

**Guiding principles on the temporary funding needed  
to support the orderly resolution of a global  
systemically important bank (“G-SIB”)**

**Consultative Document**

3 November 2015



**The Financial Stability Board (FSB) is seeking comments on its Consultative Document on Funding in Resolution: Guiding principles on the temporary funding needed to support the orderly resolution of a global systemically important bank (“G-SIB”) (consultative document).**

In its report to the G20, “Progress in reform of resolution regimes and resolution planning for global systemically important financial institutions (G-SIFIs)” of 12 November 2014, the FSB identified the provision of temporary funding in resolution as an outstanding issue that needs to be addressed to complete the FSB’s systemically important financial institution (SIFI) reform agenda.

To address the impediments to resolution relating to funding, the FSB agreed that further work should be conducted in 2015 to develop a set of guiding principles regarding the temporary funding of firms in resolution to support implementation of the preferred resolution strategies of G-SIBs. These guiding principles are intended to be consistent with the FSB *Key Attributes of Effective Resolution Regimes for Financial Institutions*.

**The FSB invites comments on the consultative document and the following specific questions:**

1. Are the principles on temporary funding in resolution identified in the report appropriate? What additional elements, if any, should be considered for inclusion?
2. What are your views on the most effective means for maximising the availability and use of private funding sources in resolution in a manner consistent with orderly resolution? Are there particular formats of private funding that should be considered?
3. In cases where public sector backstop funding is needed in resolution, how should such funding ideally be structured so as to minimise the risk of moral hazard, reduce the need for temporary liquidity support from the public sector, and allow the firm to return to private sector funding (i.e. timing of disbursements, term of funding, pricing, collateral requirements, potential use of public sector guarantee authority where available, exit incentives, etc.)?
4. Do you agree with the suggested elements of resolution planning for temporary funding in Section 5? What additional elements, if any, should be considered for inclusion?
5. Do you agree with the approach outlined for cross border cooperation between home and host jurisdictions? What additional principles or procedures, if any, should be considered?
6. Are there any other actions that could be taken by firms or authorities with regard to the temporary funding needed to support the orderly resolution of a G-SIB?

**Responses to this consultative document should be sent to [fsb@bis.org](mailto:fsb@bis.org) by 4 January 2016.** Responses will be published on the FSB’s website unless respondents expressly request otherwise.

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## Introduction

In its report to the G20, “Progress in reform of resolution regimes and resolution planning for global systemically important financial institutions (G-SIFIs)” of 12 November 2014,<sup>1</sup> the FSB identified the provision of temporary funding in resolution as an outstanding issue that needs to be addressed to complete the FSB’s systemically important financial institution (SIFI) reform agenda.

Work to date (e.g. in the first round of the FSB Resolvability Assessment Process<sup>2</sup> (RAP)) has found that funding poses a material impediment to the resolution of global systemically important banks (G-SIBs). In particular, there is a risk of insufficient liquidity to maintain critical operations arising from the G-SIB’s inability to roll over short-term borrowing or loss of access to alternative sources of credit. This work also found that more analysis and understanding of funding and liquidity needs in resolution is necessary, in particular liquidity and funding needs in different currencies.

To address these impediments to resolution, the FSB Plenary agreed that further work should be conducted in 2015 to develop a set of guiding principles regarding the temporary funding of firms in resolution to support implementation of the preferred resolution strategies of G-SIBs. These guiding principles should be consistent with the FSB *Key Attributes of Effective Resolution Regimes for Financial Institutions* (‘Key Attributes’ or KAs).<sup>3</sup> The KAs state that:

- (i) Jurisdictions should have statutory or other policies in place so that authorities are not constrained to rely on public ownership or bail-out funds as a means of resolving firms. (KA 6.1)
- (ii) Where temporary sources of funding to maintain essential functions are needed to accomplish orderly resolution, the resolution authority or authority extending the temporary funding should make provision to recover any losses incurred from (i) shareholders and unsecured creditors subject to the “no creditor worse off than in liquidation” safeguard; or (ii) if necessary, from the financial system more widely. (KA 6.2)

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<sup>1</sup> <http://www.financialstabilityboard.org/wp-content/uploads/Resolution-Progress-Report-to-G20.pdf>

<sup>2</sup> The FSB Resolvability Assessment Process requires a discussion of the resolvability of each G-SIFI at senior level within the Crisis Management Group, a letter to the FSB Chair summarising the general findings and a resolvability report drawn up on the basis of the findings for all G-SIFIs.

