

Management of financial crisis in cross-border banks

*RBNZ workshop on Banking Crisis
Management*

Wellington, March 3, 2005

Structure of my presentation

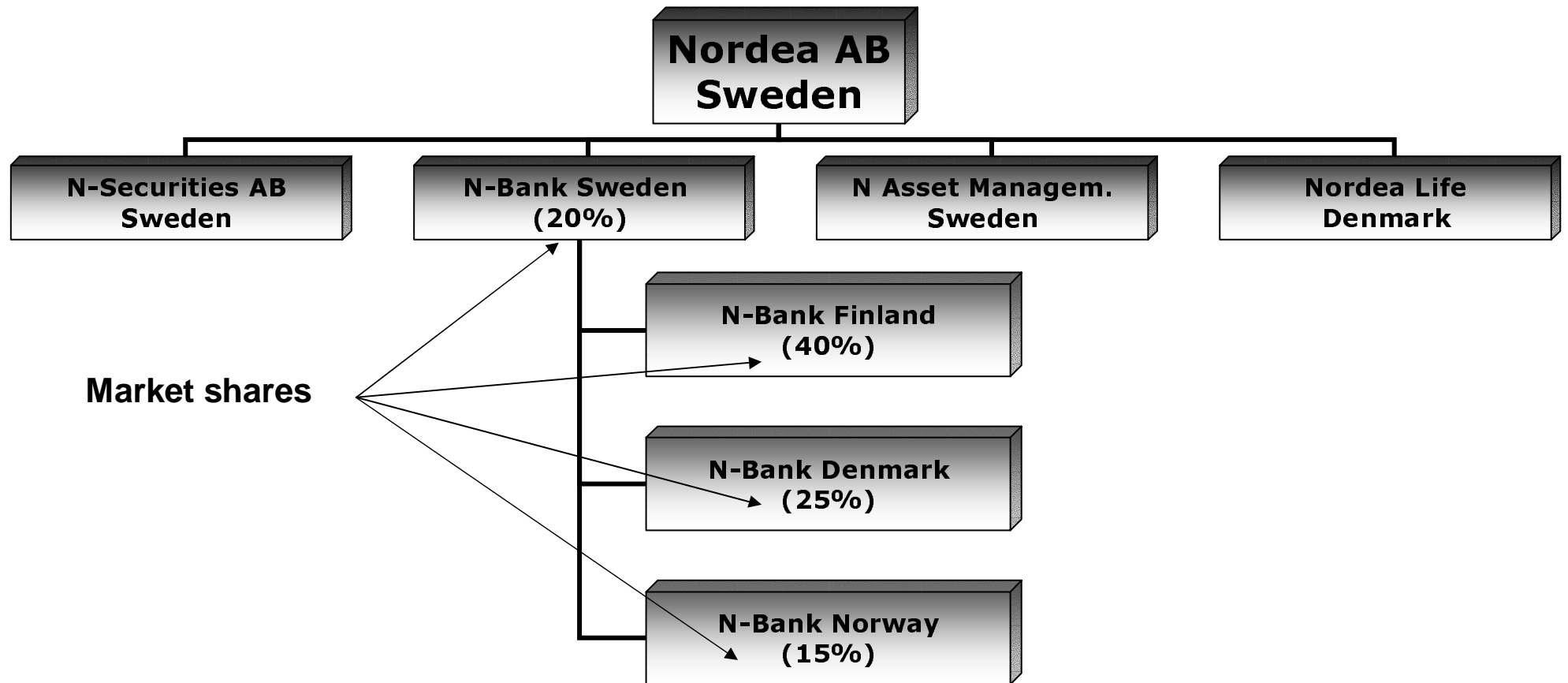
- Background
 - **Article: Main themes**
 - Norges Banks position on cross border LLR
 - Current situation in:
 - Nordic countries
 - EU
 - Way forward
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Background

- *“The establishment of Nordea has highlighted issues related to financial crisis management in cross-border banks for the Nordic authorities, in particular for banks with large, systemically important subsidiaries or branches in the host countries”*

