LESSONS LEARNED FROM THE BANKING TURMOIL

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Back to basics: sound risk management and strong supervision

The recent banking turmoil has once again shown us that we cannot be complacent and that there is always room for improvement and lessons to be learned (or remembered) when it comes to banking sector-related risks. In this particular case, there is a general consensus that deficiencies in the banks' risk management and governance lay behind the turbulence that arose in some banking ecosystems, especially in the United States. Supervisors have also identified some weaknesses in the implementation of the supervisory framework.

The banking sector is highly leveraged by nature, and it is very prone to bank runs if there is an outbreak of turbulence. Therefore, a sound and well-established governance and risk management framework is a cornerstone for business sustainability. This must include the assessment and implementation of a reliable, viable and profitable business model, which was not the case at the banks concerned.

As has been acknowledged by the US authorities, Silicon Valley Bank's collapse was due to mismanagement. Management was unable to duly manage the extraordinary balance sheet growth, mainly on the liabilities side, improperly exposing the bank to interest and liquidity risks. This unsustainable business model, highly concentrated in deposits, together with unprofitable investments and liquidity mismatches, eroded solvency and trust, triggering a massive withdrawal of deposits. This had a contagion effect to other banks with similar weaknesses. As has been quoted many times, "it takes years to build a reputation and minutes to ruin it".

This is where tough, intrusive and pro-active supervision comes in. As we often point out, supervisors are not bank managers, and sole responsibility for a bank's management lies with its board of directors and senior officers. Nevertheless, the supervisors' oversight role is extremely important. We have to challenge banks' business models, specifically whether they are profitable, reliable and sustainable over the years. We must understand and agree on the multiyear business plans, including the risk appetite framework and capital projections. Such plans should include how banks will adjust to the new environment, not only in terms of macroeconomic forecasts, but also vis-à-vis trends such as digitalisation and the emergence of new competitors and risks.

Moreover, in the event of deficiencies, the supervisory authorities must be empowered and determined to dissuade banks from certain types of risky or unsustainable activities/ business lines and, if necessary, enforce all the required measures on time so as to avoid or mitigate these activities.

Although some considerations are being discussed about the need to fine-tune the regulations, at this point in time we must recognise that, without such deficiencies, these recent events would not have occurred. Regardless of regulations, management should run banks in a prudent manner, taking into account and properly addressing all the risks that the banking sector faces. For this reason, I would put management and supervision at the forefront of the causes of this turbulent episode.

Adequate risk management and strong supervision are key to ensuring banking sector soundness.

Aside from the general principle that robust management and a strong supervision framework are two of the main pillars of banking sector stability, there are some takeaways that the EU authorities could consider:

- Assess how liquidity management and supervision could be boosted. We must acknowledge that liquidity has probably changed more than we think. Therefore, supervisors must consider a wide range of tools and metrics, including funding plans and counterbalancing capacity.
- Better assess how factors such as high deposit base concentration and reliance on uninsured deposits could be considered in our supervision and if they could trigger new qualitative or quantitative liquidity measures in the SREP.
- Continue to work on coordinating and collaborating with international authorities.
- Enhance the crisis management framework. The current CMDI review is an opportunity we should leverage to manage crises in a more efficient and harmonised way.

In conclusion, although this turmoil has led the authorities to reflect on its potential regulatory implications, the main focus should be on ensuring an adequate management culture and a strong supervisory framework. These are basic elements and the cornerstone of a sound banking system. Experience time and again shows us that liquidity is the deathblow that triggers banking failures. For that reason, it is an aspect that can never be underestimated. Indeed, sound liquidity management and risk-based supervision are essential.

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The recent banking turmoil calls for evolution rather than revolution

The banking turmoil in the US and Switzerland earlier this year had plenty of noteworthy aspects. First Republic Bank, which collapsed shortly after Silicon Valley Bank, was the largest bank to fail since the great financial crisis, while Credit Suisse was the first global systemically important bank to face such a severe crisis since the introduction of a resolution framework. Both US banks and Credit Suisse experienced unprecedented bank runs leading to massive deposit outflows.

Following these events, it is important to reflect on the global and the EU resolution frameworks. These reflections are already taking place at global level. The FSB has embarked on a fact-finding exercise and the Single Resolution Board (SRB) is a key contributor to this exercise. From the SRB perspective, we already drew some initial lessons in particular in three areas - (i) communication and cooperation between authorities; (ii) liquidity; (iii) preparedness to use the resolution tools.

