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Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

NRS | NATIONAL RESOLUTION SYMPOSIUM 2024

23 - 24 September 2024

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NATIONAL RESOLUTION SYMPOSIUM 2024

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BANK MASTERCLASS:
Resolution planning in practice

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Glossary of abbreviations

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Abbreviations	Definitions
AMV	Asset management vehicle
CMG	Crisis management group
DI	Deposit insurance
DSIB	Domestic systemically important bank
DTM	Deposit-taking members of PIDM
FMI	Financial market infrastructure
GSIB	Global systemically important bank
LSI	Less significant institution
MREL	Minimum requirement for own funds and eligible liabilities

Abbreviations	Definitions
OCIR	Operational continuity in resolution
PIA	Public interest assessment
RCP	Recovery planning
RSP	Resolution planning
SI	Significant institution
SIFI	Systemically important financial institution
SoB	Sale of business
TLAC	Total loss absorbing capacity

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Approach to Resolution Planning

Banking Union in the EU

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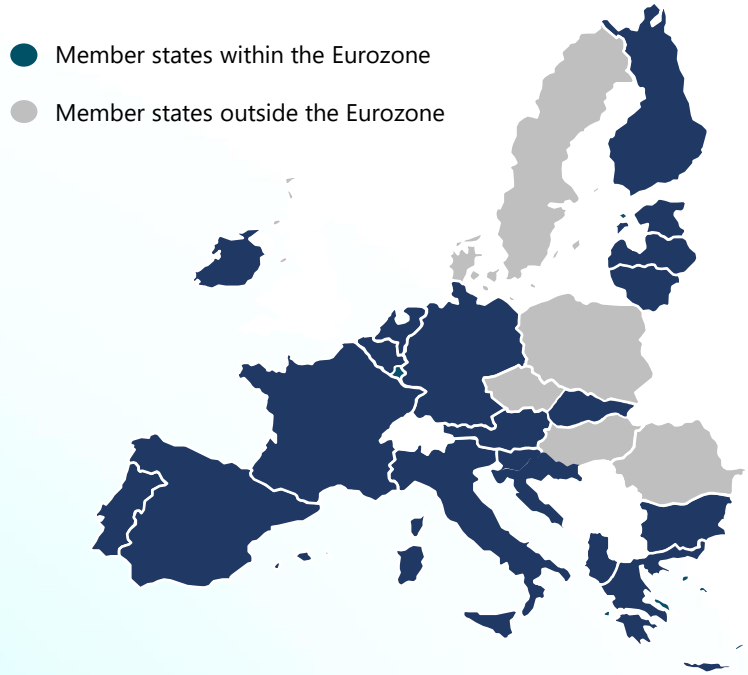
Pillar 1	Pillar 2	Pillar 3
Single Supervisory Mechanism(SSM)	Single Resolution Mechanism (SRM)	European Deposit Insurance (EDIS) *-not yet agreed upon-*

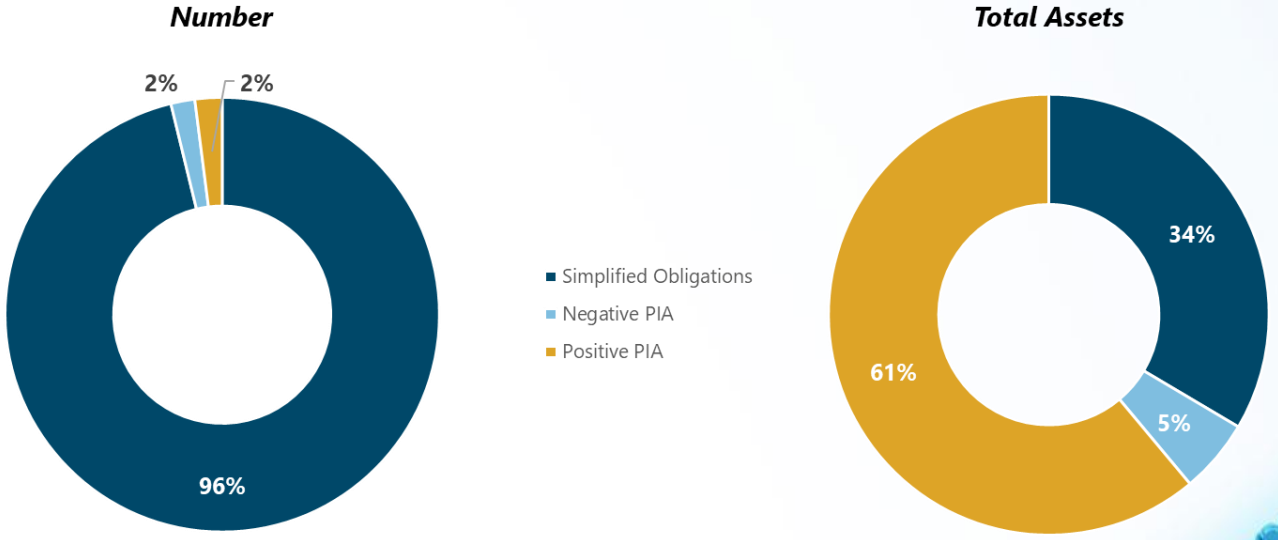
German Banking market: > 1200 institutions*

- 25 Significant Institutions (SI) (thereof 1 G-SIB)
- 1,184 Less Significant Insitutions (LSIs**)

* As of March 2024

**Total number of licensed LSIs





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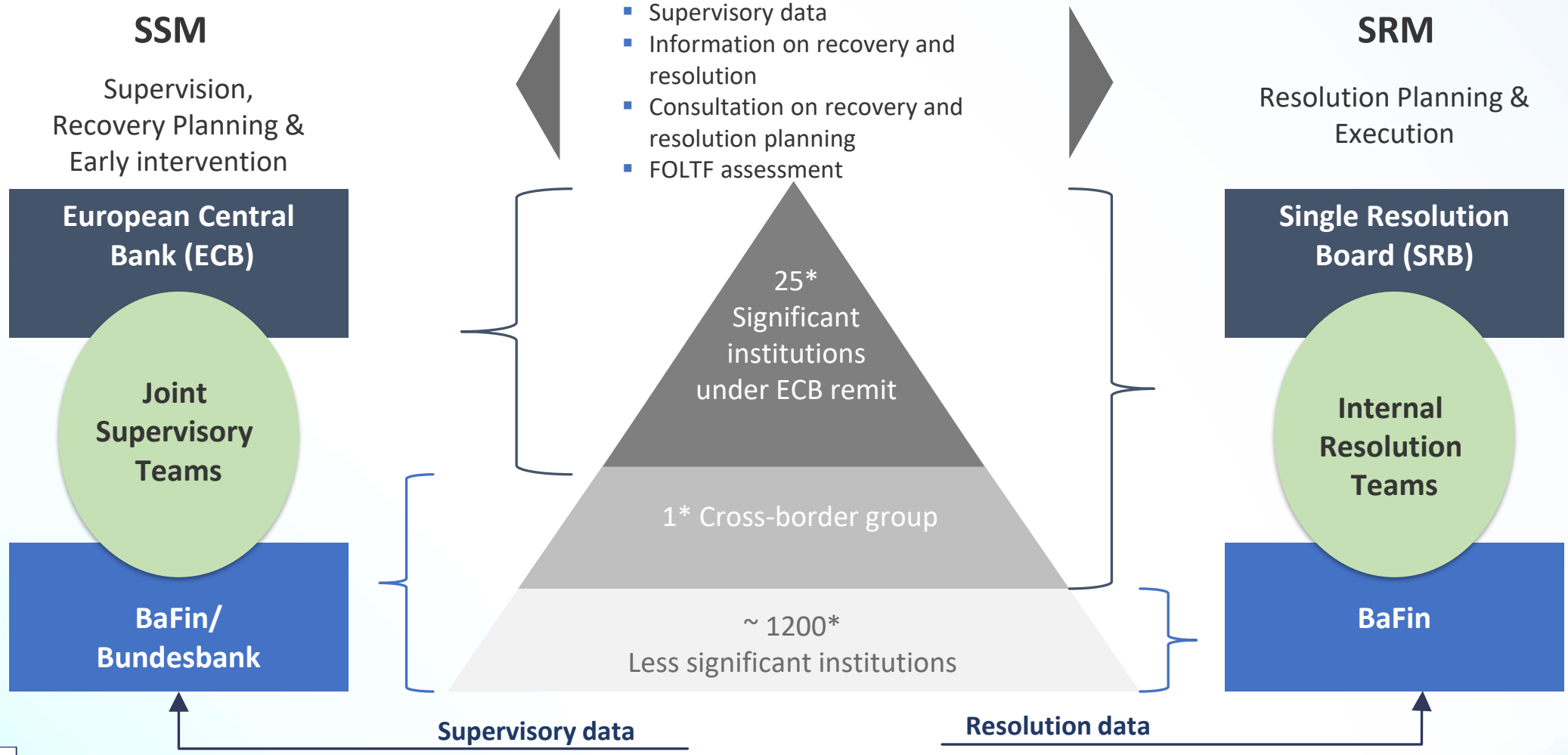
Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM)



