Myth 5
Boil-in debt will fee – there simply won't be enough estimates to do a fail-in-when the time comes.

- Sinfert, may take his among the others of a tank, the bank home original to the common the common debt of the co

Myth 6
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Whose the first base table, on-relieves if it is a smooth problem in the cash of a pro

ALtd mean both in would have provided issues for Lehman's posteriors and assumption, and market stress retail floor boars from storage is seen.

Handing this said ing the abrander boilds, where nulliple bands were tempts their all the same time.

Myth 3
Bailer neight be a nice idea, but doesn't it require new legislation?
In prophys dystractions political environment, new legislation?
In prophys dystractions political environment, new legislation for a consider problem is tilled by his improvided.
Single-point-of-entry(SPE) - Not too big to fail The Fusional this position areas conjugation, Forci set se receiver of the basis holding company, silkwing subsidiaries to continue operating. Assists will be transferred to a hybrige company, and obtic and equity toward by the parent company will be written down to cover towars.

Analysis by Credit Subser's debt shateglab last year sheets the market how largely completed the manufact to ball-in pricing.

Myth 2 Why not just make big, complex banks smaller and simpler – ian't had a far front direct way to solve TBTF?

Some have asserted more recently that the real problem isn't size. it's that big banks are "too complex to manage".

While complexity introduces some shallenges in hanking, it also provides some important benefits.

Bail-in

Ball-ins are situations where predicts agree its large their short-sem obtains and/or agree to a recovering that tellaces their holdings.

tail instruction as a public policy test with Cycles, which finises creditors and some depositors to forfest some of their holdings to keep the banks alive.

Bail-ins are less politically boding than ballouts, but could have a number of regular side-off-cits in the financial markets, including higher interest rates.

Myth 1
There ian't a good way to handle a big bank talker safety. Isn't that the real lesson of 2006?

The bankraptcy of Lithman Brathers – the only recent resilvents test of a region fiture ball ball no caused encommon financial and economic distuptions.

The US Congress with so gent estims besides a huge, rierally unpopular "call-call" of the braiding system.

Myth 1 There isn't a good way to handle a big bank tallane safely. Isn't that the real lesson of 2006?

Over the paid few years, policy makers have converged on a simple opproach, called "soll in".

In the exert of failure, ball-in converts dobt into equity, it executions and capital nather than taxpayer dollars to assert losses and recapitalize the film.

The End

Myth 7
Big banks operate in many countries with different laws.
Crass-barrier legal complexities reconsist in a severalise in large side of banks.

Cince the certiful lastic has been sold except thing legitimate show to idea
to see still reset to be sold to see to be interfacional last in terms.

I Entraceability
2. Cross-harder contracts
3. Cross-harder recognition

Conclusion

Bank resolution is a practical reality in some countries today, and other markets are not far behind. The net offset of these recountries will bring gesters resilience and discipline into the borrising system, and help preven individual problems from survival individual problems from survival.

- Old myths are being overtaken by new realities.

Myth 8
Even if the US is making progress, Europe will never agrees to this.

I while the US A wish has been convey giving being swind and the conversal and the USDs. Jaker and with half case, have a much desper teather in throse.

Bail-out

Altofout is a collectulal term for a lose to a company or country that is facing serious economic or fiturals treatile.

Ballouts can have a sumbor of potential negative of necessaries, including most hazards that energy encausive rale-being.

International investible should lead those regalited consequences in mind, while traking sure they avoid any periodical pitfalls.

Too Big to Fail ex. Banking

Too Big to Fail

asserts that certain financial institutions are so large and so interconnected that their failure would be disastrous to the economy, and they therefore must be supported by government when they face difficulty.

Background : Financial Crisis





Too Big to Fail

Old myths, new realities

ex. Banking



Too Big to Fail

asserts that certain financial institutions are so large and so interconnected that their failure would be disastrous to the economy, and they therefore must be supported by government when they face difficulty.



