

NPL Resolution Mechanisms and their Effectiveness: Lessons from Three Decades of Banking Crises

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SSRN:

https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=524849

- Overstating Moral Hazard: Lessons from Three Decades of Banking Crises
- https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2929574
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Overview

- Context
- Environment
- Comparative experiences
 - Asian Financial Crisis
 - Global Financial Crisis
 - Eurozone Debt Crisis
 - China / India
- Lessons and implications

Environment

- NPLs – causes
- Macroprudential context:
 - Credit growth
 - Property price growth
 - Non-core credit growth
 - Financial liberalisation / innovation
- Macroeconomic context: exogenous shock
- Preventive frameworks
- How to bail out a banking system



Systemic Risk in the Financial Sector

Ten Years after the Great Crash

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- <https://www.cigionline.org/publications/systemic-risk-financial-sector-ten-years-after-great-crash>

Preventive frameworks

- Macroprudential / microprudential / infrastructure
- Definition of NPL / reporting
- Pre-provisioning
- Capital / liquidity
- Credit analysis / infrastructure
- Large exposures limits
- Restructuring and resolution frameworks
- Distressed debt systems / markets / transfer

Definitions

- IFRS9
- BCBS, Prudential Treatment of Problem Assets
– Definitions of NPEs and Forbearance
- BIS, Regulatory Treatment of Accounting Provisions
- ECB, Guidance to Banks on NPLs

International standards: G20/FSB 2B2F approach

- Identification
- Prevention: Regulation + Supervision –
Macroprudential + Basel III
- Crisis management: liquidity, RRP
– BCBS Weak Banks
- Resolution
 - FSB Key Attributes
 - Principles for Cross-Border Effectiveness of Resolution Actions
 - Guiding Principles on the Temporary Funding Needed to Support the Orderly Resolution of a G-SIB
 - TLAC

AFC 1997:

Thailand, Indonesia, Malaysia, Korea

- Pre-crisis weaknesses
 - Prevention / protection
 - Resolution
- Crisis resolution
 - Speed
 - Approach: closure / guarantee / reform
 - closure vs restructuring
- AMCs

China: 1998-2008

- Background
- Restructuring: Recap, commercialization, AMC's, listing
- Resolution

Global SIBs 2008:

Switzerland (UBS), UK (RBS), US (Citi)

- Framework: Legislation / contract
- Capital injections
- Switzerland: NPL transfer
- UK / US: guarantees + restructuring
- Funding recovery
- Confidence then restructuring

Eurozone debt crisis: Spain, Ireland, Italy, Greece

- Pre-crisis factors
 - Prevention / protection
 - Resolution
- Resolution
 - Speed
 - BRRD

China / India: 2015 to present

- China: merger, AMCs, debt / equity swaps
- India: restructuring / winding up, recapitalisation, merger, debt / equity swaps,

Lessons and implications

- Prevention
- D-SIBs, R-SIBs, G-SIBs, others
- Evolution of IMF approach: from closure / liquidation to restructuring / AMCs, recapitalisation, regulatory reform
- Differing types of problem assets may lead to different approaches (eg securities, derivatives vs loans)
- Bail-in

Approach

- Consolidation / restructuring / closure
- Solvency / recapitalisation
- Distressed asset resolution

- Infrastructure / legal framework: NPL / AMC / insolvency / restructuring / resolution
- Funding: public / private – bail in / bail out
- Guarantees / transfer / liquidity / capital etc: immediate or delay? AMC etc

Regional standards

- SSM
- SRM
- BRRD
 - Preparation and prevention
 - Early intervention
 - Resolution
 - Cooperation and coordination

Possible Asian Regional Approaches

- Prevention: ASEAN/ASEAN+3, EMEAP, FSB / BIS / BCBS regional groups, AMRO, ADB / peer reviews
- Definitions and standards
- SIBs
- Funding?
- NPL market development: legal reform / standardization / securitisation
- AMC and deposit insurance / resolution groups?
- Technology?



- <https://www.wiley.com/en-us/The+REGTECH+Book%3A+The+Financial+Technology+Handbook+for+Investors%2C+Entrepreneurs+and+Visionaries+in+Regulation-p-9781119362142>