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ESL ENGLISH LESSON (60-120 mins) – 20th March 2012

What is SIFI banking?

More than a few months ago I was set a challenge by some students to write a lesson about *SIFI Banking*. I discovered *SIFI* has nothing to do with science fiction (Sci-Fi) banking i.e. banking in the future! SIFI actually means '*systemically important financial institutions*'. The term was created in 2009 following the financial crisis of 2008.

Investopedia explains SIFI as '*Supervision and regulations of systemically important financial institutions* - intended to prevent firms from becoming "too big to fail", and to prevent any assumptions that the government will provide financial support, in the event the firms do run into financial trouble'.

Investopedia also explains that a SIFI is *any firm*, as designated by the U.S. Federal Reserve, whose collapse would pose a serious threat to the economy. SIFIs became the target of legislation and regulatory reform by the Obama Administration, due to issues concerning their consolidated supervision and regulation, following the financial crisis in 2008.

Many institutions have actively lobbied against being identified as a SIFI, because of the additional and significant regulatory requirements that SIFI firms will endure. Factors for determining if a firm is SIFI include its size, if it accounts for a certain percentage of the activities of a financial sector or market, as well as the possibility of contagion of a collapse to other firms based on the direct and indirect links with the other firms.

Economic risks can arise from the banking sector including other financial organisations such as investment banks and insurance firms. In the U.S. new regulations under the Dodd-Frank legislation, mandate that financial institutions that fit the SIFI qualifications, will have to meet higher capital standards and develop contingency plans for potential future failures.

Wikipedia says they are financial institutions that are deemed systemically important to the economy in the sense that the failure of one of them could trigger a global financial crisis. The prevention of their collapse and the limitation of the consequences of a collapse are important as a means of protecting the financial system. To date, it states, there is no consensual definition of what a global systemically important bank actually is.

Category: Business / Economic / Banking – SIFI
Level: Upper intermediate / Advanced

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In November 2011, following a G-20 leaders meeting in Cannes, the Financial Stability Board (FSB) made an industry-changing announcement on the identification of SIFIs (and who they are) and the additional capital SIFIs will need to hold. The Basel Committee (in Switzerland) adopted a series of indicators that reflect the size, interconnectedness, the lack of readily available substitutes of financial institution infrastructure, their (cross-jurisdictional) activity and their complexity. In some cases, it stated, expert judgement can supersede the indicators.

Every year in November a list is published of the 29 big financial institutions (17 European, 8 U.S.A., 4 Asian) that make up the 29 Globally Systemically Important Financial Institutions (G-SIFI). These include from Britain; the top four banks (HSBC, Barclays, Lloyds Banking Group, The Royal Bank of Scotland), from France (BNP Paribas, Crédit Agricole, Société Générale), from Spain (Santander), from the US (Goldman Sachs, JP Morgan, Bank of America), from Asia (Bank of China). Oddly, Standard Chartered Bank, which is a worldwide bank, is missing from the list, yet Lloyds Banking Group, primarily a UK High Street bank, is on the list. In SIFI terms, it appears, size is not all important!

The Financial Stability Board, the regulator that has drawn up the rules, describes G-SIFIs as 'financial institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity'.

The Basel Accords address how much capital banks need to put aside to guard against financial and operational risks. The Basel Committee on Banking Supervision announced that all non-core equity capital instruments would have to have a bail-in**** feature from 1st January 2013, i.e. bondholders being forced to suffer losses before a bankruptcy. Regulators have now less than a year to make this complex regulation workable, and banks that do it well will have greater competitive advantage over other institutions. The big capital changes get phased in by 2019, but by the end of this year the chosen few will have to produce detailed "resolution" plans showing how they could be broken up in a crisis. *The Guardian* noted that some banks may be disappointed not to make the SIFI list. Essentially, it says, SIFIs are a badge that means a firm has been deemed "too big to fail". Will banks on the borderline try to get onto the list, or shed weight or streamline themselves to be excluded? **(**see links p8)**

EXERCISES

1. SIFI banking: What do you think SIFI banking is? Go round the room swapping details with others.

2. Dictation: The teacher will read four to six lines of the article slowly and clearly. Students will write down what they hear. The teacher will repeat the passage slowly again. Self-correct your work from page one - filling in spaces and correcting mistakes. Be honest with yourself on the number of errors. Advise the teacher of your total number of errors. Less than five is very good. Ten is acceptable. Any more is room for improvement! More than twenty - you need to do some work!

3. Reading: The students should now read the article aloud, swapping readers every paragraph.

4. Vocabulary: Students should now look through the article and underline any vocabulary they do not know. Look in dictionaries. Discuss and help each other out. The teacher will go through and explain any unknown words or phrases.