(Nordea is the 20th largest bank in Europe, with total assets of EUR 215 billion = NZ\$ 390 billion)

Nordea: Legal structure



Nordea: Shareholder structure (%)

	State	Institutional investors	Public investors	<u>Total</u>
Sweden	19	30	3	52
Finland		8	6	14
Denmark		9	4	13
Other countries				21

Nordic central bank cooperation

- **2000: High level working group established**
 - Task: *How to handle a liquidity crisis in Nordea?*
 - **2002: Joint crisis simulation exercise**
 - Illustrated different views and policies
 - **2003: General and specific MoUs**
 - Formal structures and information exchange
 - **2004: New mandate-MoU for branch structure**
 - **2005: Joint analysis group established**
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Article – Main themes

- *The extent and content of the home country responsibility for crisis management*
 - *Centralized management of global banks transcend legal structure*
 - *Conflict of interest may arise between authorities in different countries*
 - *Home-country authorities should have primary responsibility for banks in subsidiary structure*
 - *Global banking firms should hold ample capital*
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Home-host responsibility

- EU: "Home country control"
 - "Consolidated supervisor"
 - Supervisors for subsidiary – home or host authority?
 - Traditional view: Host authority for subsidiary wholly responsible
 - Basel 2: IRB/AMA validation
 - "Lead supervisor"
 - Not applicable to central banking – constructive ambiguity!
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Conflict of interest?

	Bank is large in host country	Bank is small in host country
Parent bank is large in home country	Both interested in support	Differing views on support
Parent bank is small in home country	Differing views on support	No support

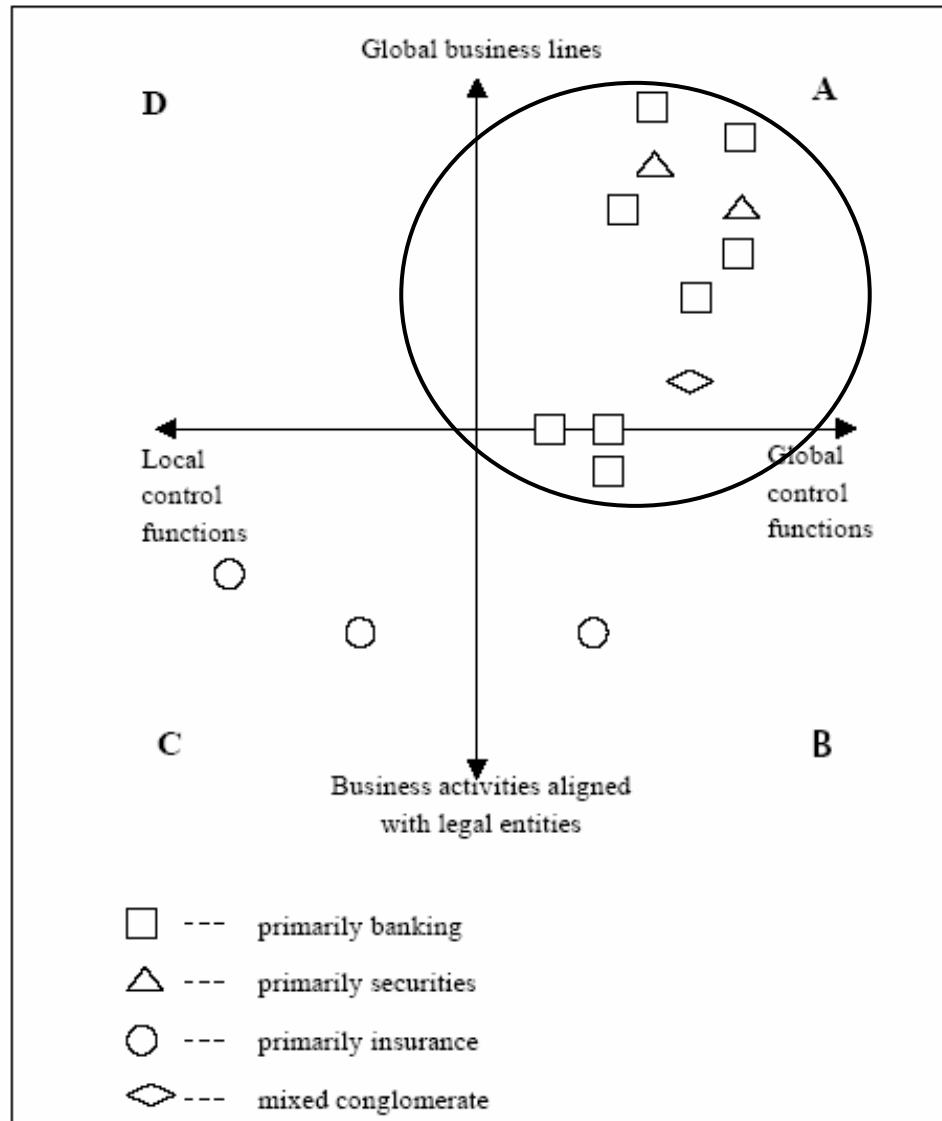
Burden sharing?

