



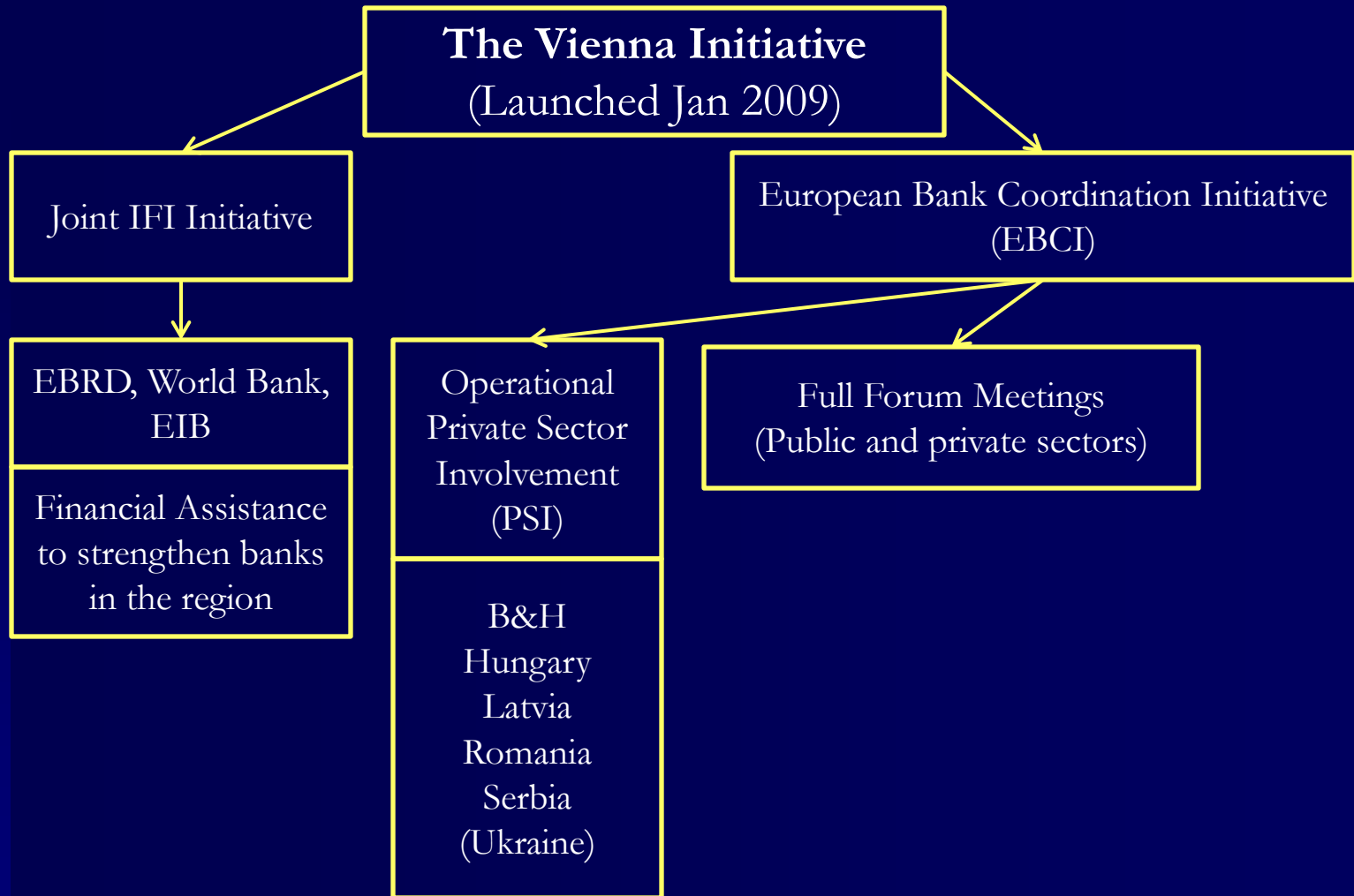
From Vienna 1.0 to Vienna 2.0

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