5. The article: Students should look through the article with the teacher.

a) What is the article about?
b) What do you think about the article?
c) Look at several of the meanings in the article. Try to explain some of them.

6. Let's think! In pairs. On the board write as many words as you can to do with ***SIFI Banking***. *One-two minutes.* Compare with other teams. Using your words compile a short dialogue together.

7. Let's do 'The Article Quiz': Have the students quiz each other in pairs. They score a point for each correct answer and half a point each time they have to look at the article for help. See who can get the highest score!

Student A

1) What does 'SIFI' actually mean?
2) What happened in 2008?
3) When was the term SIFI first created?
4) What does FSB stand for?
5) What will have to happen by 2013?

Student B

1) How many big financial institutions are on the list?
2) Name the British banks.
3) What does the Basel Accord address?
4) Explain the last sentence in the article.
5) What happens every November?

8. Let's write an e-mail: Write and send a 200 word e-mail to your teacher about*:* ***SIFI banking****.* Your e-mail can be read out in class.

9. Let's roleplay 1: FT AM: In pairs/groups. One of you is the interviewer. The others are one of the following people. You are in the *FT AM* radio studio. Today's interview is about: *SIFI Banking.*

1	A banker	3	A journalist
2	An Obama spokesperson	4	An FSB spokesperson

The teacher will choose some pairs to roleplay their interview in front of the class.

10. SIFI categories: In pairs discuss the following.

Category 1 - Financial institutions that would be considered SIFIs on the basis of size alone (the classic *too big to let fail* category) or to concentration (the firm is a dominant player in an economically significant financial market or activity)

Category 2 - Financial institutions that are systemically important because of interconnectedness (interbank or inter-firm exposure, also known as contagion)

Category 3 - Financial institutions that are systemically important as a group because of correlated risk exposures (the *too many to fail* problem). Also included in category 3 would be financial institutions that are systemically important because of conditions or context

Category 4 - Large financial institutions that are not systemically important but whose failure could have economically significant implications for regional economies. This category would include large regional banking companies and large insurance companies

Category 5 - Financial institutions not included in the other categories, consisting primarily of community financial institutions

Source: Federal Reserve Bank of Cleveland

SPEAKING Let's discuss! SIFI banking – open house

Allow 10-15 minutes – As a class / small groups / pairs / 1 to 1

SIFI banking – discuss together

Advantages and disadvantages

The teacher can moderate the session.

DISCUSSION

Student A questions

1) Did the headline make you want to read the article?
2) Is this an easy or hard subject to understand?
3) What was the criterion for choosing these 29 financial institutions?
4) Will there be any amount of money or bailout to support the banks/financial institutions if one fails?
5) Concerning question 4 above - Who will pay it?
6) How do they save the financial institutions if they fall?
7) Could there be a domino effect?
8) Who made up the 29 financial institutions on the list?
9) What is your country doing on this subject?
10) How will the possibility of a domino effect amongst small institutions, that could trigger a systemic problem, be addressed?

Student B questions

1) What do you think about what you read?
2) Had you heard about this subject before?
3) Explain the last sentence – 'Will banks on the borderline try to get onto the list, or shed weight or streamline themselves to be excluded?
4) Have you learnt anything in today's English lesson?
5) Are governments or regulators or both regulating banks to reduce their risks?
6) Are banks more regulated since the financial crisis in 2008?
7) Is this all a lot of hot air?
8) Why are all these measures necessary?
9) Why should big institutions be too big to fail? Explain.
10) Why do you think there are only 29 institutions on the list?

Student C questions

1) Will savers lose out?
2) To reduce risk should investment banks and commercial banks be split in countries, like the UK, where they are one entity?
3) How will the financial institutions, governments and other participants in the financial markets react if one of the firms on this list gets into financial trouble?
4) Is there an action plan?
5) What will happen?
6) Who will be the driver of this action?
7) What type of regulation will be introduced by the G20 countries?
8) Why is Standard Chartered not on the list?
9) Do you believe in putting your wealth into gold because property and banks are too risky?
10) Did you like this discussion?

GAP FILL: READING:

Put the words into the gaps in the text.

What is SIFI banking?

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Investopedia explains SIFI as '*Supervision and (3)_____ of systemically important financial institutions* - intended to prevent firms from becoming "too big to fail", and to prevent any assumptions that the government will provide financial support, in the event the firms do run into financial (4)_____'.

