

High Level Seminar on Bail-in & DIS Interaction

An Overview of Bail-in Approach & Turkish Resolution Regime

SAVINGS DEPOSIT INSURANCE FUND (SDIF) – TURKEY

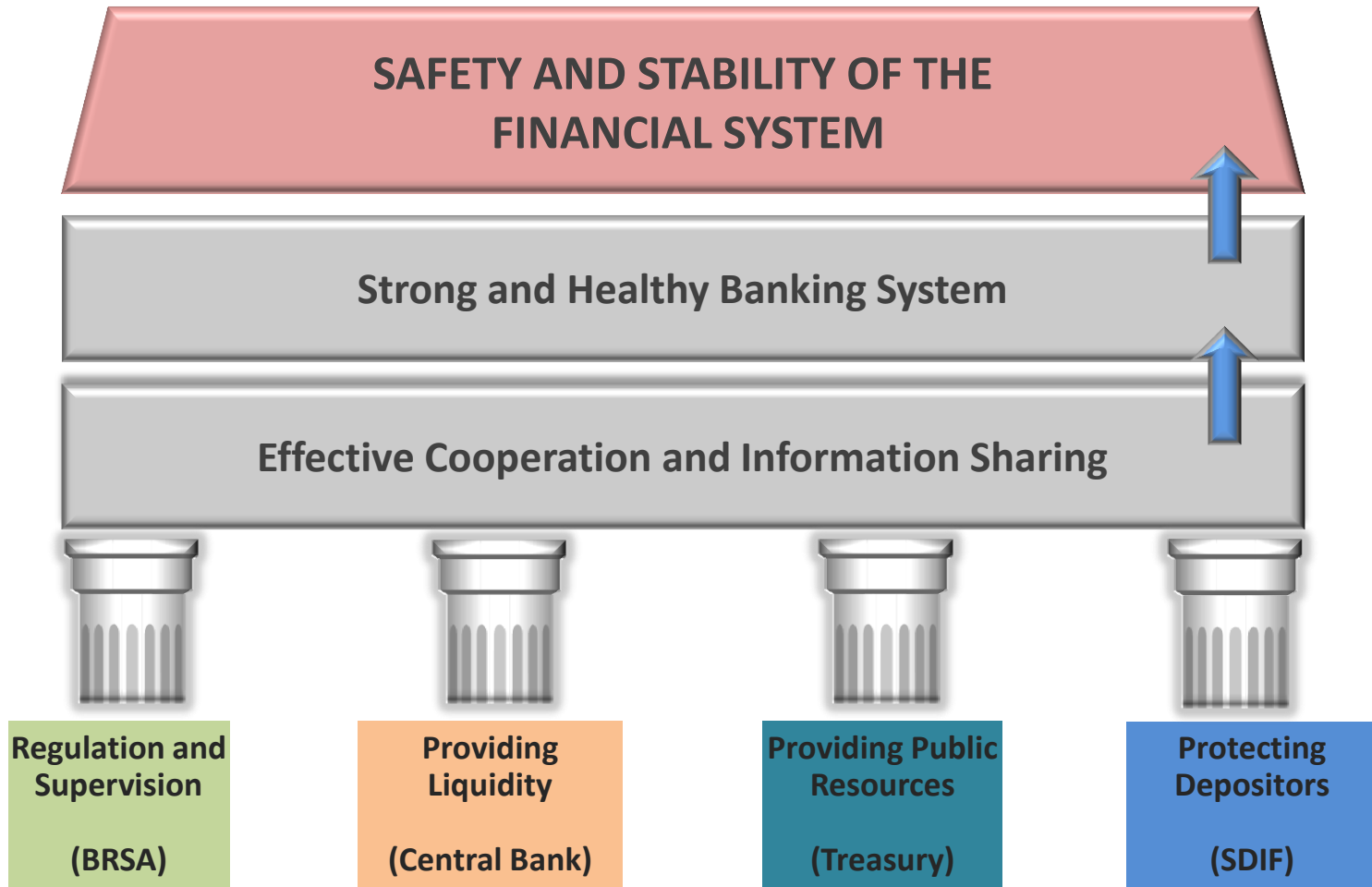
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Warsaw, June 25, 2014