Who should support a systemic bank in the host country?

	Systemic subsidiary	Systemic branch
	<i>Host responsibility</i>	<i>Home responsibility</i>
Parent bank is large in home country	Home may support	Host may support
Parent bank is small in home country	Home will not support	Home will be reluctant to support

- Support is in any case highly discretionary
- Therefore, cannot and should not commit ex ante, but
- perhaps some principles for burden sharing can be found?

Global management vs. Legal control



Selected large European banks ranked by capital adequacy

Deutsche Bank	13.9
UBS	13.3
Fortis	12.4
Credit Suisse	11.8
ING Bank	11.3
Banco Santander	10.6
DnB NOR	9.8
HVB	9.7
Nordea Bank	9.3

Norges Banks expect parent bank to support its subsidiary

- Serious liquidity problems in Nordea Norway should primarily be solved by the parent bank and if required be supported by the home country authorities
 - We are in principle positive to mutual support, but
 - We consider it highly unlikely, as
 - Parent bank has equity, funding and reputation at stake, and
 - If no parent support, the bank is most probably insolvent and LLR support not right step anyway!
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Legal basis for claiming support for subsidiary from parent?

- Legal opinion: Weak case (limited liability)
 - But 100% owned
 - Source of strength (US)
 - Reputation (Argentina)
 - Parent has informational advantage
 - Insolvency law: "Centre of main interest"
 - Nordea: "We will support", but
 - open case until tested in court
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Current situation in Nordic countries

- Supervisors have not agree on joint model
 - **The Minimum EU model:** HOME is responsible for and carries out all supervision work without any organised cooperation with HOST.
 - **The Info-sharing model:** HOME has the main responsibility for supervision of Nordea Bank, but HOST will have access to all material about the bank.
 - **The Consulting model:** Agreement allocating tasks and responsibilities between HOME and HOST.
 - **The Co-decision model:** All countries have equal status in supervision work.
 - Central bank have not agreee on branch MoU
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Current situation in EU

- Lot of work on home-host and crisis management
 - Include Treasury (New MoU; crisis simulation)
 - Deposit insurance review
 - New task force on Crisis Management (JTCCM)
 - New capital directive (“consolidated supervisor”)
 - Review of models of cooperation
 - Procedures for exchange of relevant and essential information
 - How to define systemic/significant sub/branches?
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Way forward

- Supranational crisis resolution or market discipline and private solutions?
 - Further work needed:
 - Empirical: Better basis for decision making
 - Analytical: Clarify roles and positions
 - Legal: Improve rules and procedures for (rapid) crisis management
 - Continue to work together to improve relations
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New discussion paper by BoE/FSA/HMT: *Supervising financial services in an integrated European Single Market*

- *Any proposals for significant radical changes to the division of legal responsibilities between home and host supervisory authorities should be approached with great care and are unlikely to be feasible.*
 - *The UK authorities believe that the EU should work with the framework of the current division of legal responsibilities between home and host supervisors, and focus especially on effective cooperation at the practical level between home and host supervisors.*
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Thank you for the attention