<sup>3</sup> [http://www.financialstabilityboard.org/2014/10/r\\_141015/](http://www.financialstabilityboard.org/2014/10/r_141015/)

- (iii) Jurisdictions should have in place privately-financed deposit insurance or resolution funds, or a funding mechanism with ex post recovery from the industry of the costs of providing temporary financing to facilitate the resolution of the firm. (KA 6.3)
- (iv) Any provision by the authorities of temporary funding should be subject to strict conditions that minimise the risk of moral hazard, and should include (i) a determination that the provision of temporary funding is necessary to foster financial stability and will permit implementation of a resolution option that is best able to achieve the objectives of orderly resolution and that private sources of funding have been exhausted or cannot achieve these objectives; and (ii) the allocation of losses to equity holders and residual costs, as appropriate, to unsecured and uninsured creditors and the industry through ex post assessments, insurance premiums or other mechanisms. (KA 6.4)
- (v) As a last resort and for the overarching purpose of maintaining financial stability, some countries may decide to have a power to place the firm under temporary public ownership and control in order to continue critical operations, while seeking to arrange a permanent solution such as a sale or merger with a commercial private sector purchaser. Where countries do equip themselves with such powers, they should make provision to recover any losses incurred by the state from unsecured creditors or, if necessary, the financial system more widely. (KA 6.5)

### ***Objectives and principles***

Recapitalisation of a G-SIB in resolution is not, by itself, sufficient to ensure the continuity of a firm's critical functions if the firm cannot maintain access to liquidity to refinance its liabilities as they fall due. In the period following commencement of a resolution process, even a recapitalised G-SIB is likely to experience heightened liquidity needs generated by market volatility and by an asymmetry of information regarding the firm's viability. Despite successful recapitalisation of the firm, private market participants may stand back from providing liquidity – and existing creditors may be motivated to run – if there is a lack of confidence stemming from uncertainty concerning the G-SIB's ability to meet its increased liquidity needs while in resolution.

To satisfy the *Key Attributes*' objectives of conducting an orderly resolution that minimises any adverse impact on financial stability, ensures the continuity of critical functions, and avoids exposing taxpayers to loss, it follows, with respect to the matter of liquidity needs in resolution, that:

- (i) In resolution, a recapitalised firm's internal liquidity sources (e.g., cash and other liquid assets available for sale or use as collateral that are held by the firm) should be used to meet funding needs to the extent possible;

- (ii) Private markets should be the preferred source of funding in resolution; and
- (iii) To the extent market access to funding is not available or sufficient, credible public sector backstop mechanisms should be in place to enable the temporary funding needs of the firm to be met to the extent necessary to maintain the continuity of critical functions in resolution.

The guiding principles contained in this Consultative Document focus on three specific aspects of the temporary liquidity needed to support the orderly resolution of a G-SIB group:

- (i) Ways to encourage and maintain as much private sector funding as possible to the firm in resolution;
- (ii) The role and types of public sector backstop mechanisms for providing temporary liquidity to the extent necessary to support the orderly resolution of a G-SIB; and
- (iii) Elements of public sector backstop mechanisms that support the minimisation of moral hazard risks.

These guiding principles on temporary funding in resolution complement the *Key Attributes* (KA 6). They are intended to provide guidance to the authorities (supervisory authorities, resolution authorities, central banks, finance ministries and the public authorities responsible for guarantee schemes) that participate in Crisis Management Groups (CMGs) for G-SIBs as they work towards implementing the resolution planning guidance provided by the *Key Attributes*. Given the FSB's on-going work to develop a total loss absorbing capacity (TLAC) framework as an effective means to address solvency and recapitalisation in G-SIB resolution, the observations and guidance herein focus on the complementary component of temporary *liquidity* support rather than on temporary solvency support or temporary public ownership.

The principles outlined in the following section are meant to provide high-level guidance that applies only to the extent that such principles are consistent with an orderly G-SIB resolution, the FSB *Key Attributes*, and the legal framework of the relevant public authorities.

