

# Practical experience in implementing bank resolution measures: lessons and challenge

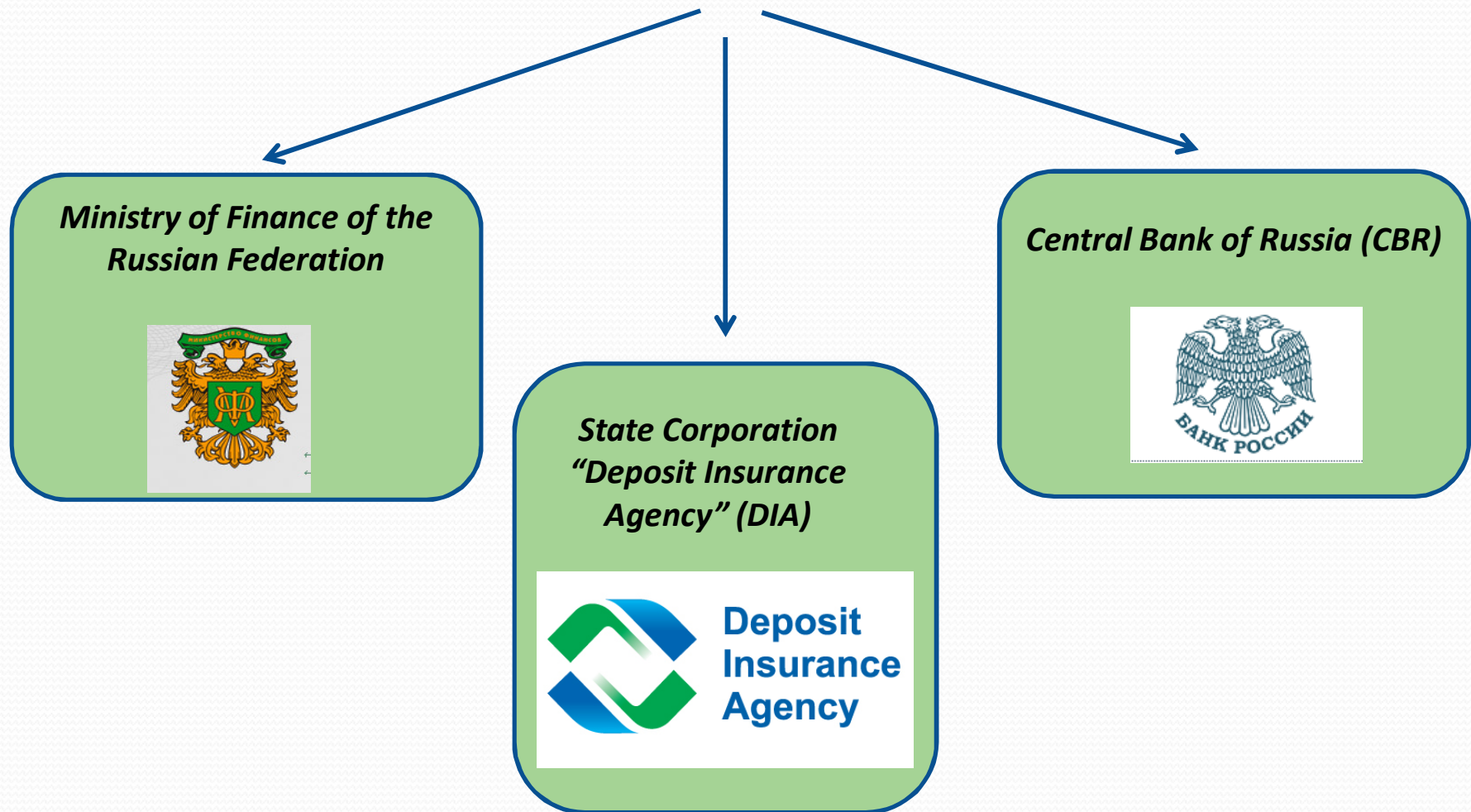
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Bucharest



# Bank Resolution Law

- **October, 27, 2008 – Federal Law «On additional measures to stabilize banking system through December 31, 2014» (Bank Resolution Law)**
- **Main goals of the state policy in resolution program**
  - **Stop the panic and uphold stability of the banking system in economic turmoil**
  - **Safeguard the depositors and general creditors of troubled banks**