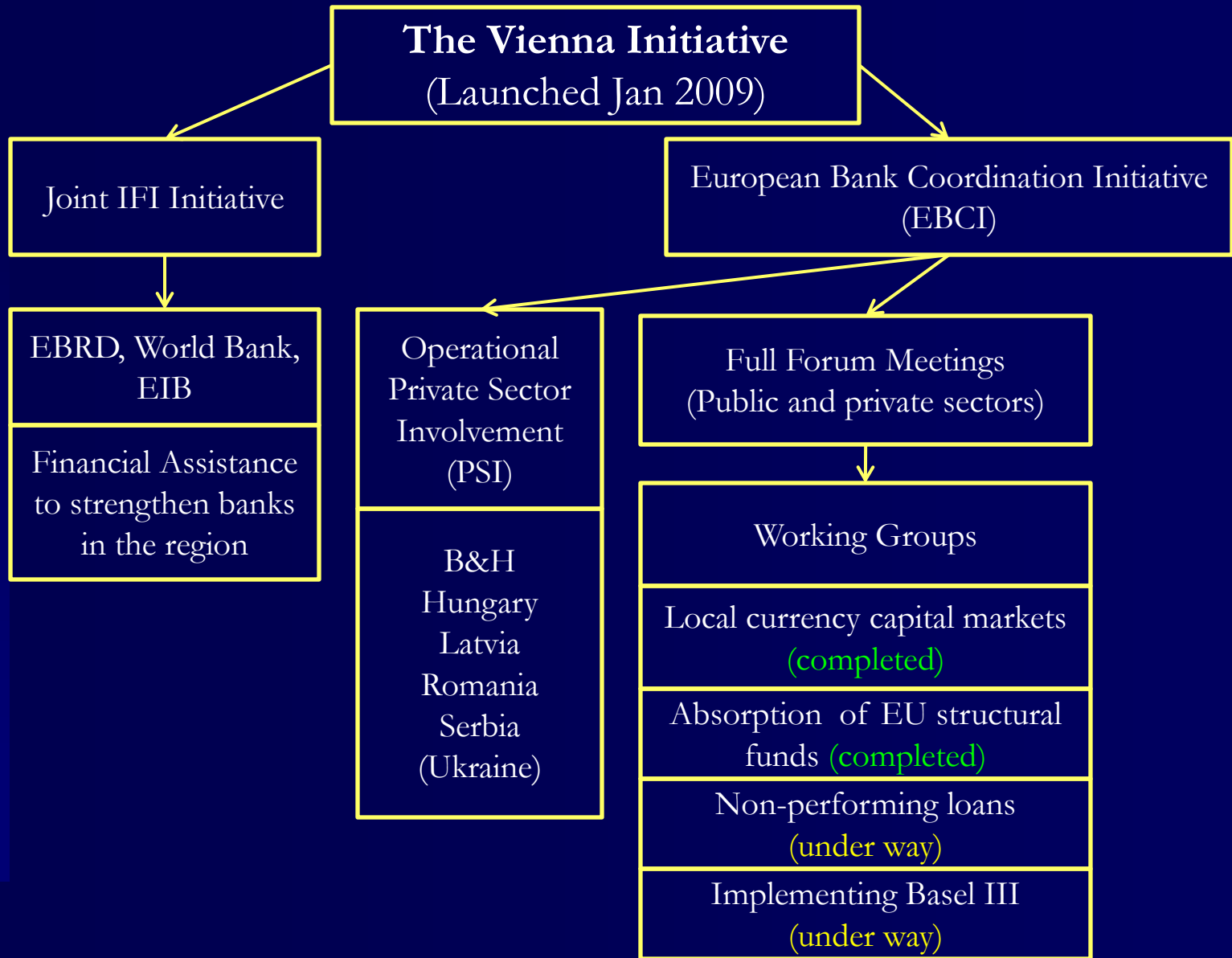
Elements of the Vienna Initiative



