

The Open Bank Resolution (OBR) Policy


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Purpose

1. The paper informs Minister's of the next steps in making OBR a live policy option to deal with a failing bank.

Comment

2. OBR is an important step to addressing the too big to fail problem with our banks. It provides an alternative to a Government bailout by making it possible to impose losses on creditors without disturbing access to core banking functions. It would do this by preserving access to transactional accounts while holding back a proportion of account balances to meet losses and potentially recapitalise the bank. It would reduce moral hazard as creditors should no longer assume they will be bailed out by Government.
3. Given the experience of the financial crisis, other countries are moving in a similar direction, trying to find ways to protect core banking functions without having to bailout the whole bank. Ensure losses are borne by creditors is a key part of this.
4. [Withheld under s.9(2)(g)(i)]

5. The pre-positioning will make OBR an option in a technical sense, but further work will be done in parallel to support the practical operation of OBR and increase confidence over its use. Putting a bank into OBR may have significant impacts on the financial market and the wider economy. This further work aims to reduce the uncertainty about its impact and how the bank would be managed through to a final resolution and removal of government support.
6. Changes to legislation are likely to be required to support OBR to remove doubt over powers under the Reserve Bank Act and to manage the Crown's risk under Government guarantees. These will come to Cabinet in due course.

Treasury Recommendation

7. We recommend that you **support** the recommendations in this paper.