CMGs and relevant authorities should consider the following high-level guiding principles as they develop and review official sector resolution plans for G-SIBs and as each jurisdiction develops or further refines the structure of its public sector backstop funding mechanism for providing liquidity to firms in resolution.

### ***Definitions of key terms for purposes of this paper***

- (i) **“Resolution authority”**: The official sector administrative authority responsible for applying the resolution tools and exercising other resolution powers in the case of a G-SIB failure.<sup>4</sup>
- (ii) **“Resolution plan”**: The plan that the relevant resolution authorities develop and maintain for each G-SIB, intended to facilitate the effective use of resolution powers to protect systemically important functions, with the aim of making the resolution of any firm feasible without severe disruption and without exposing taxpayers to loss (KA 11). For purposes of this paper, this term does not refer to the plans that G-SIBs themselves are required to prepare in some jurisdictions.
- (iii) **“Public sector backstop funding mechanism”**: For each jurisdiction, the public sector authority(s) and/or mechanism(s) authorised to provide temporary liquidity funding to a G-SIB in resolution, including resolution funds, deposit insurance funds, resolution authorities, central banks and/or finance ministries, as applicable. This is further defined in the first paragraph of Section 2.

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<sup>4</sup> FSB *Key Attribute 2.1*: “Each jurisdiction should have a designated administrative authority or authorities responsible for exercising the resolution powers over firms within the scope of the resolution regime (“resolution authority”). Where there are multiple resolution authorities within a jurisdiction their respective mandates, roles and responsibilities should be clearly defined and coordinated.” [http://www.financialstabilityboard.org/wp-content/uploads/r\\_141015.pdf](http://www.financialstabilityboard.org/wp-content/uploads/r_141015.pdf)

## **Guiding principles on the funding of G-SIBs in resolution**

### **1. Private sources of funding**

**To reduce the need for temporary liquidity support from the public sector and to minimise the risk of moral hazard, private sources of funding should be relied upon as a first-choice source of funding, to the degree that such funding is available and compatible with the objective of orderly resolution. (KA 6.4)**

The ability to use private funding channels in resolution in a manner consistent with orderly resolution depends on, amongst other things:

- (i) When the relevant authorities place the G-SIB into resolution (e.g., the moment when resolution is triggered);
- (ii) The state of the G-SIB upon entering resolution (e.g., the amount and quality of available collateral and the extent of asset encumbrance prior to resolution);
- (iii) The prevailing macroeconomic environment, including market liquidity and market funding;
- (iv) The confidence of the market in the soundness of the recapitalisation of the firm and (when developed and disclosed) the restructuring plan to be carried out;<sup>5</sup> and
- (v) The existence of an effective public sector liquidity backstop.

To encourage and maintain as much private sector funding as possible for the G-SIB in resolution, relevant authorities should:

- (i) Consider how the timing of the G-SIB's entry into resolution will affect the availability of unencumbered, high-quality collateral. As a G-SIB's liquidity position is generally indicative of its proximity to resolution, resolution authorities should request, in coordination with supervisory authorities where appropriate, detailed liquidity information with increased frequency as the firm's condition deteriorates;
- (ii) Require G-SIBs to have the operational capacity to identify assets that can be mobilised as collateral and the appropriate governance and systems to do so rapidly in resolution;
- (iii) Develop a communication strategy in coordination with the relevant home and host authorities that will inform market participants, in a clear and timely fashion in the

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<sup>5</sup> The terms of the recapitalisation will only be finalised after a full valuation, and the restructuring plan generally will not have been fully formulated at the time of the resolution weekend and could take a number of months to be finalised and ready for implementation.

event of resolution, of the resolution and restructuring strategy for the G-SIB. This should include, on a prompt basis in connection with the commencement of the resolution, a description of how material operating entities will be effectively recapitalised and supplied with funding adequate to meet payment obligations on a timely basis and, as it is developed over the course of the resolution, a description of how the business will ultimately be restructured;

- (iv) Develop a disclosure policy to promote timely and adequate public disclosure of relevant information on the financial state of the G-SIB in a manner that is consistent with resolution objectives; and
- (v) Provide regular updates to the market on the progress achieved in the implementation of the resolution and restructuring plans where appropriate.

