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FSF Principles of Cross-Border Cooperation on Crisis Management

Financial Stability Forum (FSF)

FINANCIAL STABILITY FORUM

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Preface

These high-level principles for cross-border cooperation on crisis management have been developed and endorsed by the members of the Financial Stability Forum and include a commitment to cooperation between relevant authorities, including supervisory agencies, central banks and finance ministries, both in making advanced preparations for dealing with financial crises and in managing them. They also commit national authorities from relevant countries to meet regularly alongside core colleges to consider together the specific issues and barriers to coordinated action that may arise in handling severe stress at specific firms, to share information where necessary and possible, and to ensure that firms develop adequate contingency plans.

FSF Principles for Cross-border Cooperation on Crisis Management

1. The objective of financial crisis management is to seek to prevent serious domestic or international financial instability that would have an adverse impact on the real economy. In so doing, authorities will be mindful of the impact interventions may have on the public purse and will, as far as possible:

   - maintain incentives for financial institutions to behave prudently,
   - promote private sector solutions and use public sector interventions only when this is necessary to preserve financial stability, and
   - maintain a level competitive international playing field, in the spirit of the Basel Accord.

2. While financial crisis management remains a domestic competence, the growing interactions between national financial systems require international cooperation by authorities. Home authorities should lead work with the key host authorities to look at the practical barriers to achieving coordinated action in the event of a financial crisis involving specific firms, for every cross-border bank identified by the FSF as having or going to have a core supervisory college. Some of these barriers will be common to more than one firm, and these principles suggest common support tools. Home authorities of other important banks and other financial firms that have systemic implications in several countries may also wish to coordinate the development of crisis management arrangements around those firms.

In preparing for financial crises, authorities will:

3. Develop common support tools for managing a cross-border financial crisis, including: these principles; a key data list; a common language for assessing systemic implications (drawing on those developed by the EU and by national authorities); a document that authorities can draw on when considering together the specific issues that may arise in handling severe stress at specific firms; and an experience library, which pools key lessons from different crises.

4. Meet at least annually to consider together the specific issues and barriers to coordinated action that may arise in handling severe stress at specific firms. Home supervisors will coordinate this process, which will directly involve the relevant authorities (including supervisors, central banks, finance ministries) in countries represented on a cross-border bank's core supervisory college. This process will be done for every bank with an FSF core supervisory college, but authorities may also cooperate around other specific cross-border firms as appropriate.

5. Home authorities will work to ensure that all countries in which the firm has systemic importance are kept informed of the arrangements for crisis management developed by the core college country authorities (because all countries in which a bank has operations are not represented on core colleges).

6. Share, at minimum, the following information, where permitted by legal frameworks and confidentiality issues:

   - The firm's group structure, including any legal, financial and operational intragroup dependencies, for example arising from the centralisation of liquidity or risk management,
   - The interlinkages between the firm and financial system (e.g., in markets, infrastructures) in each jurisdiction in which it operates,
   - The firm's contingency funding arrangements,
   - Potential impediments to a coordinated solution stemming from the legal frameworks and bank resolution procedures of the countries in which the firm operates.

7. Ensure that firms are capable of supplying in a timely fashion the information that may be required by the authorities in managing a financial crisis.

8. Strongly encourage firms to maintain contingency plans and procedures for use in a wind-down situation (e.g., factsheets that could easily be used by insolvency practitioners), and regularly review them to ensure that they remain accurate and adequate.

9. Ensure that firms maintain robust, up to date, funding plans that are practical to use in stressed market scenarios, including where large amounts of foreign currency are required. When reviewing firms' plans, authorities will together consider the presumptions made in the plans regarding possible national authority responses (e.g., ring-fencing).

10. Seek to remove any practical barriers to efficient, internationally coordinated resolutions identified when developing contingency plans, working together where necessary and, where they reveal issues that may have broader implications for other firms in general, refer them to the FSF and other relevant international committee(s) (e.g., BCBS, IOSCO, CPSS, IAIS etc.).

In managing a financial crisis, authorities will:

11. Strive to find internationally coordinated solutions that take account of the impact of the crisis on the financial systems and real economies of other countries, drawing on information, arrangements and plans developed ex-ante. These coordinated solutions will most likely be mainly driven by groups of authorities of the most directly involved countries.

12. Share national assessments of systemic implications, using the agreed framework.

13. Share information as freely as practicable with relevant authorities from an early stage in a way that does not materially compromise the prospect of a successful resolution and subject to the application of rules on confidentiality.

14. If a fully coordinated solution is not possible, discuss as promptly as possible national measures with other relevant authorities.

15. For purposes of clarity and coordination, share their plans for public communication with the appropriate authorities from other affected jurisdictions.

These principles are based in part on the recommendations in the FSF, BCBS, IOSCO and G10's Joint Task Force Report (2001) on Winding Down an LCFI, and EU principles for financial crisis management.