

Segmentation of
the single market
as a result of the
financial crisis.

Bank resolution in Greece & Cyprus – A comparative analysis

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Bank Resolution

Occurred in several EU countries. They can vary on impact.

“Velvet” resolutions – No loss to depositors, no loss of bank confidence. Not well known to most people.

“Messy” resolutions – Loss to depositors, risk of contagion, risk of bank run. Receive a lot of press. Well known to most people.

Greece

Mostly bail-out resolutions. 8 In total.

4 Re-capitalised with the assistance of the HFSF.

4 Bridge Bank or Transfer order resolutions.

Loss to shareholders & bondholders.

No losses to depositors.

Hellenic Financial Stability Fund received up to €50 billion from the European Financial Stability Facility in the form of EFSF bonds for the recapitalization of banks.

Significant Emergency Liquidity Assistance (ELA) received.

Cyprus

Mostly bail-in resolutions.

Cyprus Popular Bank (Laiki) – Loss of all unsecured deposits over €100.000 per person.

Bank of Cyprus – Conversion of 47,5% of deposits into equity at 100% nominal value.

Conversion of bonds into equity at a rate between 1% & 3% nominal value depending on seniority.

Previous shares converted to new shares at a rate of 1 new share for every 100 old shares (1%).

Bank of Cyprus received an €9,2 billion ELA liability of Laiki on moratorium, plus access to additional ELA assistance.

Cyprus

The three resolution examples:

Cyprus Popular Bank (Laiki):

Shareholders: Nothing

Bondholders: Nothing

Depositors: Only secured deposits

Bank of Cyprus:

Shareholders: 1% of nominal value

Senior bond holders: 3% of nominal value

Convertible bond holders: 2% of nominal value

Subordinated bond holders: 1% of nominal value

Depositors: 47,5% converted to equity at 100% nominal value

Cyprus

Hellenic Bank:

Shareholders: Small dilution post private re-capitalisation

Bondholders: Extension of maturity dates

Depositors: Full deposits still available for happy depositors

Both Laiki & Bank of Cyprus had to sell their Greek operations as a condition for EU/IMF financing to prevent contagion to Greece, and Hellenic Bank sold Greek operations voluntarily.

UK operations of Bank of Cyprus were separately capitalised and were unaffected. Bank of Cyprus absorbed Laiki UK, so those deposits were also protected & covered by the FSCS.

Greece - Cyprus

Were Cypriot banks worse off than Greek banks to start with?

Did Greece have better access to capital needed for resolution?

Was the legislative framework substantially different?

Capital control measures & means:

Cyprus – controversial decrees of questionable legality prohibiting outgoing transfers (easy to bypass) & even more controversial compulsory fixed term deposits.

Greece – informal threat of tax inspection for outgoing transfers (practically ignored by depositors) & bank delays

Greece - Cyprus

Cyprus: Internal capital controls. Prohibition to open an account with a new bank when you hold already an account with another bank.

Common element: Deposit guarantee funds did not contribute. Both actually dramatically thin capitalised (up to 2%) and unable to offer any solution.

Key differences: Access to capital to assist with bail-out.

Difference in systemic rating assessment of the banks.

Difference in danger of contagion & risk of pan-European bank run

The European Framework

Still up for review by the European Parliament.

Will take the form of a European Directive, needing national implementation.

Open issues for discussion. For example, requirement of bail-in prior to access to the European resolution funds.

Controversy: Retrospective application to Greece, Spain & other countries possible?

Possible reduction of country associated risk.

Still wide choice of resolution method and ability of each member state to promote its resolution method of choice.