*As of March 2024

Resolution plan structure

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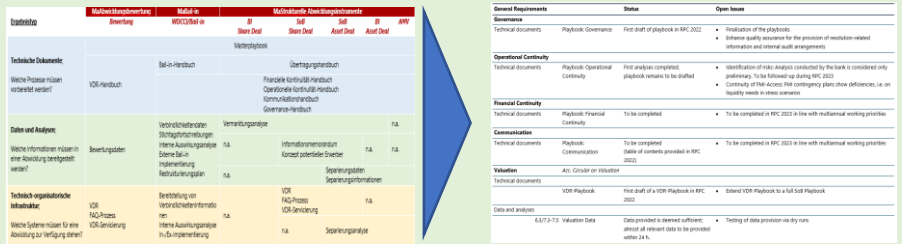
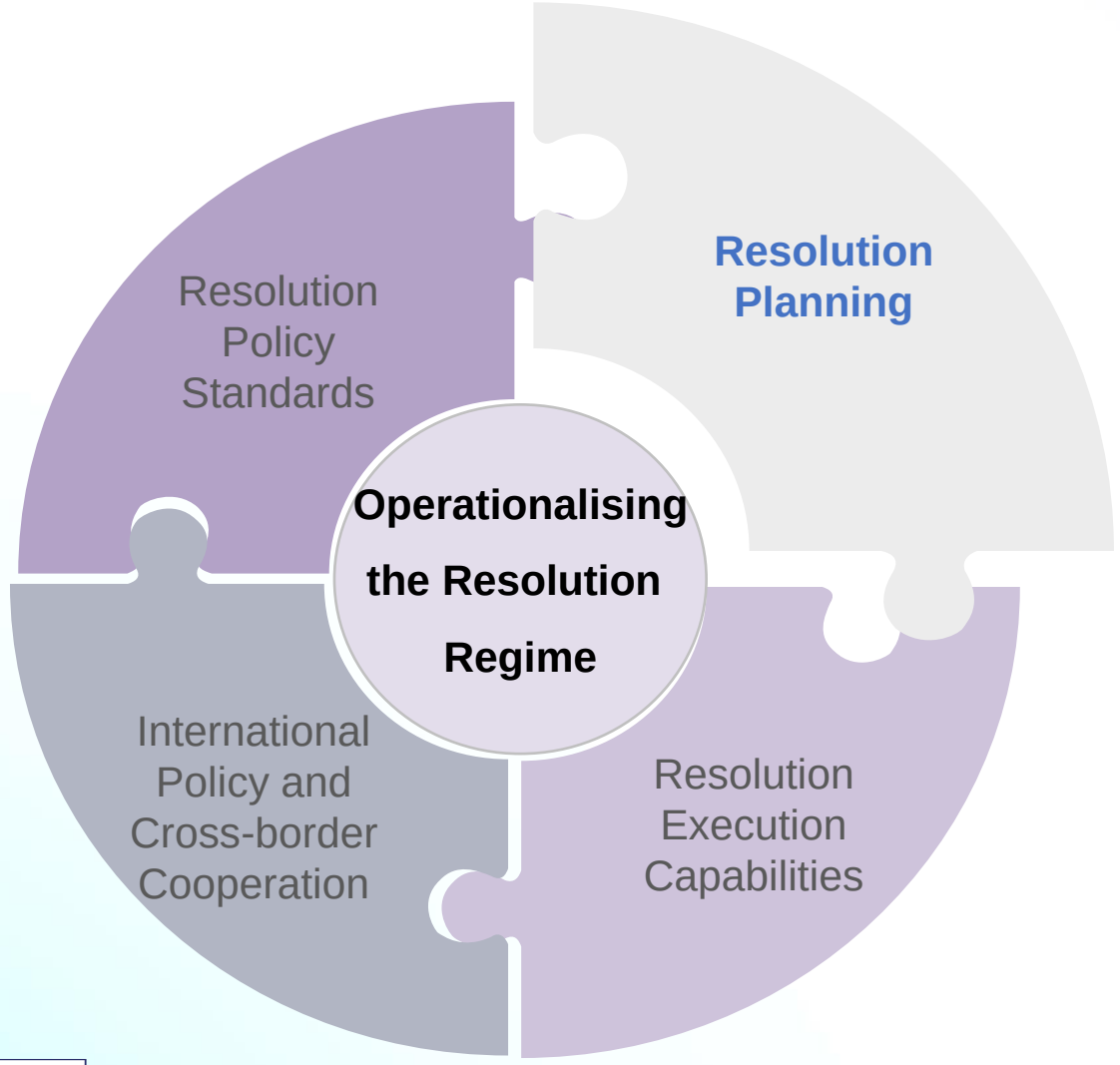
Chapter 1: Executive Summary	*Executive Summary Template*	***SRB specification***	
Chapter 2: Description of institution			✓ Focus on key content
Chapter 3: Preliminary PIA	*Standardised texts from the Prelimiminary PIA framework*	***Preliminary PIA+***	✓ Wording suitable for resolution order ✓ Expanding the depth of justification
Chapter 4: Identification of the resolution strategy	*Requirements including exmaples according to the handbook on Choice of Resolution Tools*	***Bail-in*** ***SoB^S*** ***Bridge^S*** ***SoB^A*** ***Bridge^A*** ***AMV***	✓ Wording suitable for resolution order ✓ Expanding the depth of justification
Chapter 5: Operationalisation of the resolution strategy	*Matrix of requirements and deliverables from:* *Circular on Valuation* *Circular on Bail-in* *Guidance Notice External Bail-in Execution* *Circular on Trasfer Tools*		✓ Combination of requirements and required deliverables depending on the selected resolution tools ✓ Implementation status of the deliverables ✓ Key challenges
Chapter 6: Assessment of feasibility of the resolution strategy	*Assessment requirements in accordance with the framework for assessing the resolvability of LSIs; assessment of the Circular on Resolvability*		✓ Presentation of the heatmap results ✓ Conclusion and justification on the existence of (substantive) impediments to resolvability ✓ Working priorities and measures to improve resolvability.