Investopedia also explains that a SIFI is *any firm*, as designated by the U.S. Federal Reserve, whose (5)_____ would pose a serious threat to the economy. SIFIs became the target of (6)_____ and regulatory (7)____ by the Obama Administration, due to issues concerning their consolidated supervision and regulation, following the financial (8)_____ in 2008.

legislation

reform

collapse

term

crisis

trouble

regulations

challenge

Many (1)_____ have actively lobbied against being identified as a SIFI, because of the additional and significant regulatory requirements that SIFI firms will (2)_____. Factors for determining if a firm is SIFI include its (3)_____, if it accounts for a certain percentage of the activities of a financial (4)_____ or market, as well as the possibility of (5)_____ of a collapse to other firms based on the direct and indirect links with the other firms.

Economic (6)_____ can arise from the banking sector including other financial organisations such as investment banks and insurance firms. In the U.S. new regulations under the Dodd-Frank legislation, (7)_____ that financial institutions that fit the SIFI qualifications, will have to meet higher capital standards and develop contingency plans for (8)_____ future failures.

potential

size

endure

institutions

contagion

risks

mandate

sector

GRAMMAR

Put the words into the gaps in the text.

What is SIFI banking?

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Investopedia (4)__ explains (5)__ a SIFI is *any firm*, as designated by the U.S. Federal Reserve, (6)__ collapse (7)__ pose a serious threat to the economy. SIFIs became the target of legislation and regulatory reform by the Obama Administration, due to issues concerning (8)__ consolidated supervision and regulation, following the financial crisis in 2008.

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Economic risks (4)__ arise from the banking sector including other financial organisations such as investment banks and insurance firms. (5)__ the U.S. new regulations under (6)__ Dodd-Frank legislation, mandate that financial institutions that fit the SIFI qualifications, will have to meet higher capital standards (7)__ develop contingency plans (8)__ potential future failures.

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SPELLING TEST

The teacher will ask the class individually to spell the following words that are in the article. Afterwards, check your answers with your teacher, using the following ratings: **Pass = 12, Good = 15, Very good = 18, Excellent = 20**

1	indirect	11	legislation
2	financial	12	risks
3	systemically	13	contagion
4	supervision	14	percentage
5	assumptions	15	activities
6	institutions	16	collapse
7	organisations	17	sector
8	mandate	18	significant
9	qualifications	19	regulatory
10	contingency	20	endure

LINKS

http://www.pwc.com/gx/en/banking-capital-markets/basel/index.jhtml
http://en.wikipedia.org/wiki/Systemically_important_financial_institution
http://www.financialstabilityboard.org/publications/r_111104bb.pdf
http://www.financialstabilityboard.org/press/pr_111104cc.pdf
http://www.investopedia.com/terms/s/systemically-important-financial-institution-sifi.asp#axzz1ozPABUjn
http://www.guardian.co.uk/business/2011/nov/06/banks-disappointed-not-on-g-sifi-list
http://www.forbes.com/sites/afontevecchia/2011/11/04/the-worlds-29-most-systemically-important-banks/
http://www.clevelandfed.org/research/policydis/pdp27.cfm
http://www.wordspy.com/words/SIFI.asp
From page 2 = What is a bail-in? = see http://lexicon.ft.com/Term?term=bail_in

ANSWERS GAP FILL: What is SIFI banking? More than a few months ago I was set a **challenge** by some students to write a lesson about *SIFI Banking*. I discovered *SIFI* has nothing to do with science fiction (Sci-Fi) banking i.e. banking in the future! SIFI actually means '*systemically important financial institutions'*. The **term** was created in 2009 following the financial crisis of 2008. *Investopedia* explains SIFI as '*Supervision and **regulations** of systemically important financial institutions* - intended to prevent firms from becoming "too big to fail", and to prevent any assumptions that the government will provide financial support, in the event the firms do run into financial **trouble'**. *Investopedia* also explains that a SIFI is *any firm*, as designated by the U.S. Federal Reserve, whose **collapse** would pose a serious threat to the economy. SIFIs became the target of **legislation** and regulatory **reform** by the Obama Administration, due to issues concerning their consolidated supervision and regulation, following the financial **crisis** in 2008.

Many **institutions** have actively lobbied against being identified as a SIFI, because of the additional and significant regulatory requirements that SIFI firms will **endure**. Factors for determining if a firm is SIFI include its **size**, if it accounts for a certain percentage of the activities of a financial **sector** or market, as well as the possibility of **contagion** of a collapse to other firms based on the direct and indirect links with the other firms. Economic **risks** can arise from the banking sector including other financial organisations such as investment banks and insurance firms. In the U.S. new regulations under the Dodd-Frank legislation, **mandate** that financial institutions that fit the SIFI qualifications, will have to meet higher capital standards and develop contingency plans for **potential** future failures. **(V6)**

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