RESOLUTION STRATEGIES
MULTIPLE POINT OF ENTRY (MPE) vs. SINGLE POINT OF ENTRY (SPE)

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KEY ATTRIBUTES AND BRRD RECOGNIZE THE existence of SPE AND MPE

THE DEBATE IS NOT NEW: back in 2001, as a consequence of the expansion of Spanish banking groups in Latin America, the Bank of Spain recognized the need for measures to prevent contagion risk.

ISSUE FOR DISCUSSION TODAY:

How to determine 'resolution entities', on which resolution actions should theoretically be applied:

- who decides?
- on which grounds?

A resolution group is defined as a resolution entity and its subsidiaries that are not:

i. resolution entities themselves; or
ii. subsidiaries of other resolution entities; or
iii. entities established in a third country that are not included in the resolution group in accordance with the resolution plan and their subsidiaries.
I. THEORETICAL FEATURES (1)

<table>
<thead>
<tr>
<th>Single Point of Entry (SPE)</th>
<th>Multiple Point of Entry (MPE)</th>
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</thead>
<tbody>
<tr>
<td>✓ The resolution authority of the group is responsible for applying the resolution tools solely to parent entity; other group entities, usually operating subsidiaries, are not put in resolution</td>
<td>✓ More than one group entity may be resolved locally by their respective resolution authorities applying different resolution options. Likely to result in a break-up of the group (separability based in geographical criteria or business lines)</td>
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<tr>
<td>✓ Losses incurred by any subsidiary are upstreamed to the parent entity. The parent entity shareholders or creditors bear the losses</td>
<td>✓ Loss absorption is kept at each point of entry. Parent entity losses limited to capital investment</td>
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<tr>
<td>✓ Assumed centralized business</td>
<td>✓ Assumed decentralized activities</td>
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But MPE/SPE is not related with:

- preferred risk cultures, reporting lines, or
- **RECOVERY SITUATIONS** *(Discuss: “Parent companies will always support subsidiary points of entry”)*
I. THEORETICAL FEATURES (2)

FIRST APPROACH...

**SPE strategy** is more suitable for:

- Global and centralized business models (investment banking)
- Funding, liquidity and risks managed by the parent entity
- Building on operative (IT) interconnectedness

**MPE strategy** is more suitable for:

- Decentralized business models (retail banking)
- Funding and liquidity managed directly in the host countries
- Limited legal, financial and operative interconnections between operating banks

But MPE/SPE is **not that simple**...

... _It shouldn’t be an institutions choice_
II. CHALLENGING THEORETICAL MODELS

Single Point of Entry (SPE)

- **External MREL** (consolidated)
  - **Resolution entity**
    - **Subsidiary A**
      - **Subsidiary B**
      - **Subs C**
      - **Subs D**
      - **i-LAC**
      - **BU entity**
      - No public interest
      - Liquidation

Multiple Point of Entry (MPE)

- **External MREL** (resolution group)
  - **Resolution Group 1 SPE**
    - **Resolution entity I**
      - **i-LAC**
      - **Subs A**
  - **Resolution Group 2 SPE**
    - **Resolution entity II**
      - **i-LAC**
      - **Subs B1**
      - **Subs B2**

- MPE is composed by several SPEs
- RA may be seek an MPE, as it creates natural firewalls in the event of a crisis

No pure models
III. SEEKING AN MPE: PROS & CONS (1)

**Single Point of Entry (SPE)**

- **a) Pros**
  - ✓ Simple execution
  - ✓ Better funding spreads determined by parent rating
  - ✓ Better efficiency ratio ???

- **b) Cons**
  - ✓ NO TRANSFERABILITY of resources in resolution (limited liability Co.)
  - ✓ Difficult balance between home/host authorities (different mandates)
  - ✓ Different resolution frameworks

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**Home**

- Tends to limit LAC requirements set by the resolution authorities of the subsidiaries

**Host**

- High internal LAC: 100%
- prepositioned
- No guarantees
- No waivers
III. SEEKING AN MPE: PROS & CONS (2)

Multiple Point of Entry (MPE)

a) **Pros**, for each jurisdiction/business:

- Limits contagion risk/diversifies risks
- Allows flexibility: differenced action
- Adapts to resolution frameworks
- ![It is easier to go from MPE to SPE than from SPE to MPE](image)

b) **Cons**

- Need for subsidiaries’ financial autonomy
- Need for tailored IT & legal structure
- ![It may be more expensive for the group](image)
IV. PRACTICAL CONSIDERATIONS FOR AN MPE
PRECONDITIONS AND CONSEQUENCES

Preconditions

Management driven:
- Financial autonomy
- Operational lay-out
- Decentralized business/diversification

External factors:
- Legal capacities of RA (sovereignty)
- Effect on national economic and financial stability (depositors/investors protection)
- Cooperation levels (confidence in other RA)

Resolution authorities analyze preconditions and consequences

LAC:
- Consolidated group subject to requirements from all the corresponding RA

Structure and operations:
- Continuity of services to be ensured at local level (host to ensure resolution measures can be applied at local level)

It is for RA to build coherence between institutions lay-out and resolution needs
V. THE SPANISH CASE

The **MPE model has proved to be extremely resilient**, in recent and past crisis, limiting contagion and contributing to global financial stability during the crisis:

- diversification has led to **recovery (not resolution) situations**
- negative correlation of economic business cycles $\rightarrow$ P&L
- funding in different markets $\rightarrow$ liquidity

Spanish **cooperation experience has been positive** for both home and hosts based on:

- investments made on sole managerial decisions
- respect for local national interest and,
- In turn, clear allocation of local responsibilities

Proven examples with positive results:

- Argentinian crisis in 2001 (change in rules)
- withdrawal from other jurisdictions (managerial mistakes)
- recent sovereign debt crisis in EU zone (liquidity restrictions)
VI. CONCLUSIONS

1. **No one-size-fits-all**

2. **Public interests should drive RA decisions**, having regard to group specificities and external circumstances

3. **Medium/long term planning has to be started**, changes take time and resolution is still in early stages
   
   a. **SPE requires commitment** from resolution authorities and absolute confidence
   
   b. **MPE provides more flexibility** to RA, although it requires a real independency of the subsidiaries. Additional measures to ensure separability may have to be taken.
Thank you for your attention!