Word travels fast, across borders, in our interconnected world. A hint from a shareholder or the actions by one authority ripple through the global financial system in a frictionless way. Authorities should bear this in mind and deepen their work on communication plans (for themselves and for the banks). To ensure information sharing, international co-operation for internationally systemic banks should be further enhanced, including in cases where a resolution authority is not in a Crisis Management Group (CMG), or where the CMG is not activated/non-existing. The failure of a systemic bank could cause instability even in places where the bank does not operate directly. While it is not possible to envisage all scenarios given the differences of crisis cases, we should however continue the cooperation across the authorities involved, in order to be ready to spring into action where needed.

International cooperation should go together with cooperation between supervisors and resolution authorities. For example, the joint SRB-ECB-EBA press release providing information on the EU hierarchy of liabilities for loss-absorbency helped reestablish calm in the EU AT1 markets after the write down of Credit Suisse's AT1 instruments on worse terms than shares. More generally, to establish trust, stakeholders should feel that supervision and resolution authorities act seamlessly - as one.

Unsurprisingly, liquidity proved once more to be vital to restore stability. With financial stability in mind, both the Swiss and the American authorities moved swiftly and decisively to provide liquidity. In the EU, the SRB has been working with the banks to improve their ability to identify and mobilise collateral in case of need. Even if banks are very well prepared, we cannot rule out that their liquidity will not be enough in time of crisis. This is especially true considering the sort of rapid bank runs that we have seen in the US and Switzerland. In times of need, our Single Resolution Fund (SRF) stands ready to provide liquidity. The SRF has now reached nearly €80 billion, and its firepower will almost double if the revised ESM Treaty is ratified. Yet, the liquidity needs of a global bank may go even beyond the SRF means. We stand ready to find a solution for these extreme cases. Likely, having a liquidity line in place ex-ante can reduce the needs to actually draw on it.

Finally, resolution tools need to be ready to use. The SRB successfully concluded a sale after writing down and converting shareholders and junior bondholders in the case of Banco Popular in 2017, and sold two subsidiaries of Sberbank last year. In the US and Switzerland, transfers proved to be effective even for larger banks. This, however, does not make bail-in less of a priority. Rather, it shows that we need to be nimble, with backup options in our resolution strategies. We should be able to switch or combine tools to respond effectively to each situation.

We do not call for a fundamental overhaul of the EU framework but rather for its completion.

Communication and cooperation between authorities, liquidity and preparedness to use resolution tools are not newly discovered issues. These issues were part of the FSB Key Attributes and the EU resolution framework, and the recent cases show that the global and EU framework have stood the test of time. This is why we do not call for a fundamental overhaul of the framework but rather its completion.

For the Banking Union, this means, beyond working on the three issues above, achieving an ambitious and coherent compromise on the ongoing review of the Crisis Management and Deposit Insurance review and making steps towards a common deposit insurance framework.

HIROHIDE KOUGUCHI

Executive Director - Bank of Japan

Lessons learned from the recent banking events

The lessons learned from the recent banking events are being discussed and analyzed in various global fora. I would like to show my own tentative views on what they may mean to global financial stability going forward. I have four points to argue.

First, from a regulatory point of view, the Basel framework has contributed well to mitigate the negative spillover of those idiosyncratic events in the global financial system. Without enhanced capital and liquidity requirements, the banking turmoil contagion should have been much exacerbated. I would like, therefore, to reiterate the importance of full, timely and consistent implementation of all aspects of the Basel standards. This should remain a clear priority for supervisors and regulators around the world. There is an argument in support of further strengthening regulatory requirements to prevent similar events in the future. I do not agree with the idea, however, not least because it would simply induce leakage to less-regulated nonbank financial institutions, thereby potentially eroding global financial stability.

Second, from a supervisory point of view, many challenges have been put on the table. Regulation cannot be a substitute for supervision, because we need a bespoke approach that takes into account a variety of risk profiles of financial institutions. Effective supervision should play a key role to enhance the resilience of global financial system. The vulnerabilities of recently failed banks in business model, governance and risk management were quite idiosyncratic but too essential to ignore. How supervisors can conduct on-site examinations appropriately and prompt banks' management to address expeditiously recognized vulnerabilities, therefore, will be a major challenge down the road. With respect to interest rate risk on banking accounts and liquidity risk, effective pillar two approach is also the key. For example, supervisors can prompt banks that carry too much interest rate risk to reduce it by duration control, diversifying maturities of bond holdings or utilizing hedge measures. With respect to liquidity risk, supervisors should require banks to analyze stickiness of their deposits, conduct stress testing in more stringent scenarios, make necessary arrangements to access central banks' standing facilities in advance, and equip themselves with reliable contingency funding plan.

