

# ALTERNATIVE OPTIONS OF A EURO AREA RESOLUTION LIQUIDITY FRAMEWORK

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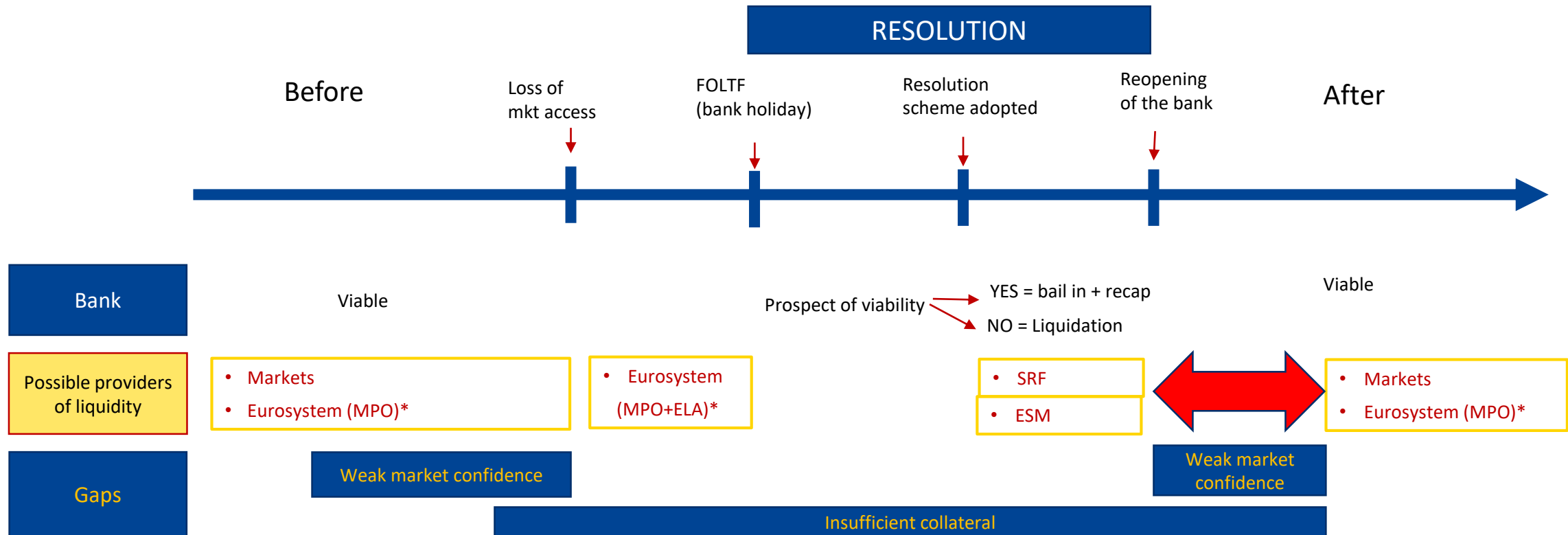


# AGENDA

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- The liquidity in resolution
- Policy proposals
- A different approach

# THE LIQUIDITY IN RESOLUTION



# THE LIQUIDITY IN RESOLUTION: US & UK VS. EU

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- In US there is a direct facility from the US Treasury
- In UK there is a similar facility from HM-Treasury
- In Europe there is not an European Treasury
  - Solution has to
    - be fiscally neutral
    - provide sufficient resources