# Financial Safety Net Participants: Resolution of Systemic Failing Banks (since Oct. 2008)







## Resolution of Systemic Banks: Functions of the Ministry of Finance

- **Providing resources from the Federal budget as property contribution of the Russian Federation in DIA's capital (2008 - RUR 200 billion (\$ 6,2 billion))**
- **Control over implementation of bank resolution measures**
  - **Minister of Finance of the Russian Federation – Chairman of DIA's Board of Directors**
  - **Minister of Finance of the Russian Federation is also a member of the National Banking Council of CBR**



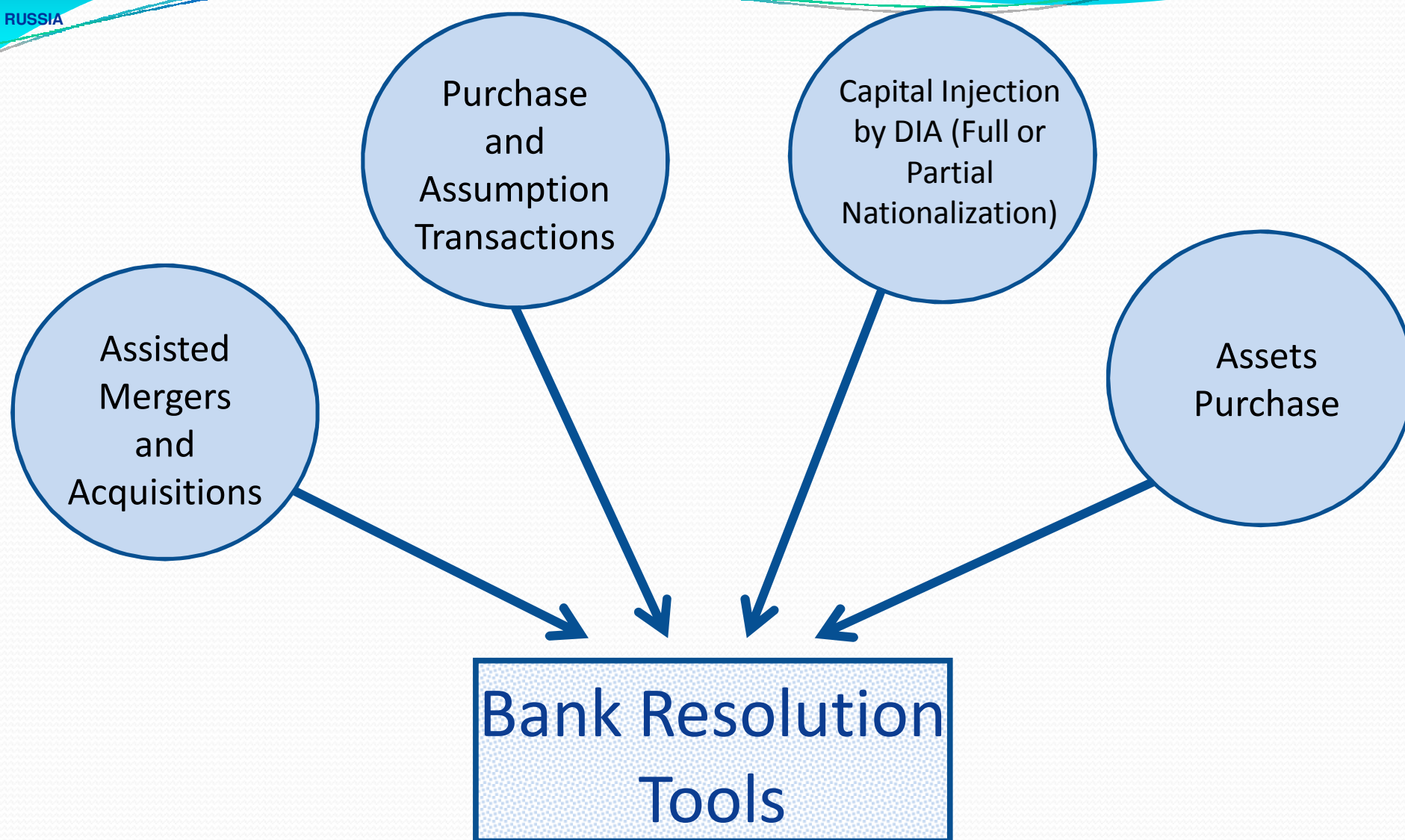
# Resolution of Systemic Banks: Functions of the Central Bank of Russia

