Quantitative Stealing: A Recent Chronology

This is a chronology of salient points in the process of discussion and elaboration of the"bail-in" or "Cyprus Template" policy of stealing bank deposits. It shows that, although the bail-in scheme predates the obvious breakout of the global financial crisis, there was a shift after the Lehman Brothers shock of 2008. It also shows the central role played by the City of London and the Financial Stability Board (FSB), the entity that former Italian Economy Minister Giulio Tremonti called "the Trojan Horse of international finance." The FSB is nothing other than a branch of the Bank for International Settlements (BIS), in whose premises it is hosted.

Jan. 28, 2010: *The Economist* publishes a guest article entitled "From Bail-Out to Bail-In" by Paul Calello, the head of Crédit Suisse's investment bank, and Wilson Ervin, its former chief risk officer, pushing "a new process for resolving failing banks." Calello and Ervin draw the "lessons of Lehman's failure," telling how they had participated at meetings at the Federal Reserve "over that fateful weekend in September 2008.... When the two of us left the New York Federal Reserve on Sunday night, we knew that the financial landscape was in for a seismic shock." Lehman's bankruptcy could have been kept at $25 billion, instead of the $150 billions of shareholder and creditor losses—if a bail-in scheme had been in place, they write. A bail-in "offers a powerful new way to recapitalize financial in-

stitutions using a bank's own money, rather than that of taxpayers … and prevent individual problems from turning into systemic shocks."

July 21, 2010: Enactment of the Dodd-Frank legislation.

Oct. 8, 2010: FSB chairman Mario Draghi, speaking at the Peterson Institute in Washington, calls for legislation on the model of Dodd-Frank throughout the world, and moving to a bail-in policy "to resolve SIFIs without disruptions to the financial system and without taxpayers' support."

Oct. 20, 2010: The FSB issues recommendations on "Reducing the Moral Hazard Posed By Systemically Important Financial Institutions" (SIFIs).

November 2010: A bail-in working group at the FSB is set up upon request of G-20 leaders at their meeting in Seoul.

February 2011: The European Commission publishes a document proposing that resolution authorities be given significant power to write off equity and write down or convert subordinated debt. "Resolution authorities would have discretion as to which classes of debt would be written down or converted in a particular case, the extent of the 'haircut' and, where relevant, the rate of conversion. The exercise of that discretion might take into account, among other things, the systemic risks of writing down certain creditors," the report says.

May 3, 2011: The FSB's Draghi calls for EU legislation "to govern bail-in powers." "Any such toolkit should include bail-in powers to ensure that the costs of such failures are met by shareholders and creditors rather than taxpayers or the wider financial system," he says.

July 19, 2011: The FSB issues a consultation draft on "Effective Resolution of Systemically Important Financial Institutions."

Sept. 2, 2011: Crédit Suisse sends its suggestions to the draft, probably written by Calello and Ervin.

Nov. 4, 2011: The FSB issues an "International Standard for Resolution Regime," centered on bail-in procedures:

"*3.5* Powers to carry out bail-in within resolution should enable resolution authorities to:

"(i) write down in a manner that respects the hierarchy of claims in liquidation (see Key Attribute 5.1) equity or other instruments of ownership of the firm, unsecured and uninsured creditor claims to the extent necessary to absorb the losses; and to

"(ii) convert into equity or other instruments of ownership of the firm under resolution (or any successor in resolution or the parent company within the same jurisdiction), all or parts of unsecured and uninsured creditor claims in a manner that respects the hierarchy of claims in liquidation;

"(iii) upon entry into resolution, convert or write-down any contingent convertible or contractual bail-in instruments whose terms had not been triggered prior to entry into resolution and treat the resulting instruments in line with (i) or (ii).

"*3.6* The resolution regime should make it possible to apply bail-in within resolution in conjunction with other resolution powers (for example, removal of problem assets, replacement of senior management and adoption of a new business plan) to ensure the viability of the firm or newly established entity following the implementation of bail-in."

June 6, 2012: The EU Commission issues a 171-page draft "Directive of the European Parliament and of the Council for Bank Recovery and Resolution," which is centered around a bail-in scheme including confiscation of deposits above the guaranteed threshold of EU100,000.

End of 2012: Switzerland introduces a bank resolution scheme which anticipates the "Cyprus template," providing for deposits over SFr100,000 to be part of the bail-in capital. One can see the footprints of the Crédit Suisse High Risk desk behind this.

March 11, 2013: European Central Bank Vice-President Vitor Constancio explains, at a Chatham House conference in London, that the bail-in mechanism is a central feature of the planned Eurozone Banking Union, and calls for the EU Bank Recovery and Resolution Directive (the 2012 draft) to "be adopted by the middle of this year." The Directive will "provide a better framework for coordinating resolution of cross-border banks and provide national authorities with new resolution powers. These new powers—like writing down capital instruments and bailing-in creditors—should help ensure that the financial sector, rather than taxpayers, bears the burden in future bank resolution."

March 26, 2013: Second Cyprus deal, with all deposits over EU100,000 being included in the bail-in. Eurogroup President Jeroen Dijsselbloem says that Cyprus is a template for all of Europe. "You need to be able to do the bail-in as well with deposits," says MEP Gunnar Hokmark (Sweden) who is leading negotia-

tions with EU countries to finalize the law for "banking resolution" to be voted at the European Parliament. "Deposits below EU100,000 are protected . . . deposits above EU100,000 are not protected and shall be treated as part of the capital that can be bailed in," Hokmark tells Reuters, adding that he is confident that a majority of his peers in the European Parliament back the idea.