Resolution authorities should maximise private sources of funding to the extent supported by the applicable resolution regime and consistent with orderly resolution. Specific formats for private sector funding could potentially include, among others:

- (i) *Private consortiums*. To potentially reduce their individual losses as counterparties and to better protect themselves against any negative externalities associated with the G-SIB's failure, financial sector consortiums or groups of counterparties may in some circumstances have an incentive to pool resources to extend funding to a G-SIB in resolution. Historical experience, however, suggests that such private funding support is likely to be limited in size and challenging to obtain when markets are broadly under stress.
- (ii) *Privileged "super-priority" resolution funding*. Privileged super-priority funding structures such as debtor-in-possession financing are used to provide funding to companies in financial distress. This type of financing, provided by banks as well as private equity firms and hedge funds, is typically used to provide immediate liquidity as well as ongoing working capital to support the restructuring of a financial institution or corporation in insolvency. However, this form of private sector funding has not been used for a G-SIB and historical experience suggests that it is unlikely, by itself, to provide the amount of funding that would likely be necessary to support the funding needs of a G-SIB in resolution. There may also be challenges with the cross-border provision of such funding.

In addition, where permitted under the relevant legal framework, public sector backstop guarantees could be deployed to encourage private sector sources to provide funding to a G-SIB in resolution. Use of such guarantees could be a means of maintaining a funding presence in the market for the group or the entities in resolution, as well as minimising the likelihood and extent of cash draws on public sector backstop funding mechanisms.

Such guarantees should be appropriately priced and limited in time to create the right incentives and facilitate a timely transition to normal market funding. They should also be able to satisfy applicable legal requirements concerning the use of public sector backstop funding mechanisms, including state aid rules where relevant.

## **2. Public sector backstop funding mechanism**

**An effective public sector backstop funding mechanism should be available for use when necessary and appropriate in order to promote market confidence and to encourage private sector counterparties to provide or to continue to provide funding to the material operating entities of a G-SIB in resolution.**

The source of temporary liquidity funding from the public sector to a G-SIB in resolution will vary by jurisdiction. Public sector backstop liquidity may be provided by one or more of the following mechanisms and/or authorities: resolution funds, deposit insurance funds,<sup>6</sup> resolution authorities, central banks and/or finance ministries. However, the actions of each authority and/or use of specific mechanisms will depend on the applicable legal framework (and, where applicable, operational independence) for such authority and/or mechanism. Thus, as used in this document, the term ‘public sector backstop funding mechanism’ refers to only the applicable authority and/or mechanism in each jurisdiction.<sup>7</sup>

Notwithstanding the existence of a public sector backstop, a recapitalised firm in resolution could retain the opportunity to source liquidity under a central bank’s ordinary facilities applicable in each jurisdiction provided that the firm (or its applicable legal entities) meets the conditions of access to those facilities and subject to the central bank’s own rules and procedures. In some jurisdictions, access to these ordinary central bank facilities is a precondition of access to payment and settlement systems and may consequently be fundamental to maintaining the critical functions of the firm. Particularly in such cases, it will be essential for the resolution authority to plan how the firm could continue to meet the

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<sup>6</sup> Although resolution funds and deposit insurance funds are generally financed by industry contributions, they are treated as falling under the category of public sector backstop funding mechanisms for the purposes of these guiding principles, since they are managed and administered by public authorities.

<sup>7</sup> In the U.S., for example, the Orderly Liquidation Fund (OLF) is the source of public sector backstop funding for a U.S. G-SIB being resolved under the Orderly Liquidation Authority of the Dodd-Frank Act. In the U.S. context, therefore, references in this document to the public sector backstop funding mechanism are references to the OLF rather than to the Deposit Insurance Fund or the Federal Reserve.

central bank's conditions of access in the period following the entry into resolution, subject to the central bank's own rules and procedures.

