is determined in a valuation exercise regulated in Article 36. The details of this exercise will be made explicit in Guidelines to be developed by the EBA. No doubt, this is one of the most open items in the process given the challenges posed by the lack of clear market prices for many of the assets in a bank's balance sheet, as is the case of loan portfolios in the banking book or level 2 and 3 instruments in the trading book.

RECAPITALISATION SCHEME THROUGH A BRIDGE BANK

CHART 4



SOURCE: Adapted from Melaschenko and Reynolds (2013).

To deal with the problem of asset valuation, some alternative proposals have been put forward which combine the resolution tools and putting off the loss absorption exercise until the end of the resolution/restructuring process. An example of this is the proposal of Melaschenko and Reynolds (2013), which suggests a recapitalisation mechanism that uses, basically, the bridge bank tool to create a bank to which the healthy assets, associated liabilities, and liabilities not affected by potential losses pending identification would be transferred. The bank under resolution would retain the losses and impaired and difficult-to-value assets, which would be funded by the resources of shareholders, investors in capital instruments and investors in bail-inable instruments, in the amount required.

This bank under resolution could convert into an “asset management company” that does not require a banking license because it would only have assets in liquidation (Chart 4).

Under this scheme, the bridge bank would be floated as soon as conditions allow, at a price determined under market conditions. If a total Initial Public Offering (IPO) were not possible, a partial one would provide for a starting market valuation of the bank. Based on that initial market valuation, the remaining shares could be offered to the creditors left behind in the original bank (now a temporary holding company/asset management holding company), following the creditor hierarchy (inversely), and within the liquidation process of this vehicle.

A similar scheme is implicit in the US Dodd-Frank legislation, which does not envisage a bail-in tool, since the FDIC, under the authority granted by OLA-Title II, can apply a bridge bank scheme to its systemic banks in order to recapitalise the legal vehicles in which the critical economic functions reside. Left behind in the resolved bank are the assets in liquidation, the original capital and the eligible liabilities, which will provide the loss absorption and recapitalisation capacity.

Finally, in implementing resolution actions – especially in systemic institutions with a potentially high impact on the markets and the economy – it is vital to take prompt and effective measures. The markets require clarity in order to determine the fair value of the cash flows generated by any business; and the capacity to generate cash flows is achieved by dispelling doubts as to the quality of a bank’s assets and, above all, by consistent publication of reliable quarterly results. If the authorities act quickly (time is of the essence) and effectively, by identifying and isolating – if they cannot ensure proper valuation – the

impaired assets or the difficult-to-value ones, experience shows that the markets recover confidence rapidly, providing once again the funding needed for banks to keep providing their critical economic functions on an ongoing basis.

6 Conclusions

The Spanish G-SIBs are characterised by a business model in which commercial banking (retail and businesses) is the main activity. Investment banking, asset management and insurance play a complementary role, very much linked to the needs of commercial banking customers.

In their international expansion,Spanish banks have adopted a subsidiaries model based on the principle of self-sufficiency in capital and funding, adapted to local regulations and market conditions. The corporate centre provides the required capital and establishes the business model and the corporate policies to be adopted in the different business units. This includes dual control of risks, at both the centralised and the subsidiary level. The local board of directors and managers are accountable to the shareholders/corporate centre, but also to the local supervisory authorities. At the consolidated level, the Banco de España (and currently the SSM) supervises the whole group, so there is a double layer of control over the subsidiaries in the group.

The critical operational support needed by the banks in the group is provided through specialised subsidiaries whose sole purpose is to provide services (software development, data centres, back office, etc) to the different units in the group.

Unlike other large international banking groups, Spanish groups are usually systemic in the jurisdictions in which they operate. They generally have leadership positions in the national rankings, so a crisis in any local subsidiary could have amajor negative impact in the local jurisdiction. For this reason, the local authorities have to be closely involved in the planning and implementation of any resolution actions.

The legal and regulatory environments in which the subsidiaries of the Spanish groups operate are diverse. Specifically, in resolution matters, the legal frameworks are fragmented and incomplete and it will take years for homogeneous international standards to be set in place. Also, even with homogeneous legislation, national authorities will remain responsible to their parliaments, governments and citizens for effectively carrying out their mandate as regards preserving the strength of their financial institutions and the stability of their economies.

For these reasons, some environmental and some idiosyncratic, any resolution strategy should focus on a loss absorption and recapitalisation of local subsidiaries which, in the planning phase, has to be independent in case the group is not in a position to assist the subsidiaries and has to be flexiblee so that the local authorities feel confident that they will have at their disposal the tools and capabilities needed to safeguard the interests of their economies and citizens.

A multiple point of entry strategy, with an adequate distribution of the loss absorption and recapitalisation capacity of the material units in the banking group, is the option best suited to these environmental and idiosyncratic variables. The MPE strategy limits contagion from the impaired units of the group to the healthy ones. In that regard, cross-border coordination among authorities is vital for reducing reputational risk and preventing a loss of value in the healthy parts of the group. Also, it is the most appropriate way to strengthen the key objectives of public policy, such as discipline in management of

subsidiaries and clarity in assigning responsibility among authorities for the different parts of an international banking group.

The practical implementation of resolution still poses many unresolved issues, although the legal reforms in the different jurisdictions have made progress in this respect. For MPE resolution strategy the most important ones are:

— Coordination among authorities, which could be achieved through cross-border cooperation agreements providing for information exchange and through the coordination of decision-making so as to follow a common strategy.

— The existence of sufficient loss absorption and recapitalisation capacity at each entry point; which is dependent in the local legislation and the depth and level of development of the local financial markets.

— Operational support after resolution, which the Spanish institutions seem to have addressed satisfactorily through their policies to "subsidiarise" the provision of operational services to banks.

— And, of course, the problems common to both SPE and MPE strategies, such as the fair valuation of assets in resolution; the lack of resolution tools for imposing losses on shareholders and investors; and the cross-border recognition of resolution actions, where in the short run the only feasible way forward seems to be contractual solutions in the financial instruments.

All these are the issues which are focusing the efforts of the FSB and its working and expert groups, in order to prepare proposals for regulatory policies to be endorsed by the G-20 members. All international processes are complex, but without any doubt the authorities will find appropriate answers to these challenges. In the years to come, major advances will continue to be seen, born of the practical experience of authorities engaged in realising the political objective of solving the "too big to fail" problem.

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