



Single Resolution Board: Contrasting outcomes for banks



Dealing with weak or failing banks:
are exceptions becoming the new norm?

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Dealing with weak or failing banks: are exceptions becoming the new norm?

The implementation of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR) was supposed to clarify how the authorities should deal with failing banks in Europe. The use of resolution tools – the ‘bailing-in’ of (some) creditors, sale of assets, bridge bank, and the setting up of an asset management company – was intended to enable the critical economic functions of a failing systemically important bank to continue to be provided, without taxpayer support, while losses were absorbed and the failing bank was recapitalised and/or restructured. Smaller failing banks should be put into liquidation, with retail and small SME depositors protected through deposit guarantee schemes.

However, three recent cases illustrate that while the BRRD resolution tools can be used quickly and effectively in some circumstances, exceptions to the core BRRD approach may become the new norm.



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The decision taken today safeguards the depositors and critical functions of Banco Popular. This shows that the tools given to resolution authorities after the crisis are effective to protect taxpayers’ money from bailing out banks.”

Elke König, Chair of the SRB.

Banco Popular Español was acquired by Banco Santander after SRB resolution action.

Banco Popular Español, the sixth largest banking group in Spain, was the first resolution action taken (on 7 June) by the Single Resolution Board (SRB):

- The European Central Bank (ECB) concluded that Banco Popular was failing or likely to fail, in particular because of the rapid deterioration in its liquidity;
- The SRB decided that there was no reasonable prospect that a private sale of Banco Popular could be completed in sufficient time (and any recovery plans Banco Popular had in place had not succeeded in restoring the

bank’s health); and

- The SRB concluded that resolution action was in the public interest (rather than putting Banco Popular into insolvency proceedings) to ensure the continuity of critical functions (deposit taking, lending to SMEs and payment and cash services) and to preserve financial stability.

The SRB used the bail-in and the sale of business resolution tools in order to (i) write off the bank’s equity and additional tier 1 capital instruments; (ii) convert the bank’s tier 2 subordinated debt into new equity; and (iii) sell Banco Popular in its entirety to Banco Santander for the price of €1. Banco Santander then recapitalised Banco Popular by injecting around €7 billion of capital.

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This was a relatively straightforward resolution. There was no need to bail-in any creditors beyond those holding regulatory capital; there was no need for the authorities to restructure the bank (for example by selling 'bad' assets to an asset management company); there was no need to put any of the assets and liabilities of the bank into a bridge bank; and there was no need for taxpayer support.

In effect, resolution was used to wipe out the claims of the holders of equity and subordinated bonds (thereby absorbing the losses) in order to create an entity that was attractive for purchase by a larger bank at a nominal price. This case also demonstrated that the powers under the BRRD and the SRMR are capable of being activated quickly.



The assets of Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A. were partially acquired by Intesa Sanpaolo through Italian insolvency procedures and Italian government action.

Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A. were put into a government-assisted liquidation over the weekend of 24-25 June:

- The ECB concluded that these two banks were failing or likely to fail;
- The SRB concluded that there were no alternative supervisory or private sector measures that could prevent the failure of the banks;
- However, the SRB also concluded that for these two banks, resolution action would not have been in the public's interest, in particular because neither of these banks provided critical functions, and their failure was not expected to have a significant adverse impact on financial stability.

These two banks were therefore put into liquidation, to be wound up under national (Italian) insolvency proceedings. However, the Italian government also argued that there was a regional economic risk from the failure of two important lenders in the Veneto region.

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Following today's decision taken by the European Central Bank to declare Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A. as 'failing or likely to fail', the Single Resolution Board has decided that resolution action by the SRB is not warranted for these banks.”

SRB

The European Commission agreed that State Aid could be provided because there would not be a distortion to competition and the two banks would be restructured through a closure of some branches and a reduction in staff numbers. As a result:

- The Italian government will provide €4.8 billion to Intesa Sanpaolo, to enable Intesa Sanpaolo to purchase the 'good' assets of the two banks for a token price of €1 while maintaining its capital ratios;
- The Italian government will provide an additional €12 billion in government guarantees to support the 'bad' assets of the two banks, which will be held separately.

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The Italian government noted that it was difficult to force losses on senior bond holders in the two failing banks, because some of these bonds were held by retail investors. In addition, €10 billion of senior bonds issued by the two banks had earlier been guaranteed by the Italian government, with the agreement of the European Commission, at a time when the two banks had been deemed to be solvent.

Although public funds can be provided under the EU's State Aid rules, this case demonstrates the peculiarity of the SRB and the Italian government reaching different judgement about whether the failing banks posed a risk to financial stability. It also demonstrates the constraints imposed on the authorities where banks have not pre-positioned themselves with sufficient bail-inable debt that could be used (within a resolution or a liquidation) to absorb losses, without the need for taxpayer funding.

Monte dei Paschi di Siena is being dealt with through a combination of:

- A publicly funded 'precautionary recapitalisation,' which is allowed under the BRRD as an extraordinary measure (that does not trigger resolution) where a bank complies with its capital requirements but is required to raise new capital due to the outcome of a scenario-based stress test that is set to maintain financial stability in the context of a systemic crisis, and where the bank is unable to raise capital privately;
- The sale of the bank's non-performing loans and other restructuring measures to comply with EU State Aid rules.

Summary of outcomes:

		Banco Popular Espanol	Banca Popolare di Vicenza and Veneto Banca	Monte dei Paschi di Siena
BRRD resolution tool	Bail in	✓	✗	✗
	Sale of Assets	✓ Sale of entire bank	✓ But liquidation not resolution	✓ But as condition for State Aid, not resolution
	Bridge Bank	✗	✗	✗
	Asset Management Company	✗	✓ But liquidation not resolution	✗
BRRD alternative	Precautionary recapitalisation	✗	✗	✓
Liquidation		✗	✓	✗
Taxpayer support		✗	✓	✓



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