

# **International Experience and Policy Issues in the Growing Use of Bridge Banks**

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*'Your card is fine. I'm just checking  
that your bank hasn't expired'*

# Outline

## Bridge banks

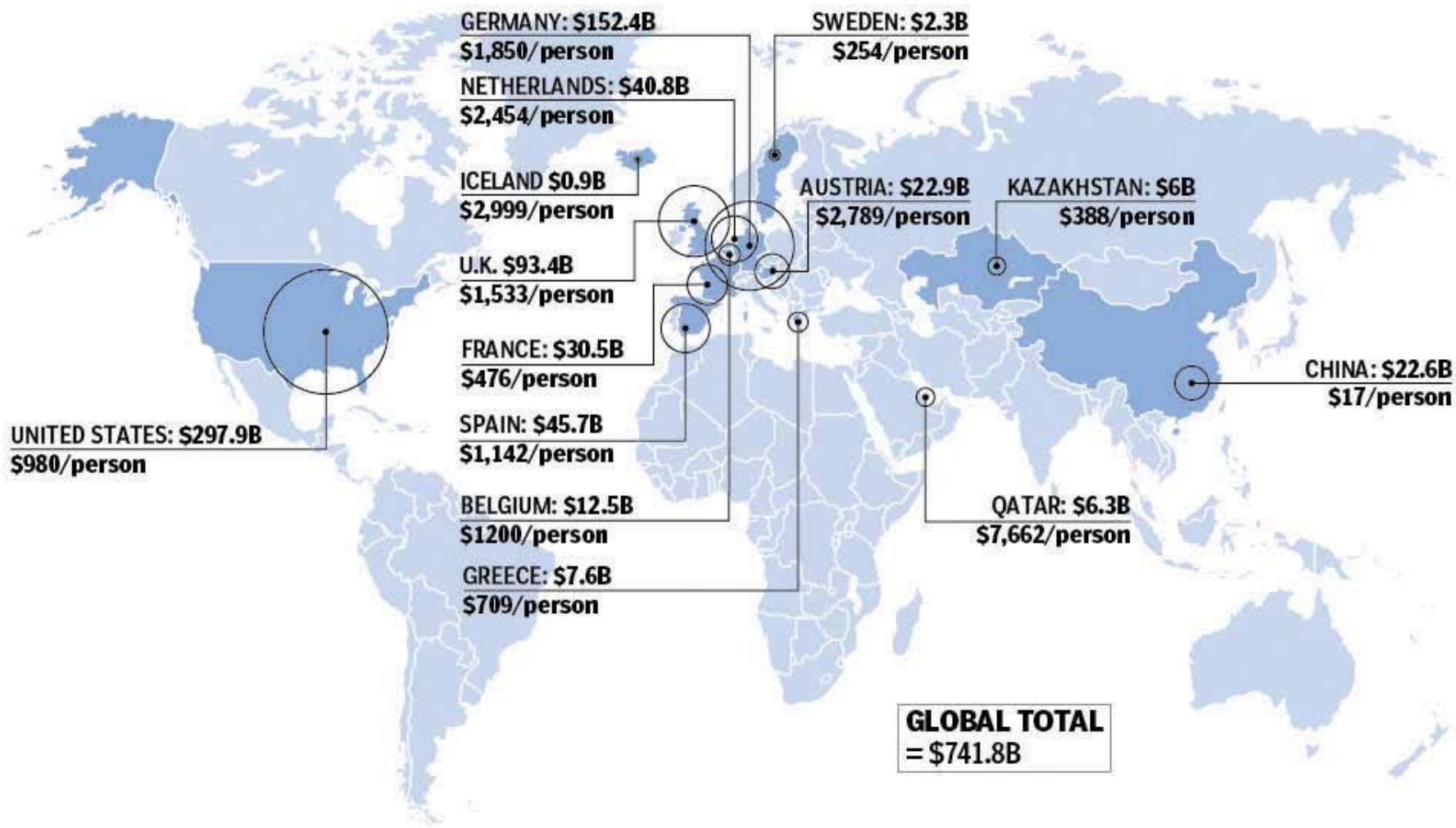
What are they and why is there a growing interest in them?

What were the results of a recent survey?

Policy issues that arise and why there is need for standards in this area



The World is in Search of  
More Financial Stability





What has been the  
international response to  
the crisis?



# The Role of Deposit Insurance



# Why a Special Insolvency Regime for Banks?

- Problems from 1980 to 1996
- Recent Global Credit Crisis

# Bridge Banks

## Main Rationales

- 1. A bank may have an attractive franchise but it could fail before a buyer is found;
- 2. It can be a means to maintain daily operations of a bank;
- 3. There might be a reluctance to proceed with a formal liquidation;
- 4. There might be a reluctance to proceed with liquidations if too many banks are failing at any one time.

# Policy Matters Re: Bridge Banks

## Key Elements

- Regulatory triggers
- What is the public interest?
- Taking control
- Running a bridge bank

# Guidance for Bridge Banks

- **Draft Principle 18 Bridge-bank authority:** The deposit insurer or other relevant safety net participant should have the authority to establish a bridge-bank (or related resolution mechanism) to help preserve critical banking functions by acquiring the assets and assuming the liabilities of a failed bank until a final resolution can be accomplished (**FSF, page 32 and IADI General Guidance for the Resolution of Bank Failures, page 22**).

# Key Features of Bridge Bank Regimes

Jurisdiction	Does a SRR exist?	Who runs it?	Are there time limits?	Are there trigger points?	Is it transparent?
Mexico	Yes	IPAB	Yes, 6 months with extension	Yes, PCA	Yes
UK	Yes	Bank of England	Reports after each year	Insolvency /failure to meet threshold	Under consideration?
USA	Yes	FDIC	Yes	PCA	Set out in legislation
Vietnam	No	N/A	N/A	N/A	N/A

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Canada	FIRP plus a new regime	CDIC	Yes	Viability supported by a Guide to Intervention	Set out in legislation
Korea		KDIC	Yes	PCA	Set out in legislation
Indonesia	No	N/A	N/A	N/A	N/A



# Policy Issues

Who should lead in the creation of the bridge bank?

Should there be time constraints on them?

How does a bridge bank regime fit into the prudential regulatory regime?



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# What is a Standard?





# Standards for Deposit Insurers



# Conclusions