Hong Kong resolution regime



- Financial Institutions (Resolution) Ordinance ("FIRO"), which came into effect on 7 July 2017, establishes the legal basis for a **cross-sectoral resolution regime in Hong Kong**, which is designed to be compliant with the FSB's Key Attributes
- **Monetary Authority ("MA")** [note 1] is the **resolution authority** for **banking sector** entities [note 2], and is also designated as the lead resolution authority for all the **cross-sectoral G-SIB groups** in Hong Kong
- The **HKMA Resolution Office** is an independent office with a direct reporting line to the Chief Executive of the HKMA. It works to ensure the resolution regime is effective and operational

Note 1: Hong Kong Monetary Authority ("HKMA") is the office of the Monetary Authority
Note 2: Including all Authorized Institutions ("AIs") and certain settlement institutions and system operators of designated clearing and settlement systems

HKMA's approach to resolution planning

- Risk-based approach, **prioritising** banks with total consolidated **assets above HKD150bn** (~USD20bn), which covers D-SIBs and large non D-SIBs in Hong Kong
- For banks below the line, planning are conducted as needed; Industry-wide initiatives are also implemented
- Bilateral resolution planning programmes focusing on building up **financial resources** and **resolvability capabilities**
- Embedding into BAU process with **ongoing testing and assurance** to ensure readiness
- Co-ordination with **home and host** authorities via CMGs and bilateral engagements

Recovery and resolution planning scheme in Korea

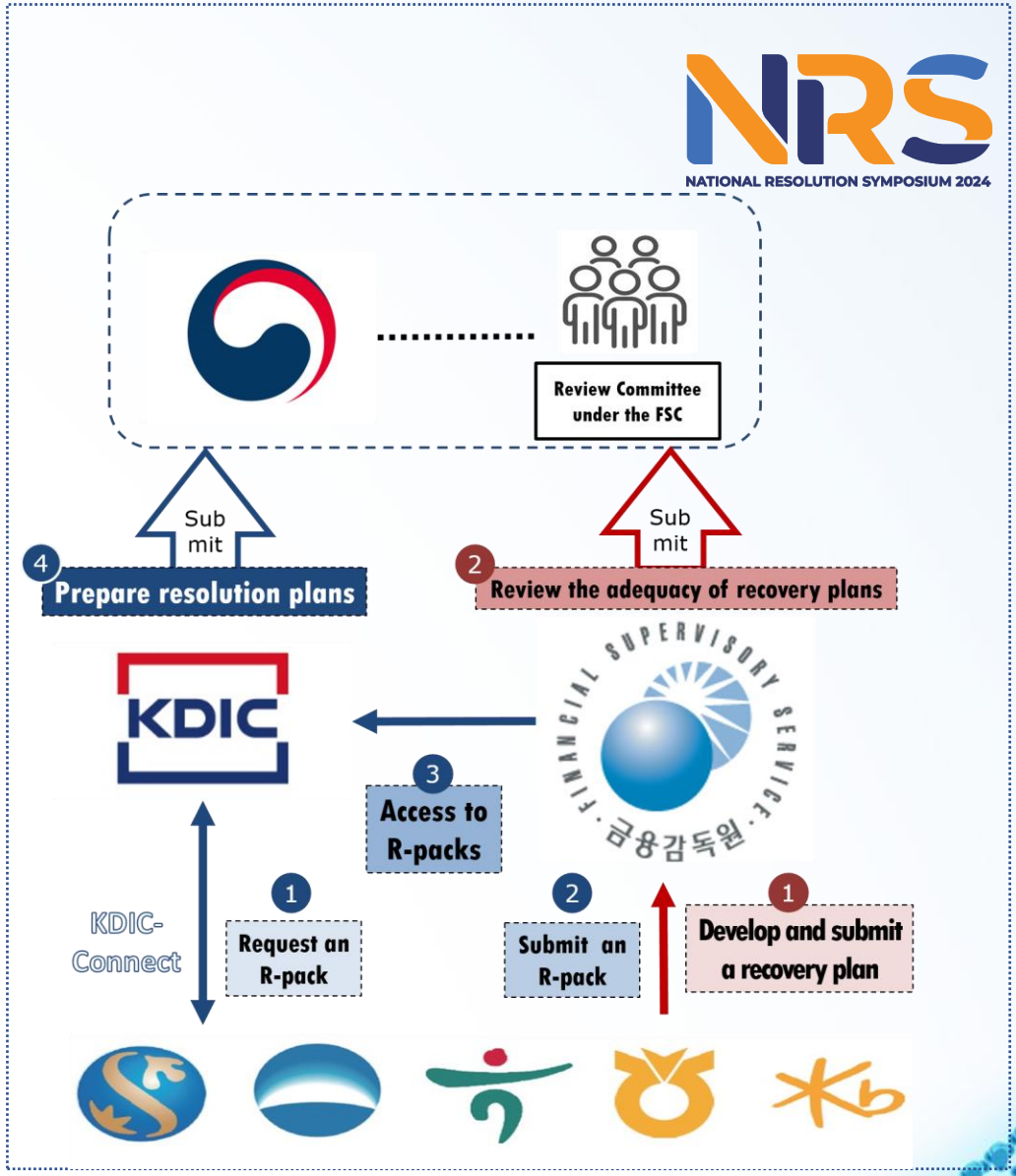
【 Recovery Plan 】

A SIFI writes a recovery plan to identify options to restore its financial health in a crisis situation. The FSS assesses its adequacy and submits the plan and an evaluation report to the FSC.

【 Resolution Plan 】

In case a SIFI cannot restore its financial strength, a resolution plan should be in place to facilitate its resolution without severe disruption of financial markets. The KDIC is responsible for preparing resolution plans as a resolution authority and submitting them to the FSC.

After the plans are examined by the Review Committee, the FSC decides to approve or reject a recovery/resolution plan.



How the Plans Are Connected

RRP should be viewed as a package. If a recovery plan fails to return a distressed SIFI to soundness, then resolution authorities will apply a resolution plan. As such, recovery plans and resolution plans must be closely aligned and cannot be thought of separately.

KDIC's procedures of resolution planning (1/2)

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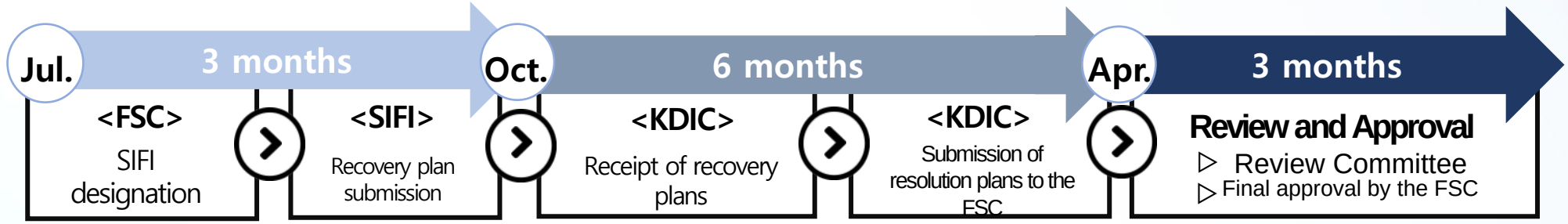
Meaning

A plan that resolution authorities have in place to **resolve a SIFI** in an **orderly** fashion while **keeping market disruption to a minimum**

Targets and Timeline

D-SIFIs: systemically important financial institutions (bank holding companies and banks)

※ 5 financial holding firms and 5 banks including Shinhan, KB, Hana, Woori and NH were designated as SIFIs (Jul, '23).