Since both Single Point of Entry (SPE) and Multiple Point of Entry (MPE) resolution strategies should be designed to facilitate continuity of critical functions, establishing that an effective public sector backstop funding mechanism will be available, if necessary, for orderly resolution is essential for promoting market confidence and for encouraging private sector counterparties to continue or resume providing funding to the material operating entities that provide critical functions. To support critical functions in resolution, the public sector backstop funding mechanisms should generally possess the following characteristics:

- (i) *Size*: credible in the context of the likely funding needs of the firm(s) to be resolved and of the preferred resolution strategy (SPE or MPE). The public sector backstop mechanism should be sufficiently large to support the orderly resolution of potentially multiple G-SIBs simultaneously and to allow those entities of the G-SIB(s) in resolution that provide critical functions to be able to meet their liabilities as they fall due.
- (ii) *Timing*: public sector backstop mechanisms should be capable of delivering temporary funding with sufficient rapidity once a firm has entered resolution. The public sector backstop funding mechanism may have a role in providing intra-day liquidity to meet payment and settlement obligations, or in enabling the firm to access intra-day facilities.
- (iii) *Term of funding*: the term of any temporary funding provided by public sector backstop mechanisms should generally extend no longer than needed to maintain continuity of critical functions to achieve an orderly resolution, but sufficiently long to allow the G-SIB in resolution to regain access to private sources of funding. Consistent with this purpose, any limits that are initially set to the term of funding should be extendible following review where necessary.

### **3. Strict conditions to minimise moral hazard risk (KA 6.4)**

**Public sector backstop mechanisms should only provide temporary funding to the extent that (i) market access to funding is temporarily not available or not sufficient for effectuating an orderly G-SIB resolution; (ii) such funding is necessary to foster financial stability and enable successful implementation of the preferred resolution**

**strategy; and (iii) the terms of the funding include conditions that minimise moral hazard risk.**<sup>8</sup>

The existence of effective public sector backstop mechanisms could provide confidence to existing and prospective creditors that the G-SIB in resolution is capable of meeting its liabilities as they fall due, thereby reducing the ultimate need to rely on the public sector backstop. Unless designed appropriately, however, any availability and provision of temporary liquidity from the public sector to support an orderly G-SIB resolution could also pose certain moral hazard risks.

The availability and provision of temporary liquidity support from the public sector could engender a variety of moral hazard risks including but not limited to: (1) reducing incentives for a G-SIB to transact with private sector counterparties on market terms; (2) compromising a G-SIB's liquidity and risk management practices by weakening its incentives to hold sufficient liquid assets to protect against prolonged severe stress; and (3) creating competitive distortions relative to firms that are not making use of public sector liquidity. The specific moral hazard risks that materialise in a G-SIB resolution will depend on the resolution scenario and will vary by jurisdiction.

To the extent that it is consistent with an orderly G-SIB resolution and the mandates and legal framework of the relevant authorities and/or mechanisms, any provision of temporary funding through public sector backstop mechanisms should be done in a manner that reinforces market discipline, minimises moral hazard and facilitates private sector funding.

Depending on firm-specific and circumstance-specific facts as well as supervisory and resolution authority judgment, any public sector backstop funding provided to a G-SIB in resolution should be subject to certain terms and conditions targeted at reducing the risk of moral hazard. Depending on the mandate and legal framework of the relevant authorities and/or mechanisms, such terms and conditions could include:

- (i) *Preconditions for access to backstop mechanisms*: in order to access public sector backstop mechanisms, the G-SIB group in resolution will generally need to be recapitalised and meet regulatory solvency conditions for authorisation. In addition, subject to the applicable official sector resolution plan, significant entities within a G-SIB group – including depository institutions, branches of foreign banks, and broker dealers – may need to meet certain eligibility criteria, consistent with national law and policy, to effectively access applicable public sector backstop mechanisms.

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<sup>8</sup> As noted in the FSB's *Guidance on Developing Effective Resolution Strategies* (2013), public sector backstop funding facilities can play an important role in ensuring the success of an SPE strategy, by providing assurance to host countries of adequate liquidity to meet obligations within the host jurisdiction.

- (ii) *Intensified supervision*: any provision of temporary liquidity support from a public sector backstop mechanism should be accompanied by intensified supervision by supervisory and/or resolution authorities as appropriate under governing legal frameworks.
- (iii) *Term of funding*: the term of any temporary funding provided by public sector backstop mechanisms should generally extend no longer than needed to maintain continuity of critical functions to achieve an orderly resolution, but sufficiently long to allow the G-SIB in resolution to regain access to private sources of funding.
- (iv) *Collateral haircuts*: in the case of collateralised facilities, haircuts should be prudently calibrated to provide for a source of repayment from the assets of the firm in resolution.
- (v) *Pricing*: public sector backstop mechanisms should set the rates charged for providing temporary liquidity at levels that create incentives for the G-SIB to return to private markets, do not crowd out private sources of funding and do not impede the G-SIB's continued provision of critical functions.
- (vi) *Exit incentives*: any provision of temporary funding from the public sector backstop mechanism should be accompanied by conditions that create incentives for the G-SIB to exit such funding arrangements promptly.