# THERE ARE MANY POLICY PROPOSALS UNDER DISCUSSION...

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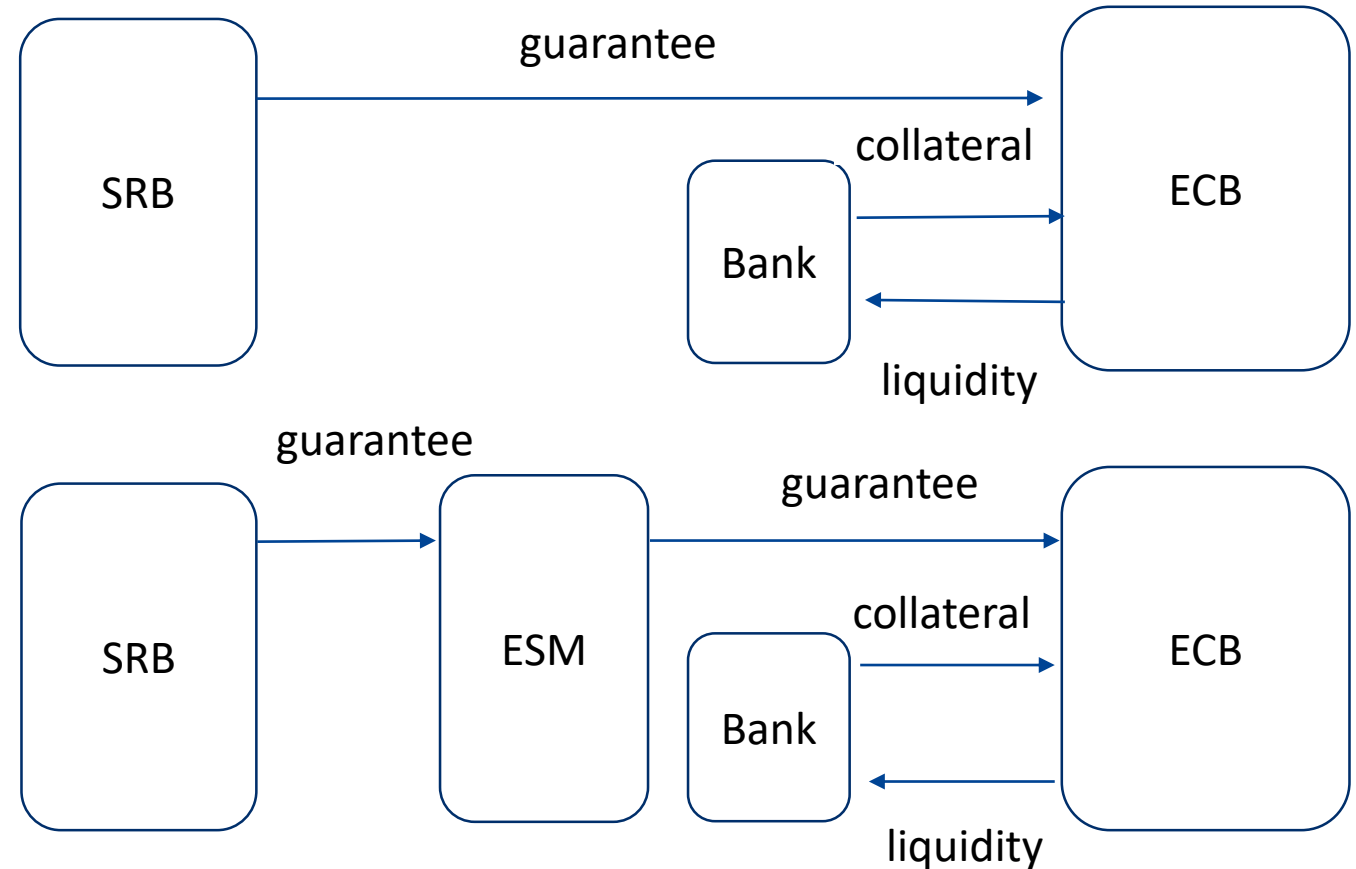
Refinements of current practices	Public Sector Schemes	Private sector schemes
Asset encumbrance ratios in resolution plan	ECB proposal: SRB provides a guarantee to the bank	ESM Collateral Pool
Liquidity stress test	* first demand	
Timely FOLTF	* interest and principal	
Liquidity MREL	* Standing guarantee	
Maturity extension	EC/SRB proposal:ESM guarantees the ECB and SRB counterguarantees	
Voluntary bank funding + SRB guarantee	SRB Bond (+ Guarantee)	
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# PUBLIC SCHEMES ARE A VARIATION OF A COMMON IDEA...

- First demand
- interest and principal
- Standing guarantee

BUT

- ESM cannot provide guarantees under the current framework



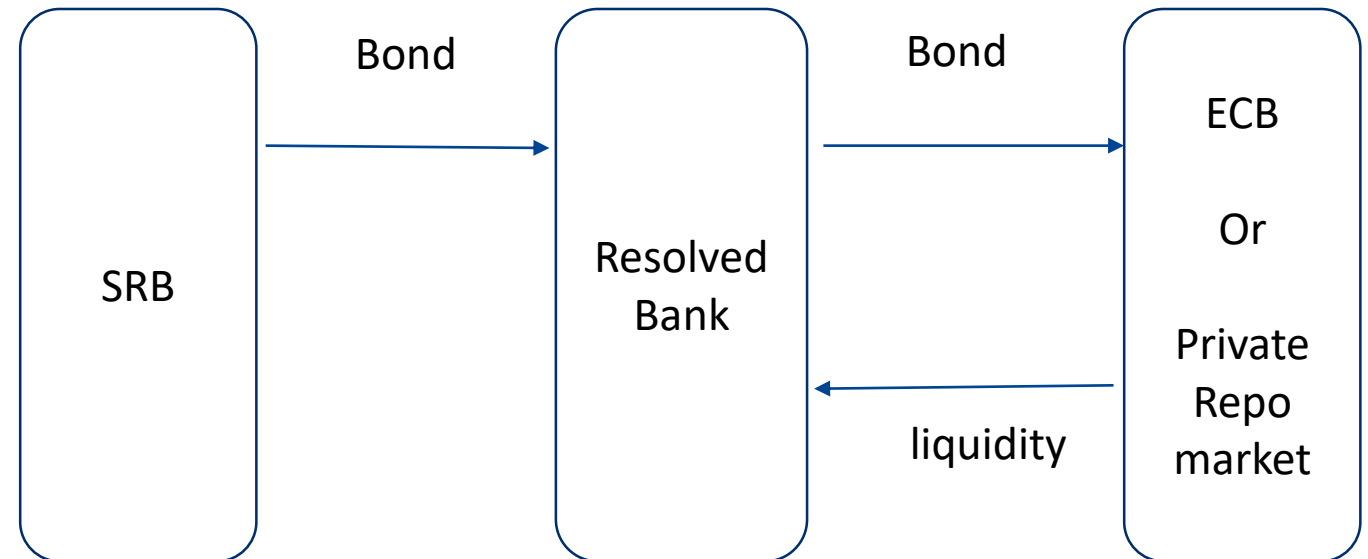
# SRB ISSUES BONDS TO PROVIDE COLLATERAL TO BANKS...

