Introduction & Background

- The challenge of TBTF
- Overview of Bail-in
- Structural elements and choices
- Implementation status
Too Big To Fail? a (simplified) example

- Asset loss (25)

1. Failure of critical functions
2. Counterparty concern / panic
3. Destruction of franchise value
4. “Runs” on other firms; system can become unstable
An Alternative to TBTF: Overview of “Bail-in”

1. Liabilities separated into “Operational” & “TLAC”
2. TLAC absorbs losses and converts into fresh equity (25 → 0 → 50)
3. Operational Liabilities (critical functions) preserved via “going concern” strategy (~Ch. 11)
   - Supported by ISDA stay, etc.
4. “Fast Track” execution via Resolution Authority (RRP)
5. Liquidity is a key (separate) question, but renewed solvency provides foundation
Bank Structure

Public shareholders

“External” TLAC
Can convert to equity in Resolution subordinated to critical liabilities (via structure (holdco), statute or contract)

G-SIB Holding Company

Domestic Bank

Foreign Subsidiary A

Foreign Subsidiary B

Foreign Branches

“Internal TLAC” or “ILAC”
To recapitalize stressed subs

Single Point of Entry (“SPE”)
- Holdco (US) issues External TLAC
- In resolution, TLAC → new equity
- Subs & key operations continue
- Bank can be restructured over time

Alternative Structure: Multiple Point of Entry (“MPE”)
- Subsidiaries are separable
- Subs issue External TLAC
Resolution - Global Progress

- 2009: Special Resolution Regime (Bridge tool)
- 2010: ExCom: 10% Equity +9% Cocos
- 2011: ICB (Vickers) Ring Fence & Bail-in
- 2012: Liikanen: Ring Fence & Bail-in
- 2013: FINMA Adopts "SPE Bail-in"
- 2014: FDIC adopts SPE "Bridge" Bail-in
- 2015: BRRD / SRM

Selected countries

FSB FINANCIAL STABILITY BOARD
"Key Attributes"

TLAC