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PRESS RELEASE

The Steering Committee of Vienna 2 delivers observations on cross-border bank resolution to European authorities

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The Steering Committee of the Vienna Initiative 2 submitted observations on cross-border resolution to a number of European authorities.^{1,2,3} These [observations](#) focused on critical aspects of home-host cooperation, which are of particular importance for countries in Central, Eastern, and South-Eastern Europe (CESEE), where locally systemic affiliates of foreign banks operate. The aim is to provide input for the ongoing discussions on the design of the European financial stability framework and to communicate general concerns of host as well as of home countries. Some specific features of the CESEE countries make the cross-border resolution process particularly challenging in this region. These include the systemic importance of subsidiaries (or branches) of euro zone based banks in their local markets, and the fact that subsidiaries in many cases rely on the parent bank not only for funding support but also for all major strategic and financial decisions.

The document draws on discussions between home and host country supervisors, central banks, fiscal authorities and key parent banks, including views gathered at a workshop hosted by the European Bank for Reconstruction and Development in London on September 12, 2012 and at a Vienna Initiative's Full Forum meeting on November 9, 2012 in Brussels.

The observations have been sent to the European Banking Authority, the European Central Bank, the European Systemic Risk Board, and the European Commission.

The observations on cross-border bank resolution have been developed within the context of the currently discussed Bank Recovery and Resolution Directive (BRRD) and banking union proposal, which suggests the establishment of a centralized resolution authority.⁴ While the implementation of a full-fledged banking union would take time, the concerns of host countries outside the initially euro zone-based banking union – presented in this paper – should be taken into account. The right balance between division of competencies in the decision-making process and responsibilities for financial stability should be assured.

Based on the principle that actions taken by authorities in one country should not lead to financial instability in another country, the note indicates that:

- If host countries are to participate, as expected, in resolution procedures, they must be assured adequate influence in the decision making in the normal non-crisis work of the supervisory colleges. And this influence should have an EU legal backing.

¹ The EBRD, EIB, IMF, World Bank Group, and European Commission are members of the Steering Committee as well as Italy and Romania, which represent home and host authorities respectively. The Committee is chaired by Marek Belka, President of the National Bank of Poland.

² The European Commission may have different views on the issues addressed in this document.

³ Vienna Initiative has also prepared a note *Observations on Cross-border Supervisory Practices* of October 18, 2012; see the Vienna 2 homepage at www.vienna-initiative.com.

⁴ Other elements include a single supervisory mechanism (SSM) and a common system for deposit guarantees.

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- The interest of host authorities should be appropriately taken into account when establishing the group resolution and recovery plans by the group level authorities, particularly when branches or subsidiaries are systemic in a host country while of lesser importance for the banking group as a whole;
- Decisions that may be rational from the home-country perspective but can nonetheless have unintentionally destabilizing effects for the financial system in a host country. EBA mediation may diminish the home bias in supervisory and resolution colleges. However, safeguards for host countries should be considered so that they are protected in case the mediation process does not work as intended in practice. Introducing a “comply or explain” procedure would be one possibility.
- Assurance of the adequate participation of host countries in supervision and resolution seems to be a precondition to open up for discussions on burden sharing. A clear division of competences and responsibilities between home and host authorities must be established to achieve this;
- Regulatory proposals concerning bail-inable liabilities need to be further developed to account for conditions in the countries with small and yet undeveloped domestic capital markets of the emerging Europe, where the low-risk, deposit-funded banking model dominates;
- Host country rights and responsibilities in the supervision and resolution of systemic branches must increase. One way to address this problem is to agree that branches above a certain size relative to the host country market could, at the initiation of the host supervisor, be transformed into subsidiaries in a joint coordinated action with the home supervisor. Agreeing on the threshold size of a branch relative to the local market could be a way forward.

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