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- Unsecured bonds
- 3-10 yrs
- Super senior claim from the bank to SRB

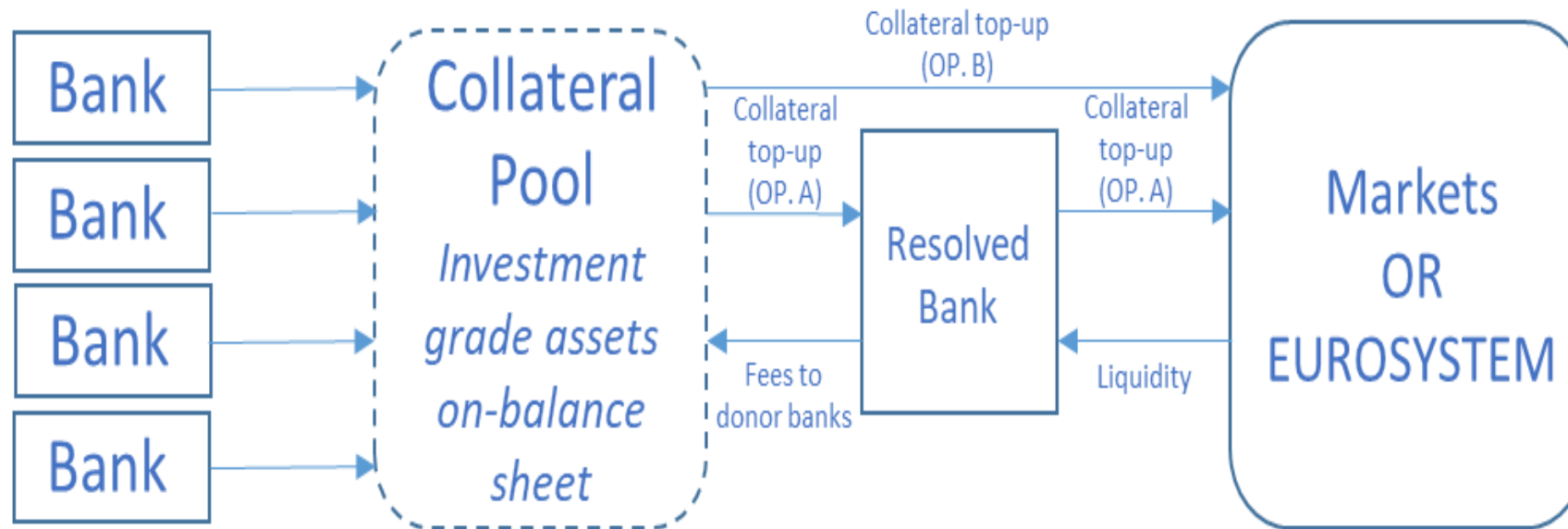
## Problems:

- SRB's rating can pro-cyclical
- Complicate the use of the backstop



# A PRIVATE SECTOR LED SOLUTION: COLLATERAL POOL

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## POTENTIAL CET1 COST OF COLLATERAL POOL REQUIREMENTS...

Assumptions	€ bn		Sovereign/Supra (€bn)	Bank Issued Bonds (€bn)		
Collateral	284	Credit Rating	AAA	AAA to AA-	A+ to A-	BBB+ to BBB-
Cash Equivalent (HC 5%)	270	RWA Weight	0%	20%	30%	50%
Total EA Banks' Assets	33,000	Risk Weighted Assets	0	56.8	85.3	142.1
Total EA Banks'						
Interest Bearing Assets	28,050	CET1 Cost (19% of RWA)	0	5.7	8.5	14.2
Collateral/TA	0.86%					

# THE COLLATERAL POOL CONTAINS MORE BENEFITS THAN RISKS...

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## Strenghts

- It can utilise existing (ECB) technology
- It adheres to the main principle of fiscal neutrality.
- The impact on P&L should be neutral and only a minimal increase in capital absorption.
- Appropriate fee calculated at market value and reflecting the credit risk.
- Transparent structure.
- Given that it is purely privately led, should not breach EU Competition rules.

## Weaknesses

- Affects banks' unencumbered asset ratios.
- The assets could absorb a (small) amount of regulatory capital.
- To further explore the accounting effect on banks' P&L in case of a default of the resolved bank



## CONTACT

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