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KDIC's procedures of resolution planning (2/2)

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Internal Process

Complete a draft resolution plan → Advice from the Advisory Committee → Revise and prepare a final draft → Report to the CEO → Submit to the FSC

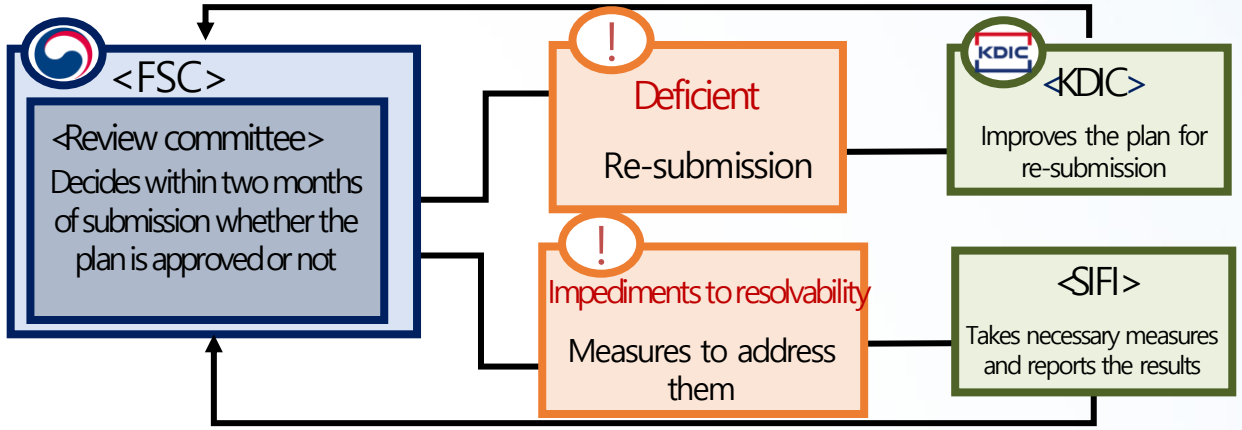
Review

Review by the Review Committee under the FSC

Approval

Final approval by the FSC

Resolution Plan Review Process



"Plans are worthless, but planning is everything"

- D. Eisenhower -

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Malaysia's journey in resolution planning...

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Foundational Phase

Pilot Testing

Industry-wide Consultation

RCP & RSP roll-out to industry (in phases)

2016 – 2017

Joint development of policy frameworks

- FSB Key Attributes gap assessment
- Establishment of BNM-PIDM Joint Committee for Recovery & Resolution Planning (RRP)
- Development of RCP and RSP Frameworks

2017 – 2022

Pilot exercise & Industry Consultation

- RCP Pilot with selected Banks (2017-2019)
- RSP Pilot with selected Banks (2019 – 2021)
- RCP Industry Consultation (2020 – 2021)
- RSP Industry Consultation (2022)
- BNM issued RCP Policy Document (2021)

2023 - 2024

RCP & RSP industry wide roll-out (in phases)

- PIDM issued RSP Guidelines (2023)
- Phase-1 DTMs (P1D) RCP received (30 June 2023)
- On-going RCP assessment on P1D by BNM & PIDM
- Phase-2 DTMs (P2D) RCP received (30 June 2024)
- Hosted CMG for DSIB (1 August 2024)

2025 & onwards ...

PIDM to commence RSP in phases in line with BNM RCP

Key differences between Recovery Planning and Resolution Planning….

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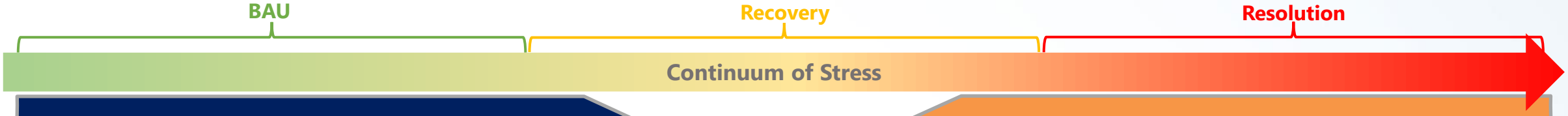
RCP and RSP are two separate, but inter-related risk management planning tool.



	RECOVERY PLANNING (RCP)		RESOLUTION PLANNING (RSP)
What	Process to develop and maintain a recovery plan that is executable by the bank when necessary to restore the financial soundness and long-term viability of the bank under severe stress – enhance recoverability		**An Iterative process** aimed to enhance crisis preparedness and readiness to carry out a prompt and effective resolution ▪ **Member bank** – Enhance bank's readiness to support resolution ▪ **PIDM** – Customized resolution plan for each member bank
Why	Complement the existing risk management framework of the bank, and extend beyond the DTM's risk appetite to ensure the bank has a wide range of recovery options – intended to enhance recoverability of the bank		An extension from recovery planning, in the event the bank is no longer viable, to ensure that each bank is capable of being resolved in a prompt and orderly manner in line with PIDM's resolution objectives – Optionality & flexibility for swift decision
When	Developed during **BAU**, to be executed during recovery phase		Developed during **BAU**, to be executed in resolution
Who	Developed and owned **by member bank** (supervised by BNM)		Developed and owned **by PIDM** (supported by member bank)

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Malaysia's approach to resolution planning…

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Key design features & principles

Malaysia's industry landscape & uniqueness:

- ✓ Funding structure – deposits based
- ✓ Islamic banking and shariah considerations

"Transfer" is the presumptive pathway for all member banks. RSP is to ensure all member banks are "transfer-ready"

- ✓ Ensure continuity of critical functions, minimise disruptions to financial system, preserve value & public confidence

Guiding principles: (a) minimise duplication & reporting burden; (b) principle of proportionality; (c) tailored and targeted approach; (d) consultative & iterative approach (in line with market knows best approach)

PIDM will develop the resolution plan, with input from member banks

- ✓ PIDM to introduce Resolvability Assessment Framework (RAF) to guide the resolution planning process

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Resolvability assessment and Resolution capabilities

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EU's framework of requirements for resolvability assessment

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EBA EUROPEAN BANKING AUTHORITY — LSI, SI

SRB Single Resolution Board — SI

BaFin — LSI

EBA Resolvability Guidelines (2022/01, 2023/05)	SRB Expectations for Banks	Circular on Resolvability
Handbook for Valuation	Framework for Valuation	Circular on Valuation
	Bail-in Datasets, Operational Guidance: Bail-in Playbooks	Circular on Bail-in
EBA Guidelines on bail-in mechanics (2023/01)	Reflecting bail-in in the books of ICSDs	Guidance Notice External Bail-in Execution, Guidance Notice on trade suspension
EBA Transferability Guidelines (2022/11)	Operational Guidance: Separability for transfer tools	Circular on Transfer Tools

