S&P Global
Ratings

Observations on Bank Crisis Management

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Crisis Management | Observations On Recent Events in Europe & The U.S.

- **Financial stability is paramount.** Public authorities will react with coordinated, rapid and pragmatic action.
- The regulatory crisis management toolkit is broad, but the **use of tools is specific to the circumstances**.
- Extraordinary liquidity support is evidence of a **strong institutional framework**.
- An **aversion to bail-outs remains**.
- For ailing banks, **market solutions are preferred** to failure and resolution, but may be hard to achieve in practice.
- From a financial stability perspective, **deposits are special**… …but senior debt is less so.
- When it's a credible option, **resolvability offers a backstop** and changes the authorities' calculus when faced with an ailing bank.
- **Bail-in resolution has not been tried yet** and will lack credibility among some investors.

Crisis Management | The Credit Suisse Conundrum

- **One of the most resolvable GSIBs**, but Swiss authorities saw resolution as unworkable in the circumstances.
- And yet:
  - Swiss policymakers have been some of the loudest in **stated intent** to move away from bail-out to bail-in
  - CS pursued **years of planning and effort** to enhance resolvability
  - A large bail-in buffer offered **huge recapitalization capacity** to absorb losses and fund restructuring
  - **Public regulatory statements** confirmed assessment that CS was resolvable
  - Confidence in banks was jittery, but **CS was demonstrably an outlier** in Europe
- AT1 taking losses is hardly new, and yet still there was **significant market fallout** due to the AT1 write-down without first fully writing down shareholders.
- So **where now for the idea of using bail-in** resolution to address failed large systemic banks?

Crisis Management | Possible Policy & Regulatory Responses

Crisis management

- UK (HMT, BoE): Review deposit guarantee scheme coverage and prefunding level.
- US (FDIC): Review deposit guarantee scheme coverage, and possibly introduce long-term debt requirement for large US regional banks.
- EU: Double-down on resolution via CMDI proposal, though this initiative was already in train.

Regulation / supervision

- US (Fed): More proactive oversight and intervention, tougher capital/liquidity requirements for banks with unrealised losses and/or identified risk management deficiencies
- Global (BCBS): Further reflection on how digitalization has influenced liquidity risks for bank deposits – impact on calibration of LCR?
- Other areas of regulatory thinking: transparency in single-name CDS trading?

Crisis Management | Convergence Between U.S. And EU Approaches?

- **Scope of resolution planning**: U.S. may consider requiring regional banks to build bail-in / loss absorption buffers comprised of senior term debt (mainly subordinated).
- **Preferred resolution route:** CMDI review in the EU would pave the way for more a routine use of FDIC-like purchase & assumption (P&A) transaction (named sale of assets/business in the EU) aided by funding from DGS and resolution funds.
  - Open bank bail-in would however remain the sole credible options for G-SIBs.
- **Hierarchy of creditors**: CMDI review in the EU would introduce a general depositor preference to senior debt, similar as in the US. This, together with the removal of the DGS super-preference, would remove key constraints on P&A transactions in the EU.
  - Senior preferred opco debt would, however, remain vulnerable to losses if the bank fails.
- **Systemic risk exemption** can be used to avoid losses for uninsured depositors.

But key differences are likely to remain:

- Pre-emptive solvency support remains legally possible in Europe.
- In the EU: open bank resolution for many large banks not just GSIBs, including discount window and ELA access.

Ratings | Implications Under Our Extraordinary Support Framework

- **Government support remains uncertain in US & Europe**, but remains likely in many other countries
- Operating company senior debt is potentially vulnerable to default in a resolution scenario.
- The wider scope of banks flagged for resolution **might lead to more EU banks gaining ALAC uplift** in their issuer credit ratings (ICRs), in some circumstances.
- In and of itself, the creation of EU **general depositor preference is unlikely to cause rating changes**…
- …but the hierarchical separation of senior preferred debt from uninsured deposits **could incentivize a reduction in subordination requirements for MREL** (minimum requirement for own funds and eligible liabilities), and so in ALAC buffers (depending on banks' funding decisions).
- A changed hierarchy for deposits could imply a widening of the types of liabilities addressed by our **resolution counterparty ratings (RCRs)** in EU banking systems.
- **EU banking systems will remain predominantly national** in nature, and our ratings therefore continue to recognize how the strength of national banking systems influences banks' individual credit strength.