Third, the resolution plan for G-SIBs was not tested in case of Credit Suisse whereas we recognized some practical issues. In order to address them, communication at ordinary times among authorities to warrant workability of the plan is significant. Since the experience with Credit Suisse has suggested that we may have less time to implement the plan than previously thought, we should reconfirm the practical procedures in advance as necessary.

Fourth, markets' and depositors' loss of confidence in solvency of banks tends to trigger instantaneous bank-runs, especially now that social media and digital banking are so prevalent. Under such circumstances, banks immediately lose their franchise values, and once market participants recognize this, they would start assessing banks' assets and liabilities on mark-to-market or at resolution values. Such risk is in a sense intrinsic to banking activities, since financial intermediation inherently involves maturity and liquidity transformation. The challenge is, however, the speed of contagion of anxiety and subsequent deposit withdrawal. In order to maintain confidence in banks as well as financial systems under current circumstances, the safety net, including lender-of-last-resort function of central banks, well-designed deposit insurance frameworks and other forms of public backstops as needed and appropriate, will play a key role. At the same time, we need to address the moral hazard issue by introducing appropriate incentive mechanism.

Effective supervision should play a key role to enhance the resilience of global financial system.

Financial stability is the cornerstone for sustainable growth. The shift from the low-for-longer environment to the higher-for-longer environment has brought about some challenges to global financial stability.

While the Basel standards have materially contributed in improving the resiliency of global financial system, we need to be very vigilant on global financial stability to ensure that financial institutions continue to provide sufficient credits to the real economy.

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Lessons from the turmoil: the urgent is the enemy of the important

In many aspects of life, humans tend to overreact to what is felt as urgent, forgetting what is really important. Therefore, I would like to focus this article on what we thought was important in global regulation and supervision right before the first news about US banks in trouble arrived. After a decade of very significant and structural changes resulting from the global financial crisis, there was a consensus on the need for an active pause, in order to implement the changes and evaluate their effects. We thought it was not the right time to think of new regulation, but rather to refine any piece of the current framework that proved it was not working.

There are many reasons why those ideas are still valid nowadays. First, the turmoil was an idiosyncratic episode caused by banks with very particular business models or situations, of which it is difficult to extract lessons with universal applicability. Second, this has been more an internal risk management and supervisory problem rather than a regulatory one. Maybe one line of action for the future could be to dig in more into supervisory practices and in particular how they could better understand risks embedded in the different business models, tailoring the rules for them. And third, in general terms, it does not make sense to introduce major changes in the EU regulatory framework, which has not been identified as the origin of the problems. Having said this, it is clear that some conclusions from the recent episode can be reflected upon, in order to improve our rules and practices.

First, some changes have been proposed regarding liquidity. Some measures that can be contemplated include putting more emphasis on the concentration of depositors on a single sector, or the level of uncovered deposits, which were not taken into account up to now. However, it is not so clear that a debate should be opened on the LCR or NSFR, which were not applicable to the US banks involved in the turbulence. In Europe we should in any case get an adequate liquidity in resolution tool, because the US or Switzerland are clearly one step ahead of us, which allows them to react very quickly in these situations. The ratification of the ESM as backstop for the Single Resolution Fund is a must, but much more liquidity would be needed in a crisis situation, and it should be provided swiftly.

It would be wrong to conclude that any crisis requires higher capital requirements. Recent events had nothing to do with the solvency levels of the banks involved. There is also debate about whether 'held to maturity' latent losses or gains should be reflected in the capital. Imposing that the capital must always vary due to this cause would be a mistake, as this measure would introduce a significant degree of volatility in the accounts. There is no need to change regulation, as long as supervisors have the information they need to evaluate the institutions.

A different issue is that of proportionality and the scope of application of international standards, where the ball is in the court of jurisdictions like the US, that apply more lenient standards to institutions that in a crisis are deemed to be systemic. In Europe there is a certain degree of proportionality, but most regulations apply to a wide scope of institutions, and recent crises seem to support that approach.

Finally, what we should not do is forget previous lines of work by focusing too much on the lessons from the turmoil. One good example is the revision of the macroprudential policy, and in particular the usability of capital buffers and the right level of the counter cyclical buffer, which has proven to be a difficult topic to agree on. The idea of a positive neutral counter cyclical buffer could work, but the impact should be compensated with the reduction of another buffer in order not to increase overall requirements, since there is no reason to believe that the optimal level of capital has risen.