Comprehensive approach for LSIs

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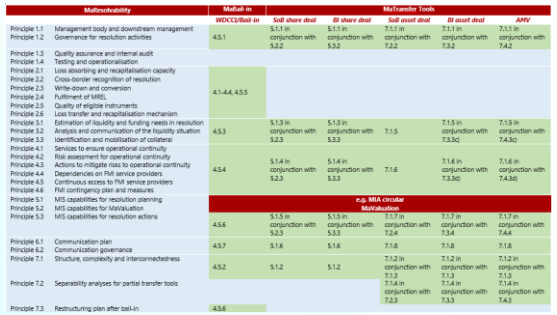
Requirements

Framework (Circular/Guidance Notice)

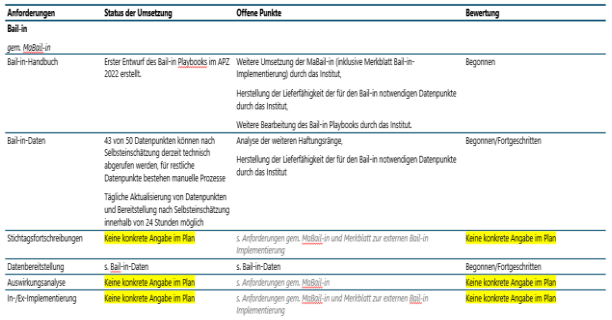
Matrix of requirements



Mallesch	MaBail-in	MaTransfer Tools				
	WDCC/Bail-in	Soll share deal	BI share deal	Soll asset deal	BI asset deal	AMV
Principle 1.1 Management body and downstream management		5.1.1 in conjunction with 5.2.2	5.1.1 in conjunction with 5.3.2	7.1.1 in conjunction with 7.2.2	7.1.1 in conjunction with 7.3.2	7.1.1 in conjunction with 7.4.2
Principle 1.2 Governance for resolution activities	4.5.1					
Principle 1.3 Quality assurance and internal audit						
Principle 1.4 Testing and operationalisation						
Principle 2.1 Loss absorbing and recapitalisation capacity						
Principle 2.2 Cross-border recognition of resolution						
Principle 2.3 Write-down and conversion	4.1-4.4, 4.5.5					
Principle 2.4 Fulfilment of MREL						
Principle 2.5 Quality of eligible instruments						
Principle 2.6 Loss transfer and recapitalisation mechanism						
Principle 3.1 Estimation of liquidity and funding needs in resolution		5.1.3 in conjunction with 5.2.3	5.1.3 in conjunction with 5.3.3	7.1.5	7.1.5 in conjunction with 7.3.3c	7.1.5 in conjunction with 7.4.3c
Principle 3.2 Analysis and communication of the liquidity situation	4.5.3					
Principle 3.3 Identification and mobilisation of collateral						
Principle 4.1 Services to ensure operational continuity						
Principle 4.2 Risk assessment for operational continuity						
Principle 4.3 Actions to mitigate risks to operational continuity		5.1.4 in conjunction with 5.2.3	5.1.4 in conjunction with 5.3.3	7.1.6	7.1.6 in conjunction with 7.3.3d)	7.1.6 in conjunction with 7.4.3d)
Principle 4.4 Dependencies on FMI service providers	4.5.4					
Principle 4.5 Continuous access to FMI service providers						
Principle 4.6 FMI contingency plan and measures						
Principle 5.1 MIS capabilities for resolution planning		e.g. MIA circular MaValuation				
Principle 5.2 MIS capabilities for MaValuation						
Principle 5.3 MIS capabilities for resolution actions		5.1.5 in conjunction with 5.2.3	5.1.5 in conjunction with 5.3.3	7.1.7 in conjunction with 7.2.4	7.1.7 in conjunction with 7.3.4	7.1.7 in conjunction with 7.4.4
	4.5.6					
Principle 6.1 Communication plan						
Principle 6.2 Communication governance	4.5.7	5.1.6	5.1.6	7.1.8	7.1.8	7.1.8
Principle 7.1 Structure, complexity and interconnectedness						
	4.5.2	5.1.2	5.1.2	7.1.2 in conjunction with 7.1.3	7.1.2 in conjunction with 7.1.3	7.1.2 in conjunction with 7.1.3
Principle 7.2 Separability analyses for partial transfer tools				7.1.4 in conjunction with 7.2.3	7.1.4 in conjunction with 7.3.3	7.1.4 in conjunction with 7.4.3
Principle 7.3 Restructuring plan after bail-in	4.5.6					

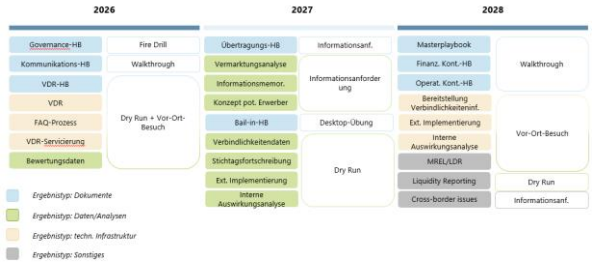
Planning and Testing

Resolution planning status



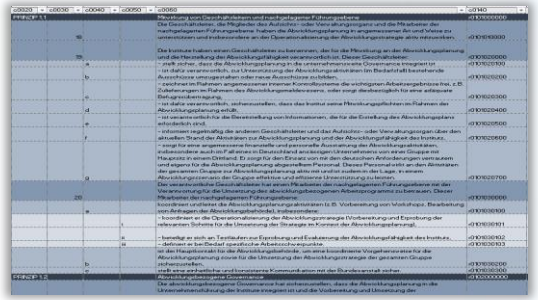
Anforderungen	Status der Umsetzung	Offene Punkte	Bewertung
Bail-in			
gem. MaBail-in			
Bail-in-Handbuch	Erster Entwurf des Bail-in Playbooks im AFZ 2022 erstellt.	Weitere Umsetzung der MaBail-in (inklusive Merkblatt Bail-in-Implementierung) durch das Institut, Herstellung der Lieferfähigkeit der für den Bail-in notwendigen Datenpunkte durch das Institut, Weitere Bearbeitung des Bail-in Playbooks durch das Institut.	Begonnen
Bail-in-Daten	43 von 50 Datenpunkten können nach Selbsteinschätzung derzeit technisch abgerufen werden, für restliche Datenpunkte bestehen manuelle Prozesse Tägliche Aktualisierung von Datenpunkten und Bereitstellung nach Selbsteinschätzung innerhalb von 24 Stunden möglich	Analyse der weiteren Haftungsräume, Herstellung der Lieferfähigkeit der für den Bail-in notwendigen Datenpunkte durch das Institut	Begonnen/Fortgeschritten
Stichtagsfortschreibungen	Keine konkrete Angabe im Plan	s. Anforderungen gem. MaBail-in und Merkblatt zur externen Bail-in Implementierung	Keine konkrete Angabe im Plan
Datenbereitstellung	s. Bail-in-Daten	s. Bail-in-Daten	Begonnen/Fortgeschritten
Auswirkungsanalyse	Keine konkrete Angabe im Plan	s. Anforderungen gem. MaBail-in	Keine konkrete Angabe im Plan
In-/Ex-Implementierung	Keine konkrete Angabe im Plan	s. Anforderungen gem. MaBail-in und Merkblatt zur externen Bail-in Implementierung	Keine konkrete Angabe im Plan

