

August 25, 2014 – 12:00 p.m.
Policy Seminar with Pierre-Henri Conac
George Shultz Conference Room, Herbert Hoover Memorial Building

PARTICIPANTS

Pierre-Henri Conac, John Gunn, Emily Kapur, Michael Klausner, Monika Piazzesi, Martin Schneider, Ken Scott, John Taylor, Volker Wieland, William Kroener III

ISSUES DISCUSSED

Pierre-Henri Conac, Professor of Financial Markets Law at the University of Luxembourg and a member of the Securities and Markets Stakeholder Group (SMSG) of the European Securities and Markets Authority (ESMA), was involved in the development of key bail-in aspects of the European Bank Recovery and Resolution Directive (BRRD). He joined the working group to offer insights into the European process and outcomes and to lead the assembled working group in a discussion of next steps in Europe and how they will intersect with coming U.S. developments.

Conac began by explaining how supervisory and resolution authority has come to be centralized in the Eurozone and how that centralization laid the necessary groundwork for the recent BRRD. All significant banks in the eighteen Eurozone Member States will be supervised directly by the European Central Bank (ECB), which will be finalizing asset quality review and stress tests by November 2014. Conac then turned to specifics of the BRRD. The working group was particularly interested in the creditor hierarchy envisioned and spoke at length about the fact that the BRRD contemplates some deposits being subject to bail-in.

The working group then discussed what is likely to occur between now and 2016, when European Member States must implement the bail-in tool that the BRRD requires. Conac described a number of recent small and large bail-ins that have occurred in Europe, but noted that a major point of contention has been senior bondholders' susceptibility to conversion. He noted how critical ECB supervisory centralization as well as a harmonized approach at the European level on bail-in of senior creditors will be to overcoming this hurdle in the future. All agreed that ongoing international coordination will continue to help resolve outstanding tensions and uncertainties among the varying structures developing in different national jurisdictions.