



The EU recovery and resolution directive

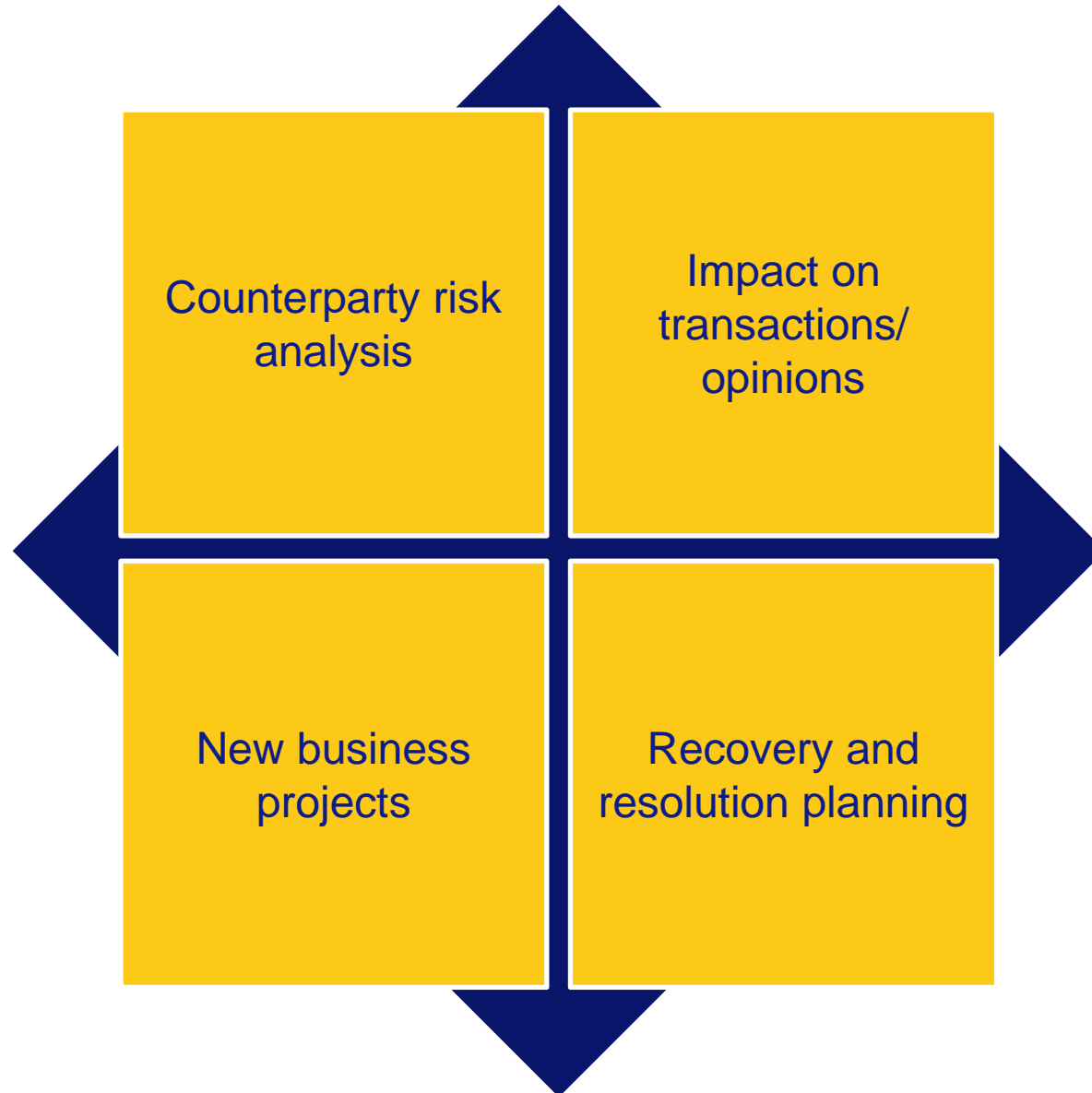
Simon Gleeson

November 2013

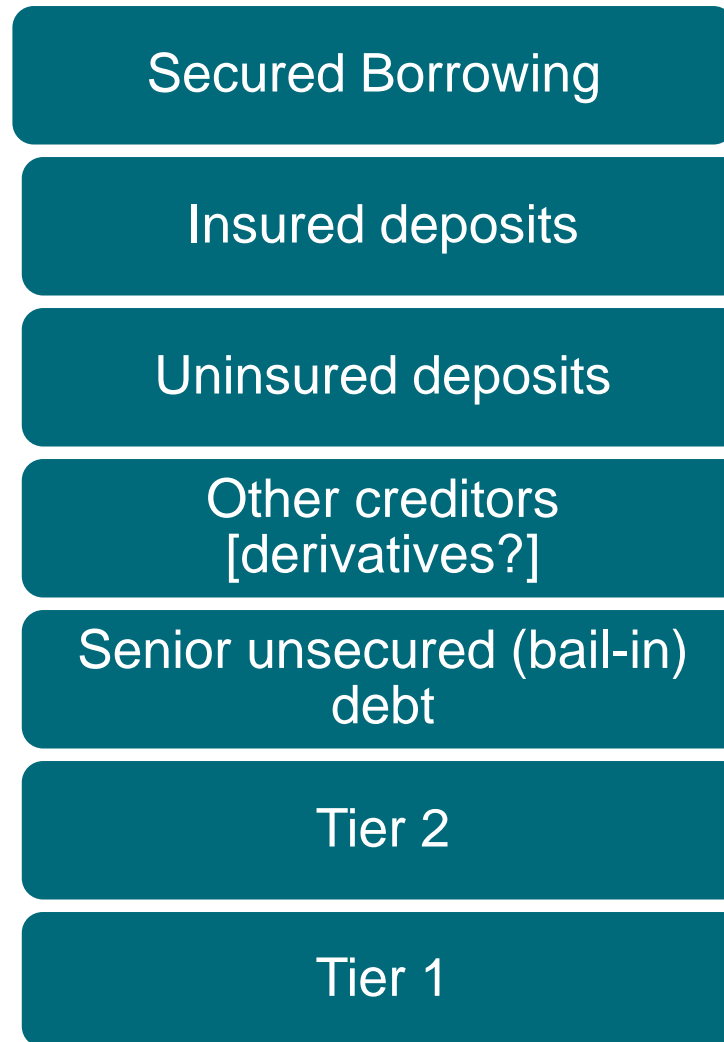