The reform of the framework was on the right path, so we should not deviate too much.

Additionally, another area where work was intensifying before the turmoil was the framework applicable to Non Banking Financial Intermediaries, especially in the US, where they have access to the Fed. Finally, coming from an international bank that operates in different continents, we think we could also take time to analyze market fragmentation and extraterritoriality a little bit more in depth.

In a nutshell, the reform of the regulatory and supervisory frameworks was on the right path before the turmoil, so we should not deviate too much from it due to the bumps along the way.

FRANCESCO CECCATO
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Europe should focus on its existing financial services priorities

The recent banking turmoil, for want of a better expression, was triggered by individual, bank-specific events. The starting point for the analysis of what went wrong, therefore, needs to be the events themselves, which should lead to some common lessons being drawn.

Credit Suisse's issues have been the subject of extensive commentary. As the dust settles, the focus needs to be on the importance of reliable resolution frameworks as the principle avenue for dealing with a bank in crisis. This is not to criticise the Swiss authorities in any way. When looking at the form of bail-in-able debt on the books, they saw permanent write-down of AT1 bonds, as opposed to convertible instruments, and they used what was available to them.

Despite immediate and constructive statements by the ECB and the BoE, AT1 markets understandably seized up as investors reacted to events. The market has since rebounded, with Barclays leading a €1bn issuance for BBVA being the first real sign that AT1 would continue to have its place in the hierarchy. *Permanent write-down* features are a thing of the past; this form of AT1 is now likely to be history.

The situation in the US was clearly very different and the Federal Reserve has conducted a significant and very thorough analysis of the management and supervisory issues that led to the banking failures. This will lead to a programme of change in the US, which will be implemented over time.

One of the most interesting questions posed by the events in Switzerland and the US relates to the "speed of failure" issue. The velocity of deposit withdrawal does raise questions. There have been suggestions that this was accelerated by the availability of digital banking services, but as Andrea Enria has noted, the deposits that were withdrawn more quickly were those that were uninsured, especially those of non-financial corporations and financial institutions, and it is highly unlikely that the treasurers of these companies use smartphones to move deposits.

Whatever the reasons for increased deposit withdrawal speed, good risk management and diversification are the most obvious ways to ensure that an institution is not impacted. However, increasing the velocity (ability to monetise) of your asset side, both in the market and - as a last resort - with the central bank, is just as important. And what about any (residual) concentration risk? If you allow sectoral or client concentration, does it need to be combined with term structures that penalise the swift withdrawal of funds?

These questions are relevant for the EU too, despite the relative stability of its banking market throughout the events of the Spring. The regulatory framework in Europe was shown to have broadly worked. The European banking sector is highly capitalised and the capital rules are applied widely across the banking sector, rather than to a subset of banks. It has strong liquidity buffers and is increasing the frequency of liquidity reporting. Its supervisory approach is strenuous, and stress testing is conducted against very severe scenarios, even very unlikely ones.

This does not mean that all relevant risks are mitigated in Europe, but it does suggest we do not need broad re-regulation efforts. There are still some technical issues to be considered, for example, on the velocity of the asset side, as mentioned above. Although the Eurosystem's collateral eligibility criteria are broadly relative to other major central banks, perhaps further work needs to be done to harmonise the rules for central bank-eligible collateral across Eurosystem countries. This is particularly relevant for the credit claims framework, and would grant banks more flexibility in terms of accessing Eurosystem credit operations. On the political side, the point of the political cycle that we find ourselves in offers the opportunity to reflect on what the key priorities need to be for the next 5-10 years.

The recent banking turmoil was triggered by individual, bank-specific events.

We need to make more progress on Banking Union beyond the recent crisis management and deposit insurance proposals which are important but, in insolation, insufficient. In addition, we must increase the urgency of our work on Capital Markets Union moving beyond our current focus on a long series of technical tweaks to the European capital markets. Irrespective of recent events, these agendas existed pre-turmoil and their importance now is undiminished.

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Recent events point to the need for targeted reform but no fundamental overhaul

Recent events have put to the test the international regulatory reforms following the Global Financial Crisis (GFC). These reforms have been demonstrated overall to be robust.

While the immediate trigger of recent market turmoil can be identified as an abrupt adjustment to rapid tightening of monetary policy, itself implemented in response to a very significant rise in inflation, the underlying root causes of the demise of SVB, other US regional banks and Credit Suisse (CS), are idiosyncratic. These boil down to poor governance, deficient risk management culture, including liquidity risk, and failure to implement a sustainable business model.

