

Comment on  
European Banking Union:  
Recovery and Resolution (RR) Tools

by  
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# Outline:

- RR procedures and the short run problem
- SIFIS & RR procedures.
- The challenge for RR procedures.
- Final notes on RR regulation.

# Short run problem

- Framing required descisions so as to be acceptable to domestic electorate that neither have the time nor the knowledge to really understand what is at stake.
- A credible "road map" to a sustainable banking system an essential part of framework.
- Properly functioning RR procedures important part of sustainable banking system.

# The challenge for RR regulation:

- Large financial institutions that, due to mismanagement or just bad luck, end up in a situation where it is insolvent close to insolvent.
- Allowing the firm to fail -> massive negative externalities.
- But, subsidising the firm to allow it to continue -> moral hazard -> additional future problems.
- Thus, regulation on R & R procedures.

# R & R procedures

- to
  - safeguard continuation of vital functions,
  - prevent contamination of business partners,
  - while punishing those responsible for steering the firm into the difficulties.

# Crucial issue

- Large financial institutions influential:
  - Widely connected to influential persons.
  - In possession of extensive knowledge concerning economic realities.
  - Able to move considerable resources from one country to another in a matter of minutes.
- How supervise such institutions & intervene in time?

# TBTF & TCTF challenge for RRS

- To keep banks small.
- To keep financial institutions simple.
- Liikanen report: Research that indicate lack of scale economies. However in information systems: substantial development costs while relatively low operating costs -> economies of scale in many areas of banking.

# Proposed remedies & their problems

- Strict rules (e.g. size limits) -> complicated structures to circumvent -> less transparency.
- Authorities with discretion to make case by case decisions: SIFIS well resourced to "capture" powerful regulators, even if concerned with "common good".



# Additional notes on TBTF & TCTF regulation:

- Well meaning regulators: in favor of measures that increase the need for resources spent on regulation.
- Proposal: Give larger role to competition authorities in keeping TBTF & TCTF at bay. (Use mutual monitoring by competing firms.)