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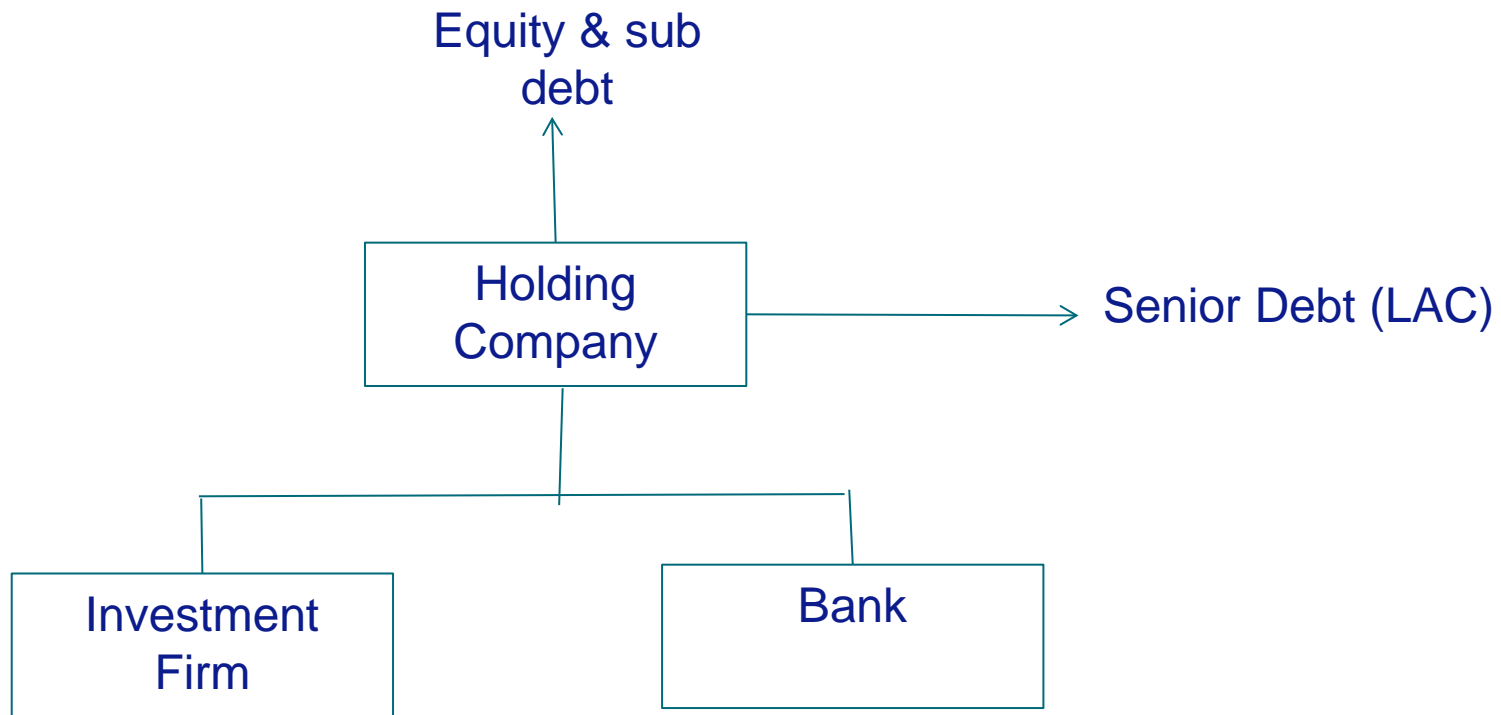
Understanding recovery and resolution