Testing

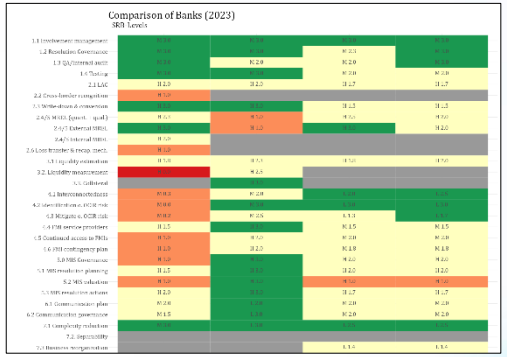


Resolvability Assessment

Assessment



Heatmap



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Dimensions and principles of resolvability

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Dimensions	Principles	
Dimension 1: Governance	Principle 1.1	Management body and downstream management
	Principle 1.2	Governance for resolution activities
	Principle 1.3	Quality assurance and internal audit
	Principle 1.4	Testing and operationalisation
Dimension 2: Loss absorbing and recapitalisation capacity	Principle 2.1	Loss absorbing and recapitalisation capacity
	Principle 2.2	Cross-border recognition of resolution
	Principle 2.3	Write-down and conversion
	Principle 2.4	Fulfilment of MREL
	Principle 2.5	Quality of eligilbe instruments
	Principle 2.6	Loss transfer and recapitalisation mechanism
Dimension 3: Liquidity and funding in resolution	Principle 3.1	Estimation of liquidity and funding needs in resolution
	Principle 3.2	Analysis and communcation of the liquidity situation
	Principle 3.3	Identification and mobilisation of collateral
Dimension 4: Operational continuity in resolution and access to FMIs	Principle 4.1	Services to ensure operational continuity
	Principle 4.2	Risk assessment for operational continuity
	Principle 4.3	Actions to mitigate risks to operational continuity
	Principle 4.4	Dependencies on FMI service providers
	Principle 4.5	Continuous access to FMI service providers
	Principle 4.6	FMI contingency plan and measures
Dimension 5: Information systems and data requirements	Principle 5.1	MIS capabilities for resolution planning
	Principle 5.2	MIS capabilities for valuation
	Principle 5.3	MIS capabilities for resolution actions
Dimension 6: Communication	Principle 6.1	Communication plan
	Principle 6.2	Communication governance
Dimension 7: Separability and restructuring	Principle 7.1	Structure, complexity and interconnectedness
	Principle 7.2	Separability analyses for partial transfer tools
	Principle 7.3	Restructuring plan after bail-in

EBA Resolvability Guidelines (2022/01, 2023/05)

SRB Expectations for Banks

Circular on Resolvability

Matrix of requirements

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Circulars/Guidance Notices

- Circular on Resolvability
- Circular on Valuation
- Circular on Bail-in
- Circular on Transfer Tools

Matrix of requirements

Circular on Resolvability		Circular on Bail-in	Circular on Transfer Tools				
		WDCCI/Bail-in	*SoB Share Deal*	*BI Share Deal*	*SoB Asset Deal*	*BI Asset Deal*	*AMV*
Principle 1.1 Principle 1.2	Management body and downstream management Governance for resolution activities	4.5.1	5.1.1 in conjunction with 5.2.2	5.1.1 in conjunction with 5.3.2	7.1.1 in conjunction with 7.2.2	7.1.1 in conjunction with 7.3.2	7.1.1 in conjunction with 7.4.2
Principle 1.3 Principle 1.4	Quality assurance and internal audit Testing and operationalisation						
Principle 2.1 Principle 2.2 Principle 2.3 Principle 2.4 Principle 2.5 Principle 2.6	Loss absorbing and recapitalisation capacity Cross-border recognition of resolution Write-down and conversion Fulfilment of MREL Quality of eligilbe instruments Loss transfer and recapitalisation mechanism	4.1-4.4, 4.5.5					
Principle 3.1 Principle 3.2 Principle 3.3	Estimation of liquidity and funding needs in resolution Analysis and communcation of the liquidity situation Identification and mobilisation of collateral	4.5.3	5.1.3 in conjunction with 5.2.3	5.1.3 in conjunction with 5.3.3	7.1.5	7.1.5 in conjunction with 7.3.3c)	7.1.5 in conjunction with 7.4.3c)
Principle 4.1 Principle 4.2 Principle 4.3 Principle 4.4 Principle 4.5 Principle 4.6	Services to ensure operational continuity Risk assessment for operational continuity Actions to mitigate risks to operational continuity Dependencies on FMI service providers Continuous access to FMI service providers FMI contingency plan and measures	4.5.4	5.1.4 in conjunction with 5.2.3	5.1.4 in conjunction with 5.3.3	7.1.6	7.1.6 in conjunction with 7.3.3d)	7.1.6 in conjunction with 7.4.3d)
Principle 5.1 Principle 5.2 Principle 5.3	MIS capabilities for resolution planning MIS capabilities for valuation MIS capabilities for resolution actions	e.g. MIA circular Circular on Valuation 4.5.6	5.1.5 in conjunction with 5.2.3	5.1.5 in conjunction with 5.3.3	7.1.7 in conjunction with 7.2.4	7.1.7 in conjunction with 7.3.4	7.1.7 in conjunction with 7.4.4
Principle 6.1 Principle 6.2	Communication plan Communication governance	4.5.7	5.1.6	5.1.6	7.1.8	7.1.8	7.1.8
Principle 7.1	Structure, complexity and interconnectedness	4.5.2	5.1.2	5.1.2	7.1.2 in conjunction with 7.1.3	7.1.2 in conjunction with 7.1.3	7.1.2 in conjunction with 7.1.3
Principle 7.2	Separability analyses for partial transfer tools				7.1.4 i in conjunction with 7.2.3	7.1.4 in conjunction with 7.3.3	7.1.4 in conjunction with 7.4.3
Principle 7.3	Restructuring plan after bail-in	4.5.6					

The matrix of requirements sets out which requirements must be complied with per resolution tool/strategy

Translating the requirements into deliverables

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Preparation of deliverables

Institutions

Deliverables	Circular on Valuation *Valuation*	Circular on Bail-in *WDCCI/Bail-in*	Circular on Transfer Tools *BI Share Deal*	*SoB Share Deal*	*SoB Asset Deal*	*BI Asset Deal*	*AMV*
Technical documents; What processes need to be prepared?	Master playbook						
	VDR playbook	Bail-in playbook	Transfer playbook				
		Financial continuity playbook Oerational continuity playbook Commnunication playbook Governance playbook					
Data and analyses; What information needs to be provided in a resolution?	Valuation data	Liability data Reporting date updates Internal impact analysis External bail-in implementation Restructuring plan	Marketing analysis				n.a.
			n.a.	Information memorandum Approach concerning potential acquirers		n.a.	n.a.
			n.a.		Separation data Separation information		
Technical/organisational infrastructure; What systems need to be available for a resolution?	VDR FAQ process VDR servicing	Provision of information on liabilities Internal impact analysis In-/Ex implementation	n.a.	VDR FAQ process VDR servicing		n.a.	
				n.a.	Separation analysis		

Documentation in the resolution plan

Resolution Authority

- Table with **Status Quo**, open issues and planned actions

  → Focus: Documentation of the state of implementation and identification of potential challenges and risks

- **No repetition** of institutions' playbooks

  → Avoiding duplication, focus on analysis

Derived from the matrix of requirements, institutions must prepare deliverables in accordance with their resolution strategy. Where relevant, deliverables may be combined to serve multiple purposes.

