SPAIN
New legal framework on bank resolution
Burden sharing

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EFMLG Meeting
01. MOU ON FINANCIAL SECTOR-POLICY CONDITIONALITY

02. NEW BANK RESOLUTION FRAMEWORK

03. BURDEN SHARING
**Figure 1:**

**Restructuring of the Spanish Banking Sector: Timeline**

<table>
<thead>
<tr>
<th>June 2012</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>June 2013</th>
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**INDEPENDENT VALUATIONS**
- Top-down stress test results.
- Audit and bottom-up reviews.

**CAPITAL INJECTIONS**
- BIA, PBOC's preference shares converted into equity.
- EC approves recapitalisation scheme.
- Contingent facility put in place.

**RESTRUCTURING PLANS**
- Group 0 banks — out of the scope.
- Group 1 banks start work on detailed restructuring or resolution plans with EC.
- Group 2 banks start work on restructuring or resolution plans with EC.
- EC approves restructuring and resolution plans for Group 1 banks.
- EC approves restructuring and resolution plans for Group 2 banks.
- Group 3 banks with CoCos to present restructuring plans.

**LEGACY ASSETS**
- Improvements of current resolution framework, including purchase and assumption and bridge bank powers and ability to write-off shareholders.
- Segregation and eventual transfer of legacy assets.

**SUPERVISION AND REGULATION**

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**Group of banks:**
- **Group 0:** Banks with no capital shortfall are out of the scope.
- **Group 1:** BIA/Banks, 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.

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**EC:** European Commission
MOU. MEASURES TO BE INCLUDED IN THE NEW LEGISLATION

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 14
RESOLUTION AND RESTRUCTURING PLANS. TOOLS

RESOLUTION

Financial Support

Asset Management Company ("Bad bank")

Sale of business

Bridge Bank

Liability Subordination Exercises (Burden sharing)

RESTRUCTURING

Royal Decree Law 24/2012, August 31 - Law 9/2012, November 14
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

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 no exceed their market value and taking into consideration the premiums and discounts in accordance with the UE State Aide Rules
LEGAL NATURE AND EFFECTS OF THE MEASURES BY THE FROB

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
MOU JULY, 2012-STATE OF AFFAIRS

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