€TRAINING

Crisis Exit Strategies for Bad Banks

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Introduction:

This training program is focused on navigating financial crises by establishing specialized entities to manage distressed assets. Through targeted strategies and interventions, participants learn to effectively mitigate systemic risks and facilitate economic recovery post-crisis.

Program Objectives:

At the end of this program, participants will be able to:

- Identify the asset's range.
- Create the legal framework, including choosing between an on- or off-balance-sheet configuration and, if necessary, a structured solution or the creation of a distinct banking business.
- Assess the business proposal.
- Specify the portfolio's business strategy, including whether to use a passive rundown, transactions, or balance sheet work-offs.
- Specify the procedures and the operational model.

Targeted Audience:

- Financial regulators and policymakers.
- Banking executives and decision-makers.
- Risk management professionals.
- Financial analysts and consultants.
- Economic advisors and researchers.

Program Outline:

Unit 1:

Introduction:

- Definition of bad banks and their role in financial systems.
- Historical context: Overview of past instances where bad banks were utilized.

- Objectives of setting up bad banks: Stabilization, asset management, and systemic risk reduction.
- Key stakeholders involved: Governments, central banks, regulatory authorities, and financial institutions.
- Challenges and considerations: Legal, financial, and operational hurdles in establishing and operating bad banks.

Unit 2:

Status of the financial crisis and the need for Bad Banks:

- Analysis of the current financial crisis and its impact on banking systems worldwide.
- Assessment of liquidity issues in short-term funding markets and their implications.
- Government interventions to support the stability of the banking system during crises.
- Overview of recapitalization strategies and funding support mechanisms employed by governments.
- Evaluation of the necessity and effectiveness of bad banks in addressing the aftermath of financial crises.

Unit 3:

Individual bad banks - what banks have been doing:

- Examination of the legal framework governing the establishment and operation of bad banks.
- Case studies of banks that have implemented bad bank strategies, highlighting their motivations and outcomes.
- Development of business cases for creating bad banks, considering factors such as asset quality and market conditions.
- Strategies for managing portfolios of distressed assets within bad banks, including risk mitigation and asset disposition.
- Designing efficient operating models and processes for bad banks to maximize effectiveness and minimize costs.

Unit 4:

State-supported bad banks plans:

- Criteria for determining when governments should intervene and create bad bank plans.
- Concrete schemes for structuring bad bank entities, including asset transfer mechanisms and capitalization strategies.
- Approaches to minimizing the fiscal burden on the public when implementing bad bank plans.

- Assessment of the economic and social impact of bad bank initiatives on stakeholders, including taxpayers and investors.
- International comparisons of state-supported bad bank models, identifying best practices and lessons learned.

Unit 5:

Outlook:

- Revision: Reviewing and consolidating key concepts and learnings from previous units.
- Workshop: Engaging in practical exercises and discussions to reinforce understanding and application of bad bank setup principles.
- Future considerations: Exploring potential developments in bad bank strategies and their implications for financial systems.
- Regulatory landscape: Analyzing regulatory changes and their impact on the establishment and operation of bad banks.
- Global perspective: Examining international trends and experiences in dealing with financial crises and implementing bad bank solutions.