- **Offering a bank to DIA for resolution**
- **Assessment of troubled bank financial state (using joint DIA-CBR examination team)**
- **Moratorium on imposing mandatory sanctions (license withdrawal, license limitation, financial penalties, additional reserve payments)**
- **Approval of bank resolution plan proposed by DIA**
- **Providing financial resources to DIA for implementing the approved financial resolution measures (loans)**
- **Control over implementation of bank resolution measures**



## Resolution of Systemic Banks: Functions of DIA

- **Evaluation of financial state of the troubled bank (jointly with CBR)**
- **Fulfillment of functions and powers of the troubled bank's provisional administration (appointed by CBR)**
- **Providing financial assistance to the selected private investor to the troubled bank (in case of assisted M&A) (approval by CBR)**
- **Providing financial assistance to the selected purchaser of assets and liabilities of the troubled bank (in case of arranging a P&A transaction) (approval by CBR)**
- **Acquiring shares of the troubled bank (in case of a partial/full temporary nationalization) and providing financial assistance (approval by CBR)**



# Assisted Mergers and Acquisitions

- **DIA finds/selects an investor by the troubled bank**
- **The selected investor purchases shares of the troubled bank**
- **The investor develops the bank's financial resolution plan**
- **The investor submits to DIA regular reports about implementation of measures included in the approved financial resolution plan**



# Purchase and Assumption Transactions

- **A financially sound bank takes deposit liabilities of the nonviable bank**
- **The financially sound bank acquires a part of assets of the nonviable bank covering liabilities that were transferred**
- **After completing the P&A transaction CBR revokes the troubled bank's banking license**

# Capital Injection by DIA

- **Utilized in cases when no private investor is available**
- **As the temporary measure is also used when the troubled bank is to be merged with a sound depository institution**
- **Joint purchase by DIA and the investor of shares in the troubled bank**
- **The Law requires DIA to sell its shares in the troubled bank when any interested investor express its interest in purchasing them – through open bidding process/sale**

# Assets Purchase

- **Assets are troubled only in the current situation – not “hopeless”**
- **Is used only when asset purchase results in improving financial state of the bank and its recovery prospects**



## The main reasons of banks financial situation decline in Russia in 2008

external reason – acute outflow of funds of individuals and, in some cases, legal entities, caused by the panic connected with the world financial crisis

internal reason – poor quality of assets: during the period of the economic growth owners of banks allocated funds of banks for their own projects with high concentration of risk

## 19 bank resolution projects:

- **15 banks - assisted Merger and Acquisition transaction**
- **1 bank – nowadays in DIA ownership (with injection of new capital)**
- **3 banks - Purchase and Assumption transaction (transfer of first priority liabilities (household deposits) and liquid assets to an acquiring bank)**

## Banks proposed to DIA by CBR for resolution (since October, 2008) – 24

- Accepted – 19
- Rejected – 5
- Projects finished – 14 of 19

12 of 19 projects were regional;  
8 banks before the crisis were among 100 largest in Russia, remaining 11 – among 200 largest in Russia

In a number of regions of the Russian Federation the measures implemented by DIA helped to prevent the chain reaction



## Bank resolution costs

- **Public funds used for resolution – RUR 641 bln (\$ 20 bln)**
  - **RUR 149 bln (\$4,7 bln) – capital injections from the state contribution to DIA property**
  - **RUR 7 bln (\$ 0,2 bln) – Deposit insurance fund**
  - **RUR 485 bln (\$15,2 bln) – loans from CBR**
- **Return to DIA from resolution procedures RUR 161 bln (\$ 5 bln) including RUR 125 bln (\$3,9 bln) of the debt body and RUR 36 bln (\$1,1 bln) of percentages**

# The lessons from 2008-2009 crisis and bank resolution

- **Chosen financial resolution model proved to be quite viable**
- **P&A transactions are to be used not only within resolution framework, but as a standard liquidation option**
- **Importance of early prevention and enforcement of troubled banks**
- **Importance of the effective coordination between CBR (supervision) and DIA (deposit insurance, liquidation and resolution)**



# Challenges

- **Make resolution tools more effective and functional**
- **Search of funding resources for resolution: it's important try not to use federal budget**
- **More emphasis on ways to exchange of information and coordinate with national safety net players**





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**Thank You!**

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