

SPAIN

New legal framework on bank resolution

Burden sharing

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EFMLG Meeting

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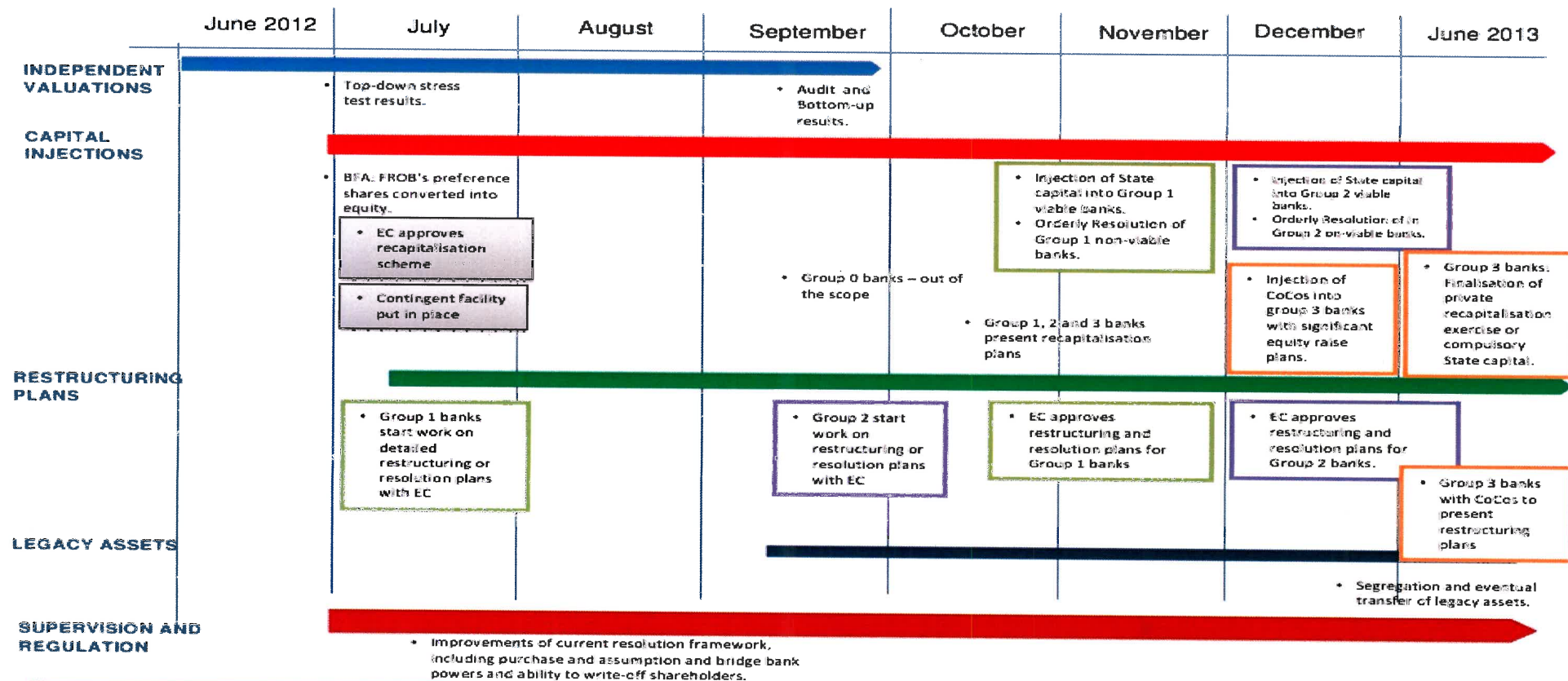
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- 01. MOU ON FINANCIAL SECTOR-POLICY CONDITIONALITY**
 - 02. NEW BANK RESOLUTION FRAMEWORK**
 - 03. BURDEN SHARING**

RESTRUCTURING OF THE SPANISH BANKING SECTOR: TIMELINE



- VS-NfD -

Figure 1:
Restructuring of the Spanish Banking Sector: Timeline



Group of banks:

- Group 0: Banks with no capital shortfall are out of the scope;
- Group 1: FROB banks (BFA/Bankia, CatalunyaCaixa, NovaCaixaGalicia, Banco de Valencia): banks for which State aid needs are – largely - known before the Stress Test and which will need to be validated on this basis;
- Group 2: Banks with capital shortfall identified by the Stress Test, with no possibility to raise privately capital, and thus which will need to recourse to State aid.
- Group 3: Banks with capital shortfall identified by the Stress Test, aiming at raising this privately.

