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The Basel Committee and the Financial Stability Board Publish Reports on Lessons Learned From Recent Bank Failures



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The Financial Stability Board (“FSB”) has published its report on [2023 Bank Failures: Preliminary lessons learnt for resolution](#) which follows on from the report from the Basel Committee on Banking Supervision (“BCBS”) on the [2023 banking turmoil](#). The reports differ in subject matter, with the FSB examining preliminary lessons learnt for the key attributes framework for resolving global systemically-important banks (“G-SIBs”) and other systemically important banks, and the BCBS looking at prudential regulation and supervision. The main points include:

FSB Report

This report looks at the Key Attributes of Effective Resolution Regimes for Financial Institutions (“Key Attributes”) and how these held up during recent crises. Adopted in October 2011 and subsequently endorsed by the G20, the Key Attributes are 12 essential features that should be part of all resolution regimes, being:

- scope;
- resolution authority;
- resolution powers;
- set-off, netting, collateralisation, segregation of client assets;
- safeguards;
- funding of firms in resolution;
- legal framework conditions for cross-border cooperation;
- crisis management groups;

- institution-specific cross-border cooperation agreements;
- resolvability assessments;
- recovery and resolution planning; and
- access to information and information sharing.

The report highlights a number of important issues for effective implementation of the international resolution framework to examine further, including the need for an *'effective public sector liquidity backstop and operational readiness of banks to access it as a last resort'*. Other important workstreams for G-SIB resolution include:

- using resolution planning to address legal issues identified around cross-border bail-ins;
- looking at the operation of a range of resolution options, including transfer and sale, both alone and in combination with bail-in; and
- understanding the market impacts of bail-ins and the need for credible liquidity backstops and other frameworks that are visible to and easily understood by market participants and depositors.

When looking at non-G-SIB resolution, the FSB raises the need to explore:

- whether the scope of resolution planning and associated loss-absorbing capacity requirements need expansion;
- how authorities can be better prepared to deal with the increased speed of bank runs; and
- implications of recent events for the role of deposit insurance in bank resolutions.

BCBS Report

The BCBS report is an assessment of the regulatory and supervisory responses to 2023's issues, and not an indication of any planned revisions to the Basel Framework. As such, it focuses on:

1. *Governance and risk management*: the BCBS has identified shortcomings in basic risk management and a lack of appreciation of how build-ups of different risks are interrelated and have a compounding contagion effect. Business models were found to still be overly focused on growth and short term profitability, leading to unsustainable business models and compounded by poor risk culture and insufficient oversight.
2. *Strong and effective supervision*: the analysis of banks' business models, and the identification of outliers, remains core to supervisory efforts, including the assessment of the viability/sustainability of those models.
3. *Robust regulatory standards*: including those addressed at ensuring robust corporate governance and internal risk management and controls. The need for tools that can drive real change and concrete action is also stressed.

Other initial lessons learnt and takeaways for regulation include:

- questions to be asked about the design and calibration of the Basel III liquidity standards;
- questions to be asked about the current regulatory treatment of IRRBB in the Basel Framework;
- the treatment of held-to-maturity assets and the role of Additional Tier 1 capital instruments in the capital framework; and
- the scope of application of the Basel Framework to internationally active banks on a fully consolidated basis.

Other Takeaways

While differing in focus areas, both reports stress the need to look at how toolkits should change in the light of the increased speed of liquidity outflows, and for the BCBS, of course, this leads to a discussion of whether liquidity supervision may also need to evolve. Unsurprisingly, both reports discuss the need for cross-border supervisory cooperation, involving significant information sharing and collaboration.
