

Discussant comments on contingency planning and crisis management in a cross-border banking environment

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Importance of contingency planning for home and host authorities

- Contingency planning for bank distress and failure is essential for home and host authorities
- Contingency planning is essential for effective and prompt response to financial distress situations
- Host authorities need to be well prepared to respond effectively and quickly to distress situations in their jurisdictions, regardless of the nature of home/host cooperation
- But the nature of the contingency planning by the host authority will be influenced by the home/host arrangements for cooperation and coordination
- The home authority's contingency planning will also be influenced by the home/host arrangements
- Ideally, contingency planning should be done by home and host authorities in collaboration

Nature of the contingency arrangements

Key elements include:

- Well-defined objectives for crisis resolution – getting the priorities right
- Robust legal powers – and understanding how to use them
- Pre-specified measures for dealing with emerging distress situations – eg a slide in a bank's capital ratio, deterioration in asset quality, breach of prudential requirements – Prompt Corrective Action
- Preparation for dealing with liquidity events – system-wide and institution-specific
 - Triggers for liquidity provision
 - Pre-conditions for lending

- Determination of solvency
- Terms and conditions for liquidity support
- Disclosure
- Exit and contingency arrangements for when liquidity situations become insolvency situations
- Preparation for bank insolvency
 - Triggers for action
 - Systemic versus non-systemic
 - Options for responding to the failure in ways that:
 - Minimise disruption to the financial system/payment system/foreign exchange market
 - Facilitate access to transaction balances – debit and credit
 - Clear payment system transactions
 - Manage the assets and risks
 - Facilitate satisfactory exit
 - Maintain confidence
 - Minimise taxpayer assistance
 - Preserve or enhance market disciplines
 - Minimise moral hazard
- Communications with domestic government agencies, ministers, and with foreign regulators
- Develop and maintain basic toolkit for crisis management
- Develop and maintain skills for crisis management
 - Staff expertise
 - Access to external experts
 - Crisis simulation exercises

Home/host cooperation and coordination

- Contingency planning for managing banking crises should be coordinated between home and host supervisory authorities and central banks
- Recognise the areas of complementary interests and diverging interests
- Information exchange on an ongoing basis – building a relationship of cooperation and mutual confidence
- Compatible supervisory policies and prudential requirements where possible

- Harmonised or mutually compatible crisis resolution powers and strategies
- Exchange views on contingency planning; collaborate where possible
- Identify the respective roles and responsibilities of the home and host authorities and central banks – in general and in particular situations
- Agree on procedures for information exchange and cooperation before a crisis, in an emerging crisis and during a crisis
- Identify areas for joint or coordinated action – eg in liquidity support, in handling an insolvent bank, in public communication
- Possibly develop pre-specified, agreed joint actions for handling cross-border crises
- Identify areas where separate home and host action may be necessary – eg if the parent supervisor's actions do not adequately meet the needs of the host financial system, the host authority may need to take separate action
- Joint crisis simulation exercises