

RESOLUTION PLANNING

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INTRODUCTION

As a financial safety net player with a mandate to promote financial system stability, our aspiration is to work towards the establishment of an effective resolution regime for Malaysia. Such a regime allows member institutions (MIs) to fail and be resolved in a prompt and orderly manner, without systemic disruption.

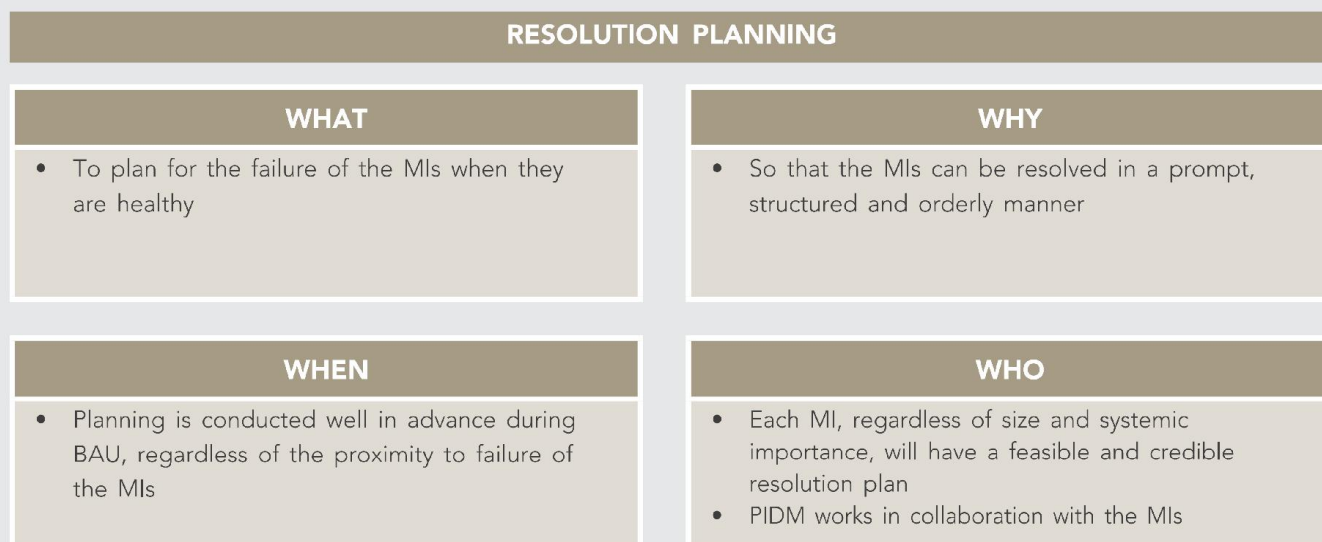
An important aspect of an effective resolution regime is resolution planning, which is part of the Recovery and Resolution Planning framework jointly established by Bank Negara Malaysia and PIDM in 2016. Bank Negara Malaysia is leading the recovery planning process, and has undertaken the recovery planning pilot exercises in 2018.

Resolution planning involves, amongst others, the assessment of the business structure, operational and financial interdependencies, the development of likely strategies and plans, which are specific to the MIs. This is essential for the enhancement of our state of operational readiness but does not exclude development of alternative courses of actions, depending on the circumstances and the overall state of the financial system at the time of a resolution.

PIDM leads the resolution planning process. The development of robust and credible resolution plans during business as usual (BAU) increases the likelihood of the smooth execution of resolution actions, and contributes to the stability of the financial system. In 2019, following the completion of the recovery planning pilot exercises, we will commence the resolution planning pilot exercises with selected MIs.

OUR APPROACH TO RESOLUTION PLANNING

The following diagram depicts our approach to resolution planning for MIs and highlights the value that is derived from carrying out resolution planning.



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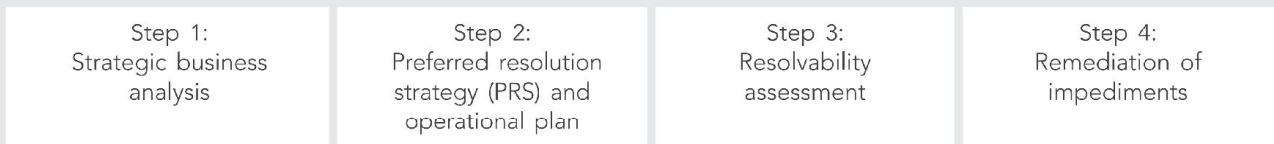
HOW

(1) Close coordination between strategic stakeholders is key



(2) MI prepares and provides quality quantitative and qualitative information

(3) Development of a resolution plan



Interactive and iterative process

Objective	<p>Provide overview of the MI to assess:</p> <ul style="list-style-type: none"> Systemic importance Separability 	<p>PRS sets out the intended resolution approach</p> <p>Operational plan sets out the arrangements to implement the PRS</p>	<p>Assess whether the PRS is feasible and credible</p> <p>Articulate resolution impediments</p>	<p>Remove / mitigate / remediate resolution impediments</p>
What does it entail	<ul style="list-style-type: none"> Corporate (legal, financial and operational) structure Understand the complexity of the MI's structure Business model, core business lines and significant legal entities Identify business lines and entities which are core to the operations or profitability; hold strategic significance or undertake critical functions Critical functions and critical shared services Assess and identify functions (and its supporting services, infrastructure and systems) undertaken by the MI which are critical and where the failure or discontinuance would adversely affect the functioning of the real economy and financial stability Internal and external interdependencies Identify interdependencies which may constrain effective implementation of a resolution strategy 	<p>Resolution planning involves identification of resolution options specific to the MI, which include options to continue key operations or closure of the MI</p> <p>Resolution options:</p> <ul style="list-style-type: none"> Restructuring of the MI's business, assets and / or liabilities Sale or transfer of business / shares of the MI to a third party acquirer(s) Bridge Institution (BI) involves the transfer of selected functions, business and / or assets of the MI to a BI, pending sale to a third party acquirer(s) Liquidation Closure of the MI's business and operations under the winding up process <p>Exit strategy Formulating a clear exit strategy to complete the resolution process</p>	<p>Feasibility Assess the practical capacity for PIDM to apply the resolution strategy and the operational preparedness of the MI</p> <p>Credibility Assess the likely impact of the resolution strategy on the MI and the financial system and real economy</p>	<p>Identify list of barriers to achieving effective resolution and the corresponding actions to mitigate or remove the barriers</p>

Benefits of resolution planning



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CONCLUSION

The journey towards resolvability has been described as a “marathon”,¹ and we will need the collaboration of the many runners involved. At its starting point, we need the buy-in and commitment from all of our strategic stakeholders, in particular our MIs. MIs have in-depth knowledge about their inner workings and structures and are best placed to ensure the successful implementation of the resolution planning initiative.

We will continue to engage regularly and work collaboratively with the MIs in this resolution planning journey. We expect MIs to establish the necessary governance arrangements and to devote sufficient time and resources to support resolution planning. Early involvement and commitment from MIs – especially at the board and senior management levels – is essential, to better plan and prepare for a smooth journey ahead.

Like a marathoner, advanced training, and a constant pace, will reward us, not only with the completion at the finish line, but with greater overall fitness and strength. In our context, at the end of the resolution planning initiative, we expect MIs to be more resolution-ready, and our financial system, more robust in dealing with failures of our MIs. This journey for each MI has considerable value – not only for the industry – but for the nation as a whole.

“Most people overestimate what they can do in one year
and underestimate what they can do in ten years.” – Bill Gates

¹ Elke König, Chair of the Single Resolution Board.