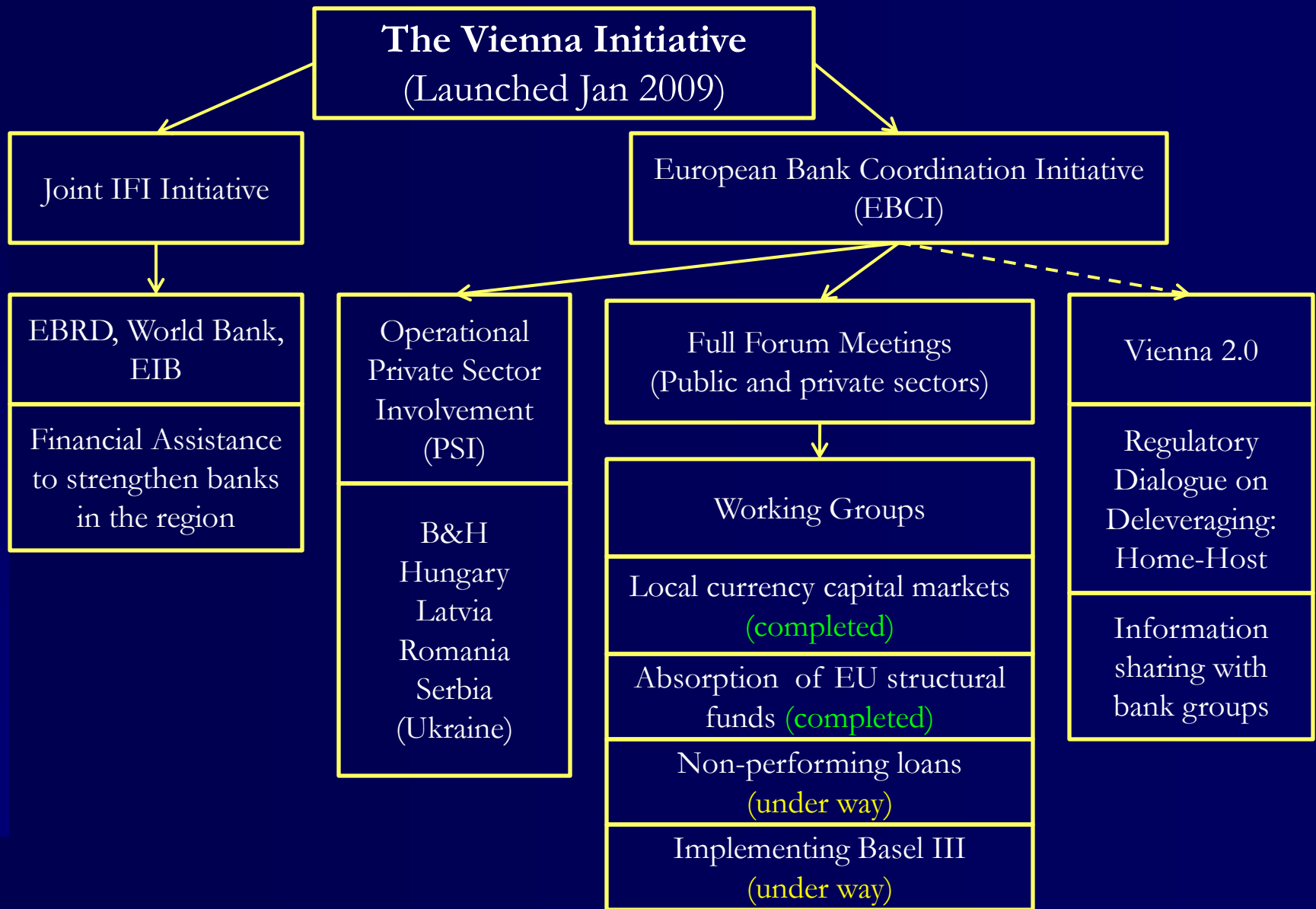
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Challenges in 2012 are different from those in 2008