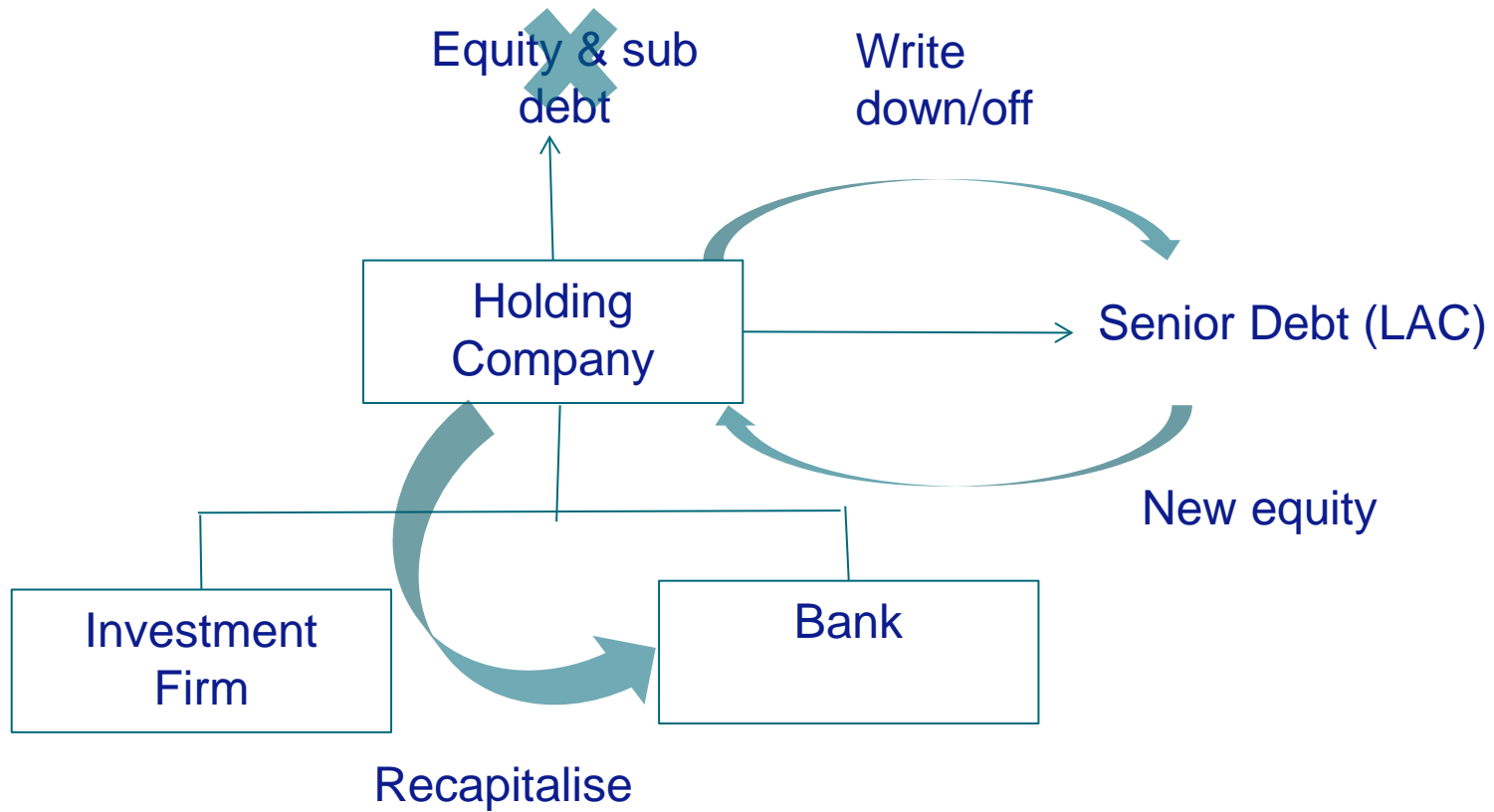
The New EU Bank capital stack...?