HKMA's resolution planning – Ensuring financial resources for resolution (1/2)

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Loss-absorbing Capacity (LAC)

Policy objective

- To strengthen banks' financial resources for loss-absorption and recapitalisation in resolution, such that losses can be borne by shareholders and certain creditors, rather than taxpayers

Observations

- Build-up of a new layer of non-capital LAC debt resources by D-SIBs (5.7% of RWA); total LAC resources of D-SIBs stood at 26.3% of RWA at end-2023
- Features of these instruments
- Interaction between capital and LAC regime
- Management of LAC resources
- Issuance challenges for non-G-SIBs; one of these banks issued the first non-capital LAC debt instrument in the Asia ex-Japan bond market in 2022

HKMA's resolution planning – Ensuring financial resources for resolution (2/2)

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Liquidity and Funding in Resolution

Policy objective

- To strengthen banks' capabilities to report and project liquidity needs and positions in resolution, as well as to identify and mobilise collateral for meeting such liquidity needs

Observations

- Timeliness of liquidity position reporting
- Scope and methodology of projection
- Interaction across barriers to resolvability
- Timeliness and flexibility of scenario analysis
- Collateral management system and information
- Cross-border/intra-group liquidity flow and regulatory requirements
- Testing and assurance, including access to HKMA liquidity facilities

HKMA's resolution planning – Ensuring business continuity in resolution (1/2)

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Operational continuity in resolution (OCIR)

Policy objective

- To ensure banks put in place arrangements to secure the continuity of services that are essential to the performance of critical financial functions and to support orderly resolution

Observations

- Coverage, scale and approach of implementation
- Service delivery models
- End-to-end service mapping and service catalogue
- Resolution-proof terms for OCIR and remediation challenges
- OCIR policies, playbook and testing
- Integrating OCIR capabilities into BAU and commercial benefits

HKMA's resolution planning – Ensuring business continuity in resolution (2/2)

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Early termination risk in resolution (Stays)

Policy objective

- To avoid massive, disorderly early termination of financial contracts of a bank in resolution via contractual remediation and other measures

Observations

- Adherence to the Hong Kong Jurisdictional Module of the ISDA Resolution Stay Jurisdictional Modular Protocol
- Bilateral amendment of contracts with counterparties
- Cross-border client outreach and negotiation effort with non-bank FIs and corporates
- Systems of control and ongoing compliance
- Holistic understanding including residual risk, and management of early termination risk in resolution

HKMA's resolution planning – Ensuring crisis readiness

NATIONAL RESOLUTION SYMPOSIUM 2024

Crisis readiness

Policy objective

- To ensure effective oversight and timely decision-making, proper staffing for key roles, clear communication with stakeholders, and overall resolution readiness by banks

Observations

- Development of critical staff retention strategy, resolution governance framework & playbook, and communication plan
- Barrier-specific and integrated testing, walkthrough and simulation exercises
- Familiarity with MI reporting to support relevant decision-making
- Challenges posed by time zone differences
- Fiduciary duty and potential conflict between multiple directorship capacities
- Interaction with recovery planning

Resolvability assessment from Korea's perspective

NATIONAL RESOLUTION SYMPOSIUM 2024

Purpose

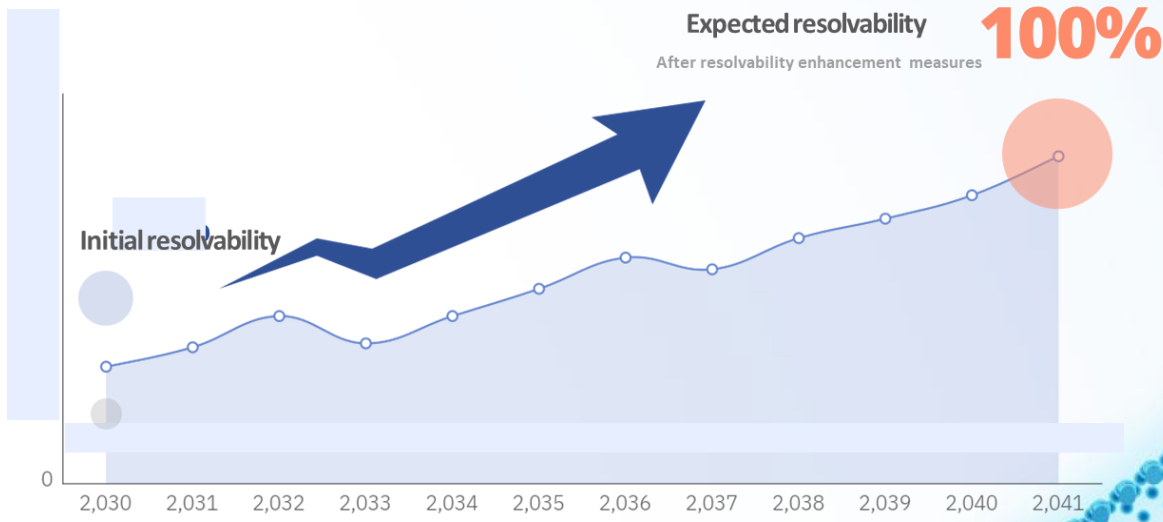
① List up the potential impediments identified in previous stages
② See if they will pose real challenges to executing the resolution strategy, and
③ Determine which need to be removed and how to address them

Scenario-oriented (X)
(Scenario Business)

Focus on impediments to resolvability (O)
(Capability Business)

"Over time, we learned that whatever scenarios the firm picks is most certainly not going to be the real one and we (FDIC) started taking ourselves more into the capability business"

- Said the Director of the Office of Complex Financial Institutions during an FDIC Advisory Committee meeting (Dec. '18) -



Financial continuity

Purpose

Options to raise funds to pay for the **estimated costs of resolution** to ensure the successful implementation of the resolution strategy