EC: European Commission

MOU. MEASURES TO BE INCLUDED IN THE NEW LEGISLATION



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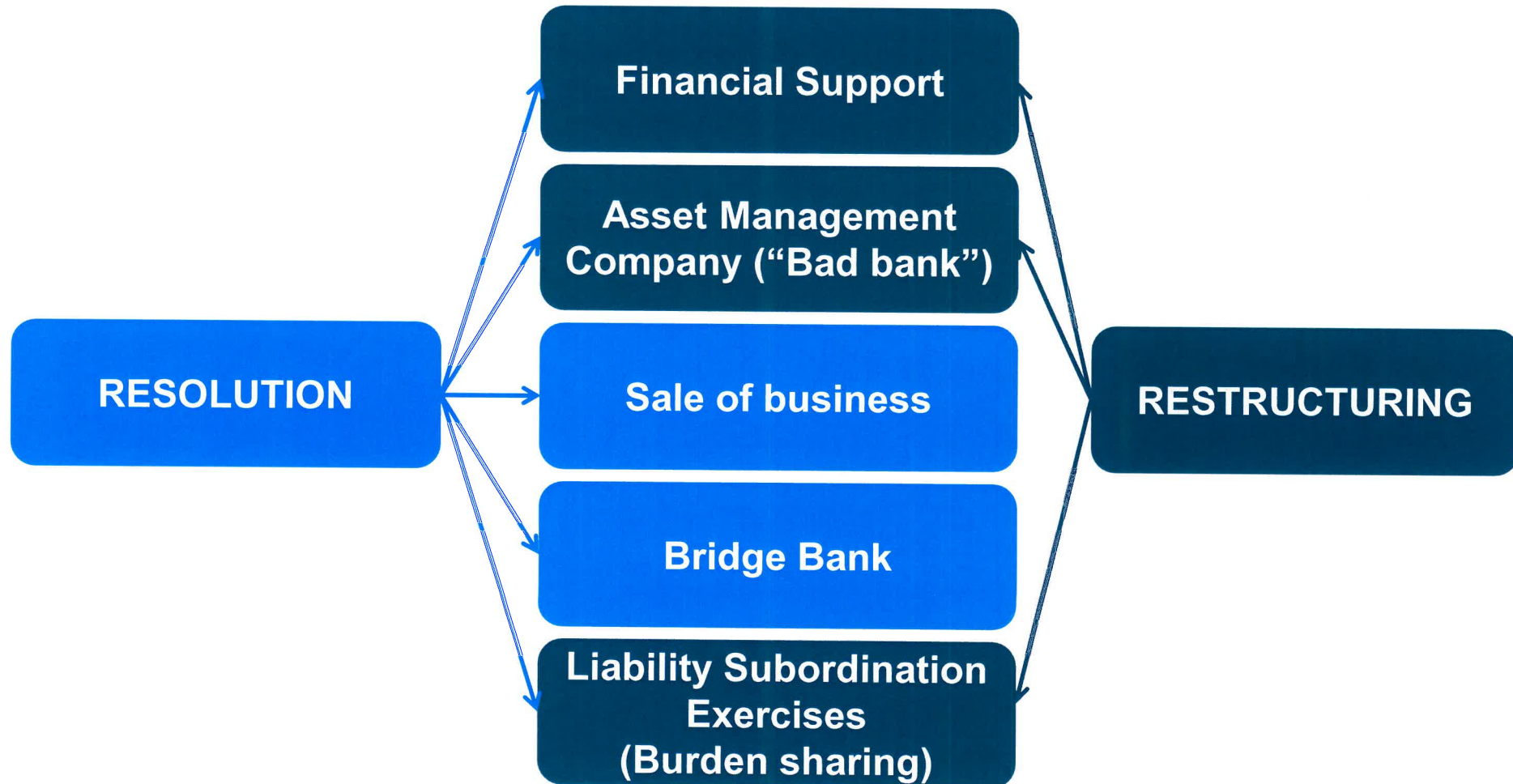
- ➔ **BANK RESOLUTION** Framework to be upgraded taking into account the EU regulatory proposal on crisis management and bank resolution
- ➔ **AUTHORITIES**
 - Strengthening the resolution powers of the FROB
 - Improving the operational independence as supervisor of the Banco de España
- ➔ **BURDEN SHARING.** Steps to minimise the cost to taxpayers of bank restructuring
- ➔ **“BAD BANK”.** Problematic assets of aided banks should be removed from the banks balance sheets and transferred to an external AMC

Royal Decree Law 24 /2012, August 31 - Law 9/2012, November 14⁴

RESOLUTION AND RESTRUCTURING PLANS. TOOLS



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Royal Decree Law 24 /2012, August 31 - Law 9/2012, November 14⁵

BURDEN SHARING. MINIMISE COST TO TAXPAYERS



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RULES

- ➔ **Resolution and Restructuring Plans must include burden sharing measures**
- ➔ **After allocating losses to equity holders, hybrid capital holders and subordinated debt holders should contribute through Subordinated Liability Exercises (SLEs)**
- ➔ **Hierarchy of claims in an insolvency procedure**
- ➔ **Creditors of the same class shall be treated in an equitable manner, except where otherwise provided in the Law**
- ➔ **No holder of instruments incurs greater losses that would be incurred if the bank would have been wound down under normal insolvency proceedings (“No worse off principle”)**

BURDEN SHARING. IMPLEMENTATION OF SLEs



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ACTIONS

- Exchange offers for capital instruments (ordinary shares)
- Repurchase offers of the securities by means of direct cash payment or conditioned to the reinvestment of the repurchased price in some other banking product
- Reduction of the nominal value of the debt
- Early redemption at a value different from the nominal value

- Determination by the FROB of the issues affected by the exercise
- No holder with instruments of better ranking incurs proportionally greater losses than others
- The total repurchase price of each of the issues shall not exceed their market value and taking into consideration the premiums and discounts in accordance with the UE State Aid Rules

LEGAL NATURE AND EFFECTS OF THE MEASURES BY THE FROB



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LEGAL NATURE OF THE MEASURES TAKEN BY THE FROB

- PUBLIC LAW ACTS (Administrative Nature)
- Immediately effective and enforceable

RIGHTS OF AFFECTED HOLDERS

- No action of any kind claiming payment on the grounds of non-fulfilment of the terms and conditions of the issue
- Maximum compensation restricted to the difference between the damage effectively suffered and the loss borne in the event that liquidation had occurred in an insolvency procedure

THIRD PARTY RIGHTS

- These measures shall neither be regarded as grounds for non-fulfilment of obligations with third parties, neither shall they trigger early termination clauses by third parties



ROAD MAP

**Aproval of the
first wave
of plans (Group 1)
End of Nov 12**

**Communication
of the details of
the Plans**

**Transfer of
assets to the
AMC
Dec 2012**

**Disbursement
of the
Facility
Dec 2012**