Thus there is, justifiably, a widely-held view that recent crises were not caused by a lack of regulation. Indeed, the long process of reforms following the GFC, now culminating in the implementation of final elements of the Basel framework, helped to limit the consequences of the Spring 2023 stress events and provided optionality to the Swiss and global authorities. The Basel framework, which will soon be implemented in the EU and Switzerland and on which the US authorities are consulting, has proven robust already, even before the significant enhancements coming into force in the next few years.

While the broader overall regulatory framework has also proven very sound thanks to the introduction of Recovery and Resolution planning and reforms to the over-the-counter derivatives market including increased use of margining and central clearing to address systemic risk, targeted adjustments to address effectively the weaknesses that allowed the collapse of SVB and the emergency takeover of CS should be considered. These need to be based on sound analysis of the underlying causes of the events mentioned above.

Increasing banks' liquidity resilience to withstand the unprecedented speed of deposit outflows in the digital age requires special focus and consideration of both the liability and asset sides. On the liability side, the outflow assumptions in the Liquidity Coverage Ratio framework may need to be reviewed, in particular around deposit stability. At the same time, the marginal benefit of a few additional weeks that banks might be able to withstand a deposit run need to be balanced against the related costs for investors.

Any forthcoming regulatory measure should be internationally coordinated and a balance must be found so as not to impede the risk-managed maturity transformation that is, fundamentally, the role of the banking system. Ultimately, banks will need to rely on more diversified funding sources. On the asset side, additional secured funding sources including a wider range of eligible collateral should be available consistently, at all times, across the globe.

Deficiencies in banks' internal governance frameworks and risk control practices cannot be remediated simply by requiring compliance with more demanding prudential standards that are ratcheted up with each stress event. While oversight of those areas is primarily the responsibility of shareholders and banks' management, it is important that supervisors can challenge banks robustly and are empowered to take timely and effective actions to preserve their overall soundness and, ultimately, ensure financial stability. Supervisory tools should include measures that tackle unsustainable business models and critical governance and culture issues that might threaten a bank's viability.

In the CS case, a rescue transaction was the preferred option. It allowed for a credible solution with low market impact. Going forward, ensuring higher effectiveness of early intervention measures and crisis preparedness will also be important. Authorities' toolsets for the earlier stages of a crisis should be enhanced and further legally outlined. The introduction of additional forward-looking measures, based on objective criteria such as price/book value, CDS spreads across peers, and lack of sustainable profitability, would help mitigate weaknesses early on and gain valuable time to allow orchestration of restructuring measures at a time when a credible recovery is still possible. In this regard, mandatory ex-ante valuation of certain asset portfolios by a third-party could provide the potential acquirer with key data points and allow for more comprehensive assessment of inherent risks and respective available capacity to manage them.

Targeted reforms should reinforce and implement more consistently an already credible framework.

The idiosyncratic challenges at the root of recent events need to be further digested before proposing material changes to the regulatory framework. The goal of any potential targeted reforms should be to reinforce and implement more consistently an already sound and credible framework. While we cannot construct a zero-crisis regime, any action should aim at earlier prevention of severe stress situations, ensuring reliable and effective alternatives and a robust toolset for resolution authorities.

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Lessons from the banking turmoil in terms of regulation and supervision

Every time there is an episode of financial turmoil, the first instinctive reaction is to try to identify what is missing or broken in our regulatory framework. However, there is a more pressing question: were the existing instruments and mechanisms used properly?

In the recent episode of financial distress in the US, Silicon Valley Bank (SVB) had prudent capital levels and very generous liquidity buffers. However, something went wrong and as a result, the regulatory debate now dwells on two aspects: (i) the need to review the existing liquidity metrics and buffers, and (ii) the convenience of revamping accounting standards in order to mark-to-market even the held-to-maturity portfolios. Some call for excluding assets which are not marked-to-market, from regulatory liquidity buffers (LCR).

During the global financial crisis, after the collapse of Lehman Brothers in the US, the problem faced by many banks was the difficulty to refinance their positions in the market and subsequently, the lack of sufficient HQLA in order to obtain alternative funding. In this context, governments and regulators were forced to set up public schemes providing guarantees on banks' liabilities (the so called, own issued bonds) so that these instruments could be pledged at the central bank in order to obtain liquidity. Hence, the purpose of these schemes was to create HQLA for banks with dire liquidity positions.