Potential sources of funding for resolution costs

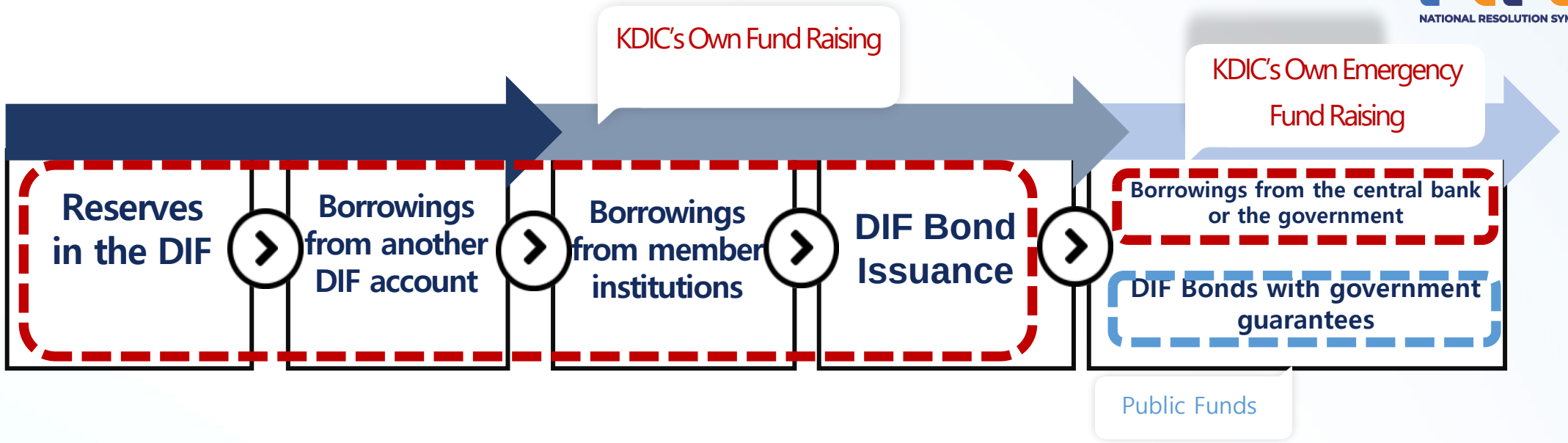
KDIC's own funding sources

External sources

Steps to recover the funds and make up for losses

- (Own) DI Fund (undrawn amount of credit lines, borrowings from another account of the DIF, expansion of the cap on between-account transactions, etc.) and issue of DIF bonds without guarantees
- (External) Borrowings from the Bank of Korea and public funds raised by issuing government-guaranteed bonds

Financial continuity



- First tap into the funding sources available to the KDIC

  ※ The numbers presented here are estimates based on currently available data. In a real crisis situation, the KDIC may need to borrow funds from the central bank or the government.

- Ask the government for emergency funding in the form of public funds, etc.

- (Projected) Resolution costs in case a SIFI is resolved through OBA

Classification					
Fund Injected					
Net Injection Amount					

Operational continuity

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Purpose

Understand the resources needed to maintain critical functions in resolution and actions for keeping them in operation

Essential Elements

1. Critical shared services

2. Financial Market Infrastructures (FMIs): payment, settlement and other functions

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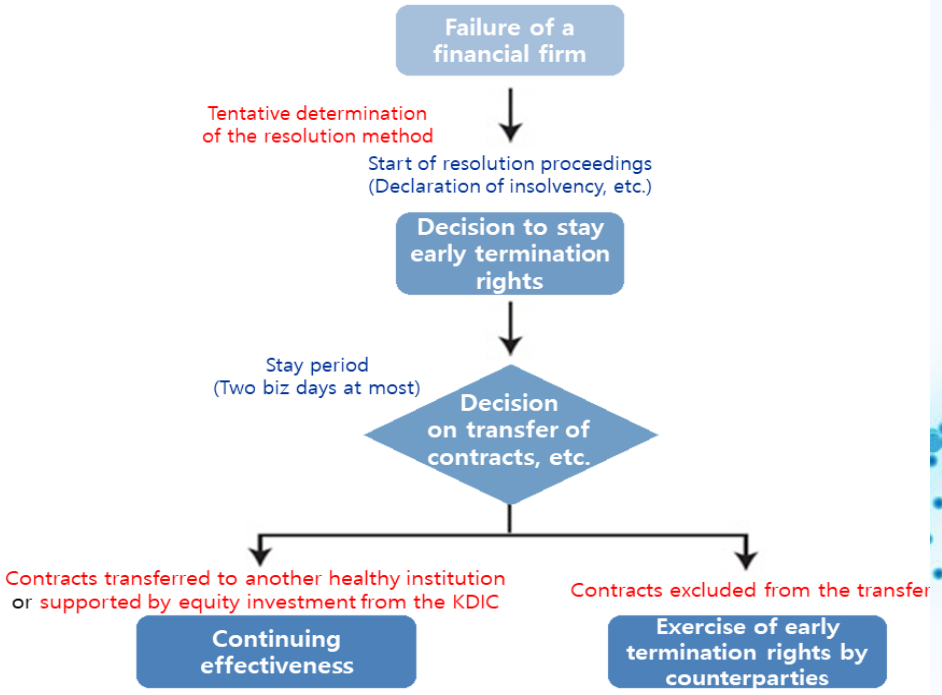
Continuous Linked Settlement

3. Keeping financial contracts (e.g. derivatives contracts) alive: See which qualified financial transactions of the SIFI would be subject to a temporary stay

Critical shared services are activities performed within the firm or outsourced to third parties where failure would lead to the inability to perform critical functions and, therefore, to the disruption of functions vital for the functioning of the real economy or for financial stability.

【How a Temporary Stay Would Work】



Achieving greater resolvability

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Impedi-ments

Some FMIs may restrict access to their services when a SIFI's finances sharply deteriorate, to prevent damages to their other members.

Resolution regimes differ from host country to host country and some countries have shortfalls in their systems. Therefore, we haven't yet developed a clear understanding of the resolution issues facing foreign branches of domestic SIFIs.

Contracts that do not provide for temporary stays may be terminated early and negatively impact the market.

Steps to Address Them

Agreements with FMI operators to ensure access to payment and settlement systems

Together, the KDIC and relevant SIFIs can try to understand the resolution regimes of existing host countries. And before entering new markets, SIFIs will need to consult with the KDIC and other authorities beforehand.

Consider requiring framework agreements to specify that resolution authorities have the power to impose a temporary stay

Overview of Resolvability Assessment and Expectations

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WHAT is Resolvability?

- Resolvability means creating the conditions for successfully resolving an DTM in crisis, or allowing it to exit the market effectively, **without jeopardising financial stability**.

HOW to assess resolvability?

- PIDM outlines the capabilities and arrangements that the DTM should possess to support resolution *(Resolvability Expectations)*
- DTMs assess the degree to which the requirements for the capabilities and arrangements are met and proposes measures to address impediments. *(Remediation Action Plan)*

SEVEN (7) RESOLVABILITY EXPECTATIONS

Operational Continuity in Resolution	Access to FMIs	Data and MIS	Liquidity in Resolution	Governance	Communication	Shariah Continuity in Resolution
• Ensure continuity of critical shared services, material operational services and/ or underlying operational assets that support the functioning of critical functions or core business lines	• Ensure continued access to critical clearing, payment, settlement, custody and other services provided by Financial Market Infrastructure (FMI)	• Ensure adequate MIS and technological infrastructure are in place to provide the information on a granular and timely basis	• Ensure capabilities have been built for measurement and reporting of liquidity and funding needs on a T+1 basis and identification and mobilization of assets for use as collateral	• Ensure robust governance arrangements have been put in place	• Ensure robust communication strategies have been put in place	• Ensure continuity of Islamic finance contracts or other Islamic specificities to facilitate a transfer or any other strategy in resolution

PIDM and DTM are expected to work closely in developing the necessary resolvability capabilities in line with the Resolvability Expectations by PIDM

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Collaboration in Resolution Planning

PIDM
Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

Cooperation, collaboration and communication with key stakeholders - one of the key success factors

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	Promote confidence to financial system PRE	Effective resolution to minimise impact POST
Public	• **Public awareness, understanding and confidence**	• **Continued access to deposits** • **Mitigate potential run** (avoid confidence issue & contagion)
Member Institutions	• **Member institutions play crucial role** - RSP & resolvability assessment – building operational capabilities and resilience - Directors can play a more active role	• Ability to **resolve MI** in an **effective and orderly manner** based on resolution plan
Other relevant authorities (Domestic & international)	• **Inter-agency coordination** • **Cross-border cooperation & coordination**	• **Swift action and decision during crisis**

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THANK YOU

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