

# Financial Safety Net Conference 2015

## Bank Resolution – Case Studies

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The Lehman Brothers experience –  
what are the lessons that can be learned?

David Ereira

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# Points to note

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- Lehman was an insolvency not a rescue
- Was an IB not a deposit taker but with half a million retail customers in the brokerage
- Lehman was a systemic institution in particular regarding collateralised securities
- Law untried for anything on this scale

# Six key themes from Lehman relevant to the discussion of future effective resolution

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- 1) An unplanned event
- 2) Resolution was both fast and slow
- 3) Customer protection
- 4) Working out the numbers is hard
- 5) Fixing liquidity
- 6) Who is in charge?

## Theme 1 - An unplanned event

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- ❑ There was no RRP
- ❑ It was global and there was no international framework
- ❑ It was a complex group with both internal and external connectedness - huge complexity came out of the inter-company positions and claims

All relate to important issues to be considered in resolution planning but also in applicable law

## Theme 2 -Speed (and delay)

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- Sale of US prime brokerage – who bore the risk of loss?
- Dealing with customer claims – there are two estates
- Dislocation in data
- Can you adjust later?

Continuity is key to successful resolution – it requires a risk allocation

## Theme 3 – Customer Protection

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- Failed – client money pooling
- Failed – Pensions
- Question about SIPA?
- Succeeded – market driven solutions

Resolution needs flexibility to adopt to unhelpful regimes

## Theme 4 – Calculation

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- Pricing the closing out of derivatives is hard
- What are the liabilities in insolvency – currency and timing
- What are the values of assets?

All relevant to NCWO

## Theme 5 – Liquidity vs Capital

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- Would bail in have helped Lehman?
- Running the business for liquidity
- Pre resolution Margin calls

Effective resolution is about close monitoring



## Theme 6 - Control

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- ❑ The role of Regulators – co-ordination vital and a willingness to take responsibility
- ❑ The role of Administrators – who are they answerable to?
- ❑ The role of the Courts – can they help?

Uncertainty of legal outcomes and risk avoidance limits the ability to act