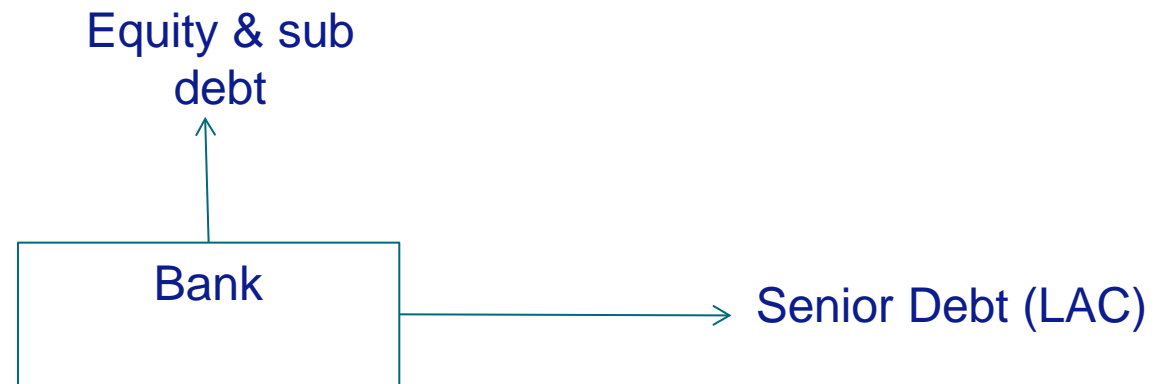
SPE – Starting point



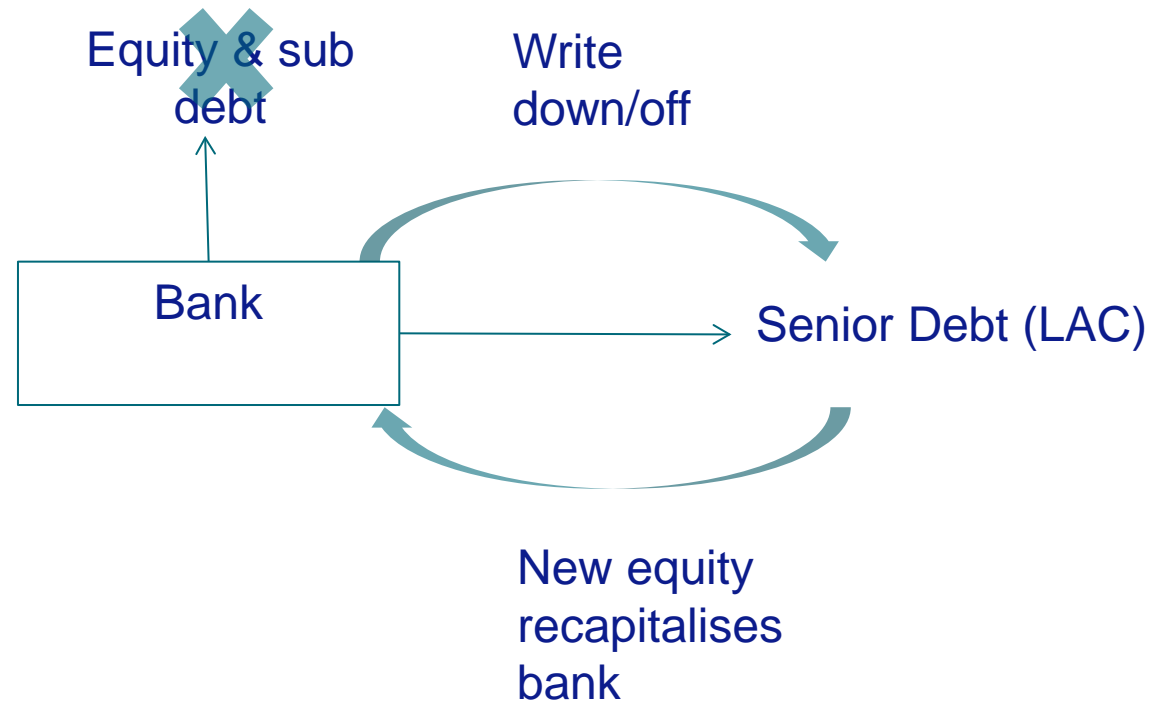
SPE – Basic Methodology



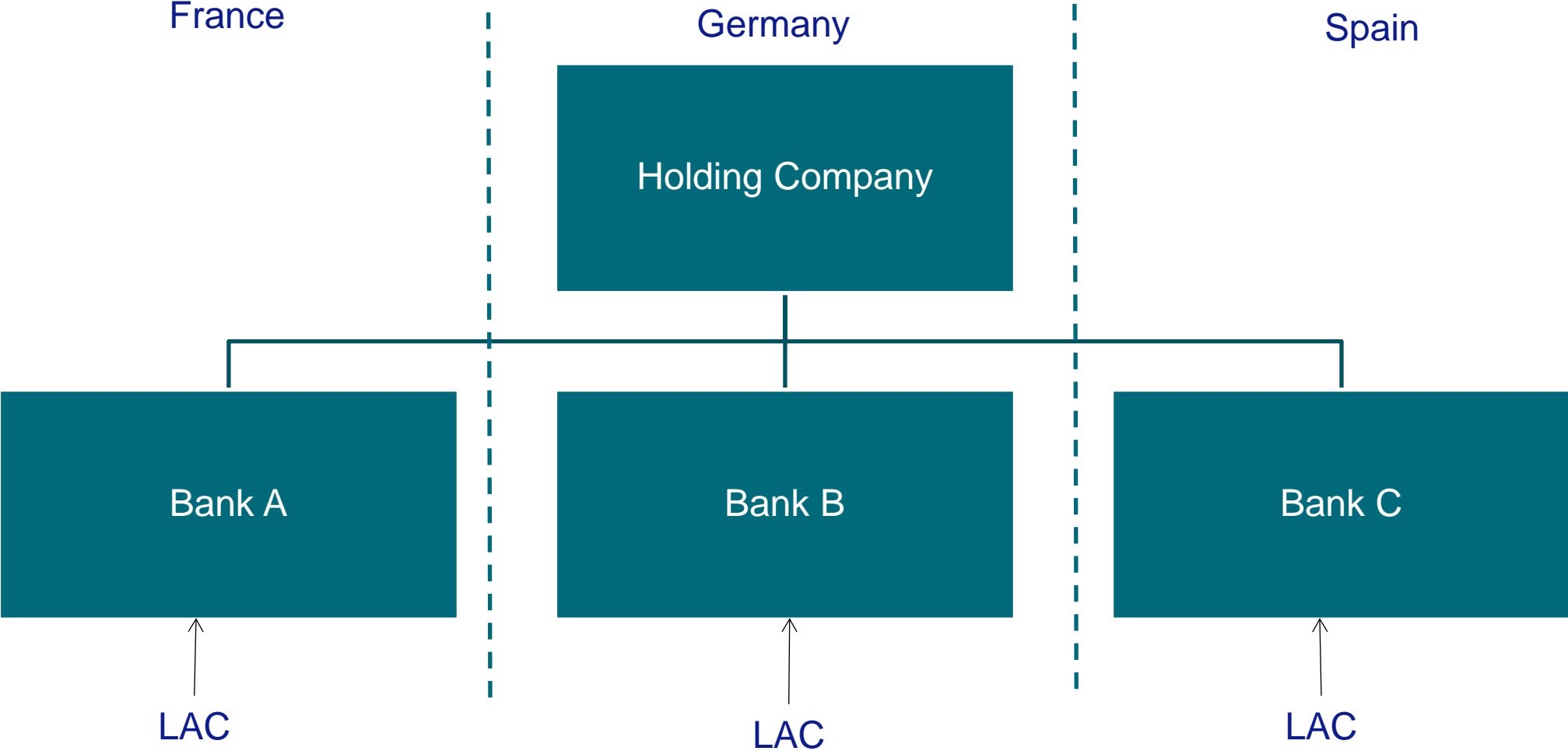
BRRD LAC



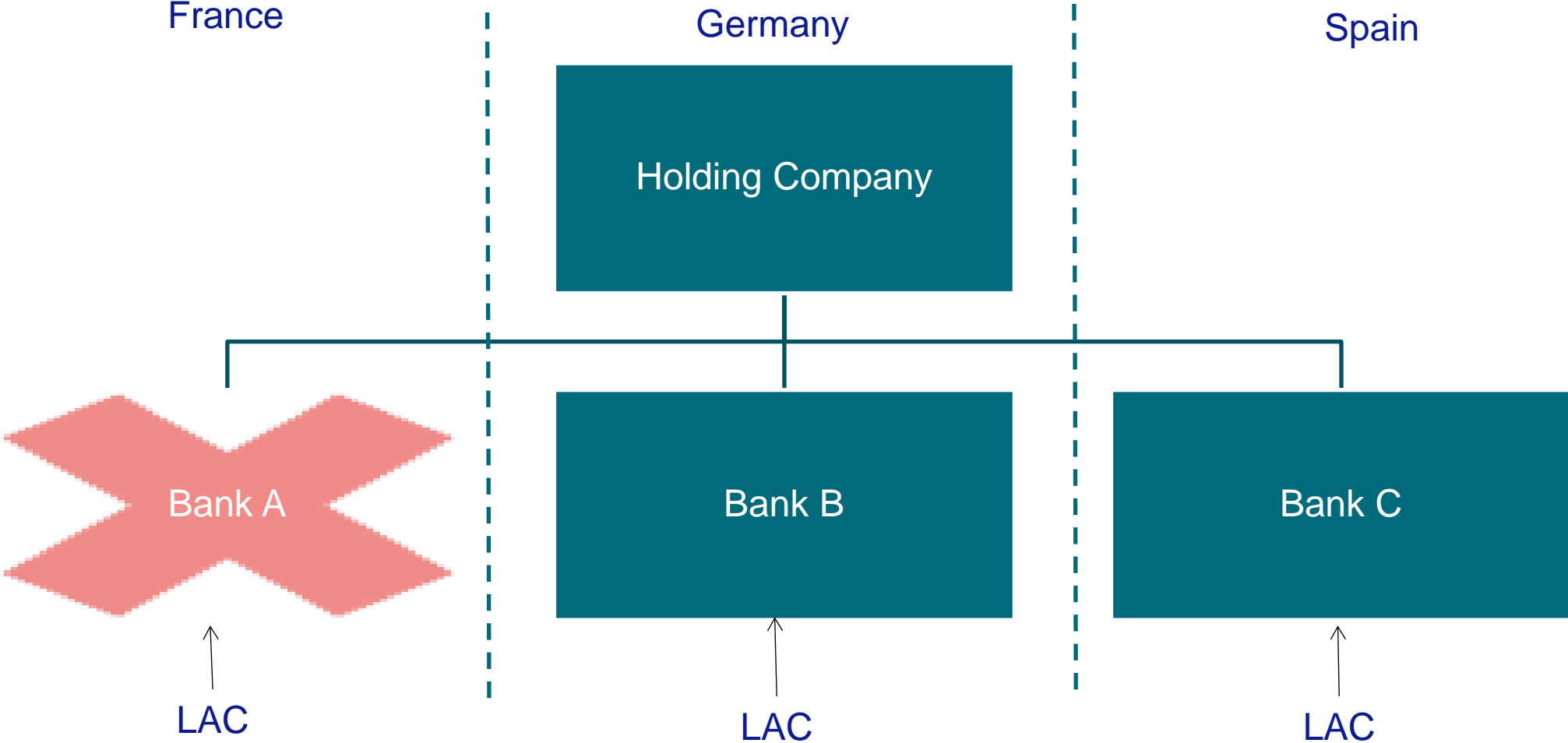
BRRD LAC



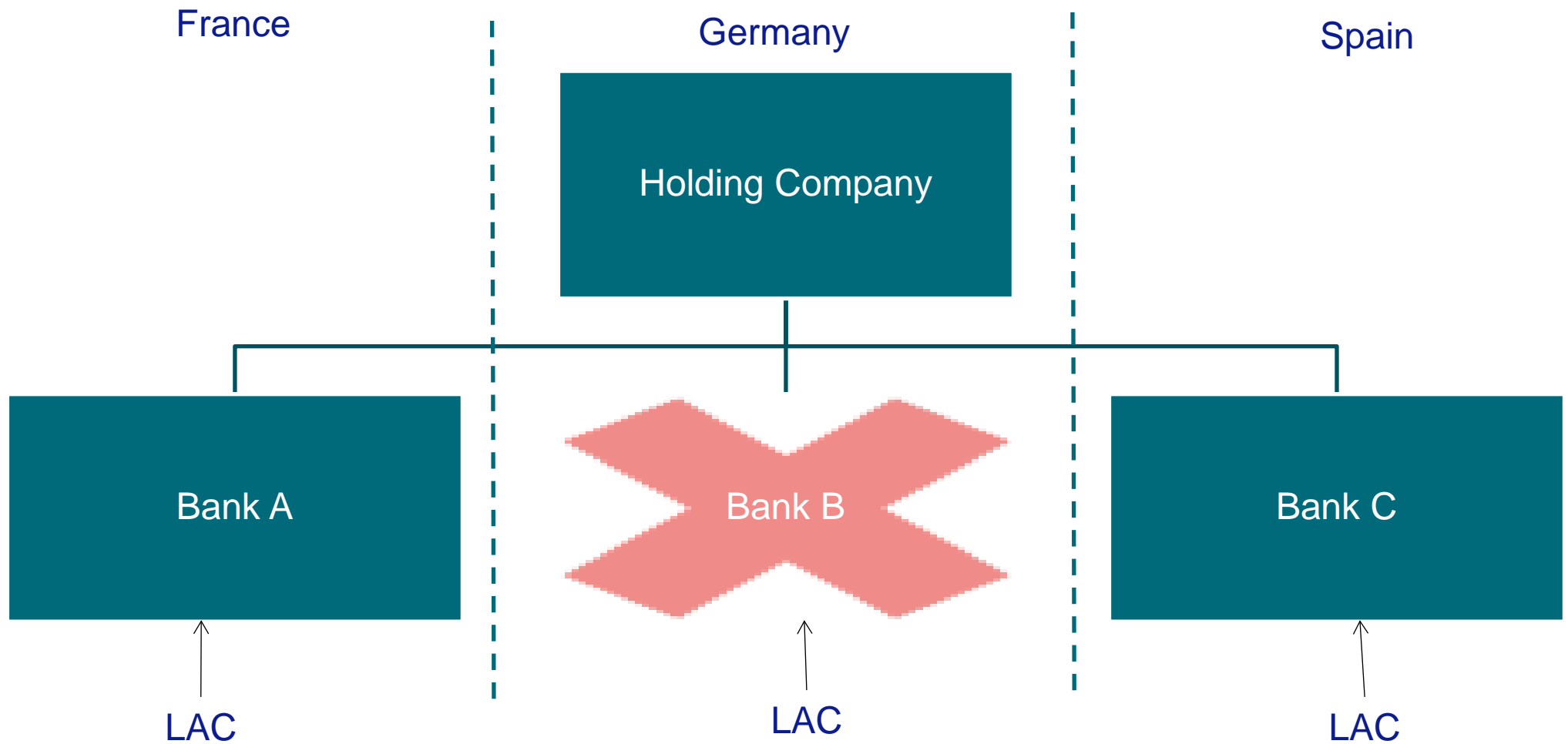
Who resolves what?



Who resolves what?



Who resolves what?



Current issues

- Discretion to exclude liabilities from bail-in and absorption of losses
- Treatment of derivative liabilities in bail-in
- Principle of equal treatment in resolution
- Minimum eligible liabilities requirement and application to groups
- Proposal for minimum level of contractually bail-in-able debt (“bail-in bonds”)
- Use of DGS in resolution and treatment of deposits in insolvency
- Use of resolution funds for solvency support
- Burden sharing/mutualisation of losses between resolution funds
- How do we require the “loss absorbing” senior debt element to be structured?
- If LAC is senior debt issued out of the bank, how do we deal with set-off?
- How do we decide which elements of senior debt to exclude?
- How do we harmonise between ESM and non-ESM countries?

What is a Resolution Fund?

A number of possible purposes

- Absorbing losses (private-sector ESM?)
- Provision of liquidity
- Payment of incidental expenses

RRD model oscillates between a number of these

Resolution fund is only large enough to break the sovereign/bank co-dependence loop if the bail-in power is sufficiently strong to break it anyway?

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