When determining which terms and conditions will apply and the appropriate calibrations, the relevant authorities should be cognisant of the potential for tension between efforts to restore market confidence (and retain or promote private sources of funding) and those to minimise moral hazard risk. Efforts to minimise moral hazard risk should not impede or delay timely access to sufficient temporary liquidity from public sector backstop mechanisms as necessary to effectuate orderly resolution.

Terms or conditions imposed on temporary resolution funding should be calibrated and chosen in a manner that preserves the ability of relevant authorities to provide the degree of backstop funding capability that is necessary to ensure the continuation of critical functions, restore market confidence and ultimately return the entity to private sector funding.

#### **4. Provisions to recover any losses incurred (KA 6.2)**

**Where temporary public sector sources of funding are needed to accomplish an orderly resolution, the resolution authority or authority extending the temporary funding should make clear, ex ante provisions to recover any losses incurred either from shareholders and unsecured creditors subject to the “no creditor worse off than in liquidation” safeguard (see KA 5.2), or from the financial system more widely, if necessary.**

Design features of public sector backstop mechanisms meant to facilitate recovering any losses incurred could include, for example:

- (i) Mechanisms that are privately financed on an ex ante basis or that are funded ex post through recoupment mechanisms; and
- (ii) The levy of premiums (e.g. fully or partially risk-based), whether ex ante or ex post, to build a deposit insurance and/or resolution fund.

## **5. Establishing the soundness and feasibility of the resolution plan**

**The existence of a well-developed and implementable resolution plan for carrying out the recapitalisation, stabilisation and restructuring of the G-SIB will be critical in order to (1) establish long-term confidence that the root causes of failure are being addressed, (2) attract private sources of funding and (3) reinforce other efforts to minimise the risk of moral hazard. Effective communication of the resolution plan by relevant authorities, on an ongoing basis after resolution is commenced, will also be critical in order to achieve these objectives.**

To restore market confidence in the wake of the commencement of a G-SIB resolution process, the resolution and other relevant authorities should effectively communicate their action plan for carrying out the critical steps of the resolution process, including recapitalisation and stabilisation. This should include a plan that demonstrates how the post-resolution reorganisation, including any sales or divestitures, will address the causes of failure and restore the firm to long-term viability.

The task of securing market confidence and acceptance regarding the capacity of the resolution authority to achieve effective recapitalisation, stabilisation and restructuring once a given resolution event has commenced can be supported by current ex ante resolution planning and other policy measures designed to promote market confidence in the effectiveness of the resolution framework and in the credibility of resolution plans for G-SIBs generally.<sup>9</sup>

The issue of liquidity provisioning in resolution and the availability of collateral is an important part of resolution planning and, depending on the legal framework, a factor to be considered in the resolvability assessment.<sup>10</sup> Thus, as part of ordinary course ex ante official

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<sup>9</sup> For instance, the proposed international TLAC standard is meant to provide a basis for assurance that in resolution a G-SIB will have sufficient loss-absorbing capacity to recapitalise material operating entities to levels that meet minimum regulatory requirements and command market confidence.

<sup>10</sup> Potential obstacles for funding in resolution shall be taken into account in the resolvability assessment (KA 10).

sector resolution planning (see KA Appendix I, Annex 4), the relevant resolution and other authorities should develop and integrate into the resolution plan a section on temporary funding that, as deemed appropriate and feasible by the relevant authorities:

- (i) Describes the G-SIB's contingency planning and proposed contingency measures to deal with severe liquidity stress at the point of resolution, including the G-SIB's analysis of the nature and extent of the resolution funding need where feasible;
- (ii) Identifies the types of assets that could be rapidly sold or mobilised as collateral and describes operationally how to mobilise such assets, where collateralised facilities are envisioned;
- (iii) Identifies private sources of funding and, where feasible, the extent to which such sources can meet the G-SIB's funding needs;
- (iv) Identifies available public sector backstop funding arrangements that could be used, where necessary and appropriate;
- (v) Identifies, where relevant, how the G-SIB in resolution will continue to meet the conditions of access to ordinary central bank facilities, to the extent that such access is necessary to maintain critical functions;
- (vi) Identifies the preferred funding sources given the preferred resolution strategy including, where relevant, the expected sequencing of preferred funding sources and potential obstacles to accessing them;
- (vii) Describes the relationship and possible arrangements, if any, between private sources of funding and possible public sector backstop mechanisms;
- (viii) Describes the potential strategies for maintaining adequate liquidity in different currencies;
- (ix) Describes the general conditions that material operating entities would need to satisfy in order to obtain direct or indirect access to payment and settlement systems; and
- (x) Describes potential exit strategies from the provision of public sector backstop funding.

The section on temporary funding in the resolution plan should also take into account the possibility that, at the point of resolution, a G-SIB may have relatively few high quality liquid assets available to secure funding. Where usage of collateralised facilities is envisioned, pre-resolution actions to prepare for and support the effective implementation of the resolution funding plan could include, for instance:

- (i) Requiring G-SIBs to identify less liquid assets that could be used as collateral at the funding provider and to address any legal or technical obstacles to mobilising such collateral in resolution; and

- (ii) Ensuring that the public sector backstop mechanism possesses the necessary valuation capacity, risk management capacity, governance framework and legal framework to accept a broad range of collateral.

## **6. Cross-border cooperation**

**Home and host authorities should cooperate to support the consistent and effective implementation of group-wide and local resolution funding plans. Home and host authorities should establish a clear division of responsibilities, consistent with national law and policy, for providing temporary funding in a G-SIB resolution that is consistent with the resolution strategy.**

For cross-border G-SIBs, effective cooperation and information-sharing between home and host authorities is essential to assess risks at both the group and foreign subsidiary/branch levels correctly. The importance of effective cooperation between home and host supervisory authorities is recognised in the Basel Concordat. In particular, cooperation and information-sharing should facilitate the host authority's understanding of how the liquidity profile of the group affects the entity in its jurisdiction, and the home authority's understanding of the liquidity profile of a foreign branch or subsidiary and the risks it may pose to the banking group as a whole.

In resolution, the roles of home and host authorities in relation to the group's liquidity profile are more likely to depend on the preferred resolution strategy as identified by the authorities participating in the CMG for a given G-SIB. As such, the responsibility of coordinating the provision of temporary funding to a G-SIB in resolution should be driven by the resolution strategy, or more specifically, the 'point of entry' within the group (i.e., the resolution entity) over which the resolution powers are exercised:

- (i) In a SPE strategy, the home authority should be responsible both for exercising resolution tools and for coordinating the provision of liquidity, to the extent that such roles are within its mandate.
- (ii) Under a MPE strategy, each authority responsible for implementing a resolution in relation to its resolution entity would also be responsible for coordinating the provision of liquidity to that part of the group, to the extent that such roles are within their mandate.

For each G-SIB, it is essential that home and host authorities cooperate within the CMG to coordinate the planned allocation of funding (including public sector backstop funding responsibility) with respect to the G-SIB and its foreign subsidiaries/branches, before a resolution takes place. This applies to SPE and MPE resolution strategies, or any combination

that may be necessary to accommodate the structure of a firm and the local regimes in the key jurisdictions in which it operates.

To prepare for the operational execution of the resolution funding plan, relevant authorities participating in CMGs should consider taking pre-resolution actions, which could include for example:

- (i) Identifying information that the relevant home and host authorities would need (e.g., on collateral eligibility criteria and valuation methodology);
- (ii) Ensuring that firms' liquidity risk management information systems are capable of providing the information required by the relevant home and host authorities in a timely manner;
- (iii) Developing approaches to address currency mismatches and enable the rapid provision of liquidity in different currencies;
- (iv) In the case of collateralised facilities, developing arrangements to enable secured lending against collateral located in another jurisdiction, taking into account operational or other impediments that might hinder such arrangements; and/or
- (v) Considering any legal, operational or technical issues that may serve as an impediment to the implementation of the resolution funding plan, including any limits on the ability of public backstop mechanisms in host authorities to provide funding to subsidiaries in their jurisdiction that are not themselves subject to resolution powers in the host jurisdiction.