- Intensified crisis in the eurozone, threatening recession
 - Some home sovereigns less able to support banks
- Parent banks are under stress
 - Markets and supervisors require recapitalisation and deleverage
 - Liquidity needs as severe as in 2008
- But CESEE fundamentals generally better
 - External position, bank capital
 - Although portfolios worse

Impact of current developments on CESEE

- CESEE subsidiaries may be subject to particular deleveraging pressures
 - Difficulty of maintaining parental lines for subsidiaries
 - Parent banks may want to tap subsidiaries' liquidity
 - Subsidiaries may be put up for sale
- Some CESEE financial systems may become less functional
 - Domestic banks may not respond to local financial conditions
 - Credit expansion may become inappropriately procyclical
- Cross-border resolution issues are likely to be difficult

Enhanced supervisory, central bank and ministry of finance cooperation is vital

- Enhanced supervisory coordination with
agreed principles, with EBA and ESRB
- Establish direct relationships on bank groups
between home and host fiscal authorities
- Expand central bank coordination

Enhanced supervisory coordination between home and hosts

- Strengthening of parent banks in mutual interest
 - Both have a vital interest in banks' restructured business plans
 - But both may be tempted to take actions that thwart the intentions of the other
- Aim to preserve the single market in financial services and free flow of capital
- Restructuring and deleveraging should not excessively burden host countries
 - Quite small subsidiaries may be systemic for the host country

Enhanced supervisory cooperation can be based on:

- Fuller information sharing between supervisors in supervisory colleges and the Vienna Initiative forum
- Lead of the EBA and the ESRB in the process
 - But must be open to CESEE non-members of EU or EEA
- Agreement on a set of principles to cover supervisory coordination in current circumstances
 - Build on existing understandings, for example:
 - 2008 EU MoU on Cross-Border Financial Stability
 - 2010 Nordic-Baltic cooperation agreement

Principles might include:

- Home supervisors should:
 - Support hosts in implementing provisions in “prenuptial” agreements¹.
 - Avoid discriminatory deleveraging plans which favour home markets
 - Recognize right of host supervisors to object to plans with negative systemic impact on their financial systems

1/ “Prenuptial” conditions are those under which parents have acquired ownership of banks.

Principles might include:

- Host supervisors should:
 - Seek the cooperation of home supervisors in limiting any negative effect on the bank group when trying to ring-fence capital and liquidity
 - Living wills should be elaborated by banks with cross-border operations and reviewed by home and host authorities for their systemic implications
 - “Prenuptial” agreements should be designed for new cross-border ownership and approved by home and host authorities
 - Home and host supervisors will share information and take each others’ concerns into account in sales of subsidiaries

Vienna 2.0 will increase the role of other actors

- The forum will provide for participation by bank groups
 - Allows sharing experience and builds on Vienna 1.0 work
 - May still need coordinated PSI support in some cases
- The IFIs may be able to provide financial support to facilitate the restructuring/deleveraging process
- Treasuries and central banks should be represented
- The ESA and ESRB should be central
- The discussions should include CESEE countries that are not EU members

Treasury and central bank coordination

- Living Wills and prenuptials will require home and host fiscal authority cooperation
- Central banks may need swap arrangements particularly with ECB
- Central banks could share experience on crisis liquidity support instruments
- Attention needs to be given to coordinated provision of support to cross-border groups and to their resolution if necessary

Ultimately Vienna 2.0 should facilitate a new banking model for CESEE

- Foreign ownership of banks has been positive
- The funding model relying excessively on parental lines is now unsustainable
- A new model should be based on stronger local currency funding
- Better management of the risks related to external funding needed
- Domestic banking systems need to be responsive to local financial conditions
- Cross border relationships should be commensurate with the effectiveness of home-host regulatory coordination
- IFIs should support this process

Objectives of January 16 meeting

- Discuss substance of Vienna 2.0 and potential principles
- Agree on next steps
 - Develop a work plan for 2012 in coordination with EBA/ESRB
 - Discuss next meeting before end March to agree principles
 - Set up Steering Committee
- Issue press release

Thank you!