By European standards, SVB had an extremely high LCR with a very large volume of High Quality Liquid Assets (HQLA) which, theoretically at least, should have allowed the bank to seek liquidity from the central bank and restore confidence in the bank's ability to weather through the thunderstorm. Instead, the bank resorted to the market and tried to dispose of those HQLA, which in turn materialized the unrealised losses. If those assets had been pledged at the central bank, losses would not have materialized. This course of action would have provided a large volume of liquidity for the bank and could have also dispelled fears that losses would ever have to materialize.

It could be argued that liquidity buffers should be constructed in order to allow banks to obtain liquidity primarily from the market. However, the experience from previous crisis shows that in situations of very severe stress, with distorted capital markets, only central bank funding can ensure the liquidity of the banking system without destabilizing the financial system.

In the current context of high inflationary pressures and very sharp and unexpected increases in interest rates, banks with held-to-maturity debt portfolios have indeed accumulated unrealized losses on these assets but so have banks with fixed-rate credit portfolios. Such credit portfolios are very common and core to the business of banks in some EU countries which means that they are much more relevant in terms of size, than bond portfolios. Hence, should banks be required mark-to-market fixed-rate credit portfolios, also, in order to avoid accumulating unrealized losses?

Clearly, this debate is not straightforward. The first step may be to enhance transparency in order to ensure that the market has sufficient information on held-to-maturity bond portfolios and any underlying losses, for all banks, in line with the information published by EBA after the EU-wide stress test. This information today is heterogeneous amongst banks so there is room for improvement.

Transparency must be coupled with tighter monitoring of structural risks, mainly liquidity and interest rate risks, by the regulator. The supervisor in the Eurozone has stepped up its efforts to oversee liquidity in banks with revised liquidity templates and more frequent reporting from banks to the ECB. Banks must also step up their efforts to manage these risks proactively.

Also, this liquidity crisis has brought to the fore a controversy analysed by authors such as Charles Goodhart[1], which is the debate around the possible conflicts between monetary policy and financial stability since most central banks have both mandates. In times of inflationary pressures, can monetary policy affect central bank's ability to preserve financial stability since this would require acting as lender of last resort? What prevails, financial stability or price stability?

On a separate note, the recent turmoil and in particular, the episode provoked by Credit Suisse, has also raised questions and strong concerns around the new resolution and crisis management framework.

The 2007-2009 global financial crisis revealed serious shortcomings in our existing crisis management framework.

Government sponsored bailouts and blanket guarantees on banks' liabilities resulted in massive costs and contingencies for national budgets, originating a severe sovereign crisis[2].

Problems in banks were tackled by merging weaker banks and creating bigger banking groups, but this also made the too-big-to-fail dilemma even worse.

For the past few years, authorities have set up new resolution authorities with broader powers, established comprehensive resolution frameworks and drawn up detailed resolution plans.

Despite this, in the aftermath of the recent turmoil, many have quickly called to stabilise banks by extending deposit insurance and other government guarantees, similar to what was done in the past. Furthermore, the crisis at Credit Suisse has been,

yet again, tackled through a merger with another bank, sparing shareholders from a big portion of the losses and creating one of the largest, most systemic banks in the world.

All of this begs the question, is the new resolution framework really fit for a severe crisis with the potential to seriously threaten financial stability?

The second question relates to the need for a liquidity-in-resolution tool.

The recent turmoil has illustrated just how essential liquidity is in resolution. The Swiss National Bank provided liquidity support to UBS of up to CHF100bn.

The combined financial firepower of the Single Resolution Fund, plus the ESM backstop, seems small when confronted with the liquidity needs of a single globally systemic bank. The ESM can only lend the SRF up to €68 billion[3]. Moreover, liquidity in resolution needs to be provided swiftly to avoid contagion. Unfortunately, the ESM can only intervene if the SRB is not able to raise funds from other sources. Thus, the process is likely to be slow.

In sum, there is still an intense debate and reflection process to be had, not so much on the need to introduce changes to our existing regulatory frameworks or on the convenience of introducing new requirements but rather on the use and application of the tools and mechanisms that are currently available.

1. *"The changing role of central Banks". Charles Goodhart.*
2. *In countries like Ireland, blanket guarantees on banks' liabilities covered approximately more than twice the size of its economy. Eventually such contingencies forced the country to seek EU-IMF financial assistance.*
3. *Florence School of Banking and Finance. "Completing a half full or a half empty Banking Union: the introduction of the common backstop". Maria Ana Barata.*