Background: Financial Crisis

- Bear Stearns



- Too big to failTaxpapers

Lehman **Brothers**



- Bankrupt
- Systemic Risk

Government



Bail-out

- A bailout is a colloquial term for a loan to a company or country that is facing serious economic or financial trouble.
- Bailouts can have a number of potential negative consequences, including moral hazards that encourage excessive risk-taking.
- International investors should keep these negative consequences in mind, while making sure they avoid any potential pitfalls.



Bail-in

- Bail-ins are situations where creditors agree to forgo their shortterm claims and/or agree to a restructuring that reduces their holdings.
- Bail-ins began as a public policy tool with Cyprus, which forced creditors and some depositors to forfeit some of their holdings to keep the banks alive.
- Bail-ins are less politically taxing than bailouts, but could have a number of negative side-effects in the financial markets, including higher interest rates.



There isn't a good way to handle a big bank failure safely. Isn't that the real lesson of 2008?

- The bankruptcy of Lehman Brothers the only recent real-world test of a major financial failure caused enormous financial and economic disruptions.
- The US Congress with no good options besides a huge, deeply unpopular "bail-out" of the banking system.



There isn't a good way to handle a big bank failure safely. Isn't that the real lesson of 2008?

- Over the past few years, policy-makers have converged on a simple approach, called 'bail-in'.
- In the event of failure, bail-in converts debt into equity, It uses internal capital rather than taxpayer dollars to absorb losses and recapitalize the firm.



Why not just make big, complex banks smaller and simpler – isn't that a far more direct way to solve TBTF?

- Some have asserted more recently that the real problem isn't size, it's that big banks are 'too complex to manage'.
- While complexity introduces some challenges in banking, it also provides some important benefits.



Bail-in might be a nice idea, but doesn't it require new legislation?

In today's dysfunctional political environment, new legislation for a complex problem is likely to be impossible

Single-point-of-entry(SPE) - Not too big to fail

- The Federal Deposit Insurance Corpotation(FDIC) acts as receiver of the bank holding company, allowing subsidiaries to continue operating.
- Assets will be transferred to a bridge company, and debt and equity issued by the parent company will be written down to cover losses.



Investors in big banks expect they will be bailed out in a future crisis – this lets big banks borrow at unfair, super-cheap rates because of their TBTF status. If you change that, debt costs will explode. The market can't handle this.

- US investors have already adapted to the new reality of bail-ins.
- Analysis by Credit Suisse's debt strategists last year shows the market has largely completed the transition to bail-in pricing.



Bail-in debt will flee – there simply won't be enough resources to do a bail-in when the time comes.

- Similarly, once bail-in has restored the solvency of a bank, the bank becomes eligible for central bank liquidity, as well as the private market.
- The Federal Reserve has indicated it will publish rules in the next few months to force large banks to have sufficient resources to support a bail-in in the future, at the right place, and with the right maturity.
- The EU is introducing similar resourcing rules into its legislation, as well as requirements to use private funds before state resources or resolution funds can be tapped.



While bail-in might work for a one-off idiosyncratic crisis, it won't work in a systemic crisis like 2008. That's the important case, where the government has to intervene.

- When the first bank fails, no-one knows if it's a one-off problem or the start of a general banking crisis.
- A Lehman bail-in would have avoided losses for Lehman's customers and counterparties, and market stress would have been dramatically lower.
- Handling this could require a broader bail-in, where multiple banks were recapitalized at the same time.



Big banks operate in many countries with different laws. Cross-border legal complexities mean bail-in is unworkable for international banks.

- Once the central issue has been addressed, three legitimate cross-border issues still need to be addressed for an international bail-in to work.
 - 1. Enforceability
 - 2. Cross-border contracts
 - 3. Cross-border recognition



Conclusion

- Bank resolution is a practical reality in some countries today, and other markets are not far behind. The net effect of these measures will bring greater resilience and discipline into the banking system, and help prevent individual problems from turning into systemic shocks.
- Old myths are being overtaken by new realities.



The End