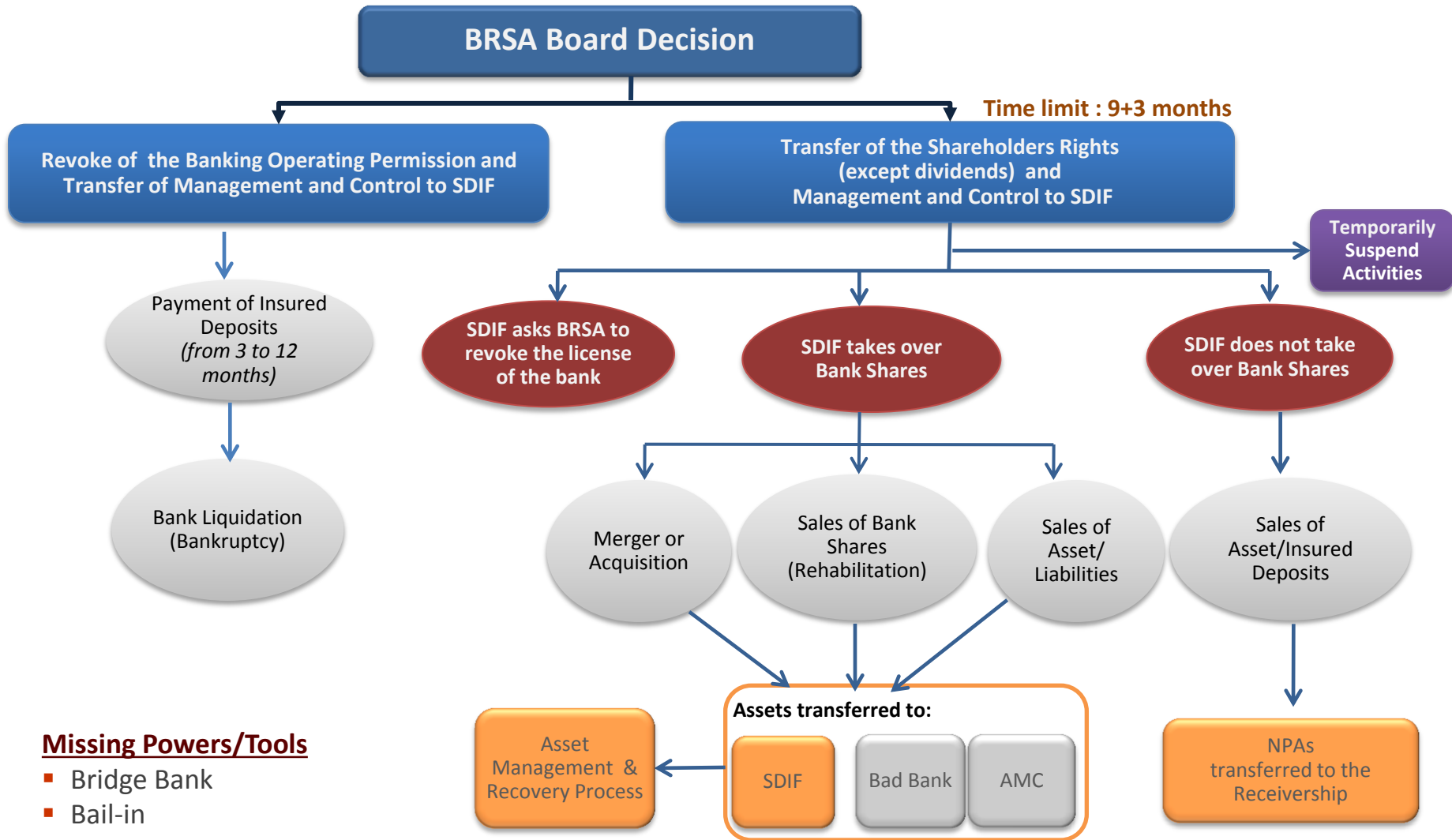
- I. Resolution Regime & Experience of Turkey**
- II. Evolution of Resolution Regime vs
Turkish Resolution Framework**
- III. Conclusion**



I. Resolution Regime & Experience of Turkey



Resolution Framework



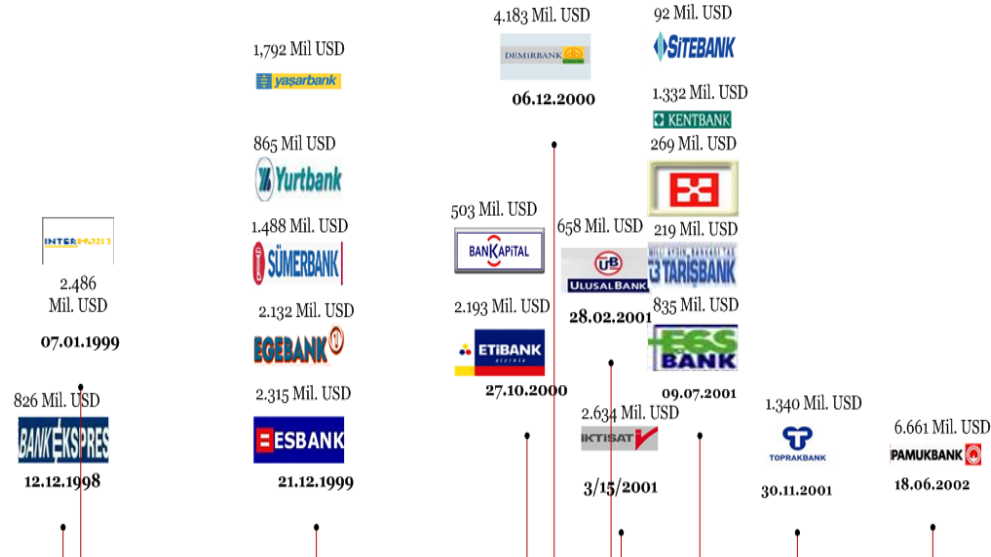
Missing Powers/Tools

- Bridge Bank
- Bail-in

Resolution Experience

During 1994-2003 period, 25 banks failed in Turkey.

(19) Nationalized



(6) Liquidated



No failure since 2003!..

Shares of 19 banks were taken over by SDIF to;

- Maintain financial stability
- Avoid bank runs
- Meet expectation of depositors
- Preserve the confidence of international investors
- Utilize limited resolution tools

- Rehabilitation of financial structure
 - Capital injection
 - Liquidity support
 - NPLs out of B/S
- Appointment of (Joint) Board members
- Deduction of operational costs
- Mitigation of legal and administrative problems
- Restructuring of bank operations

Sales (10)

(P&A and Bank Shares Sales)

- Diversified loan portfolio
- Enhanced branch coverage
- Preferable size for potential buyers
- Attractive real estate portfolio

Merger (8)

(under Bad Bank)

- Unattractive loan portfolio
- Limited franchise value
- High operational cost
- Legal issues with ex-owners and management

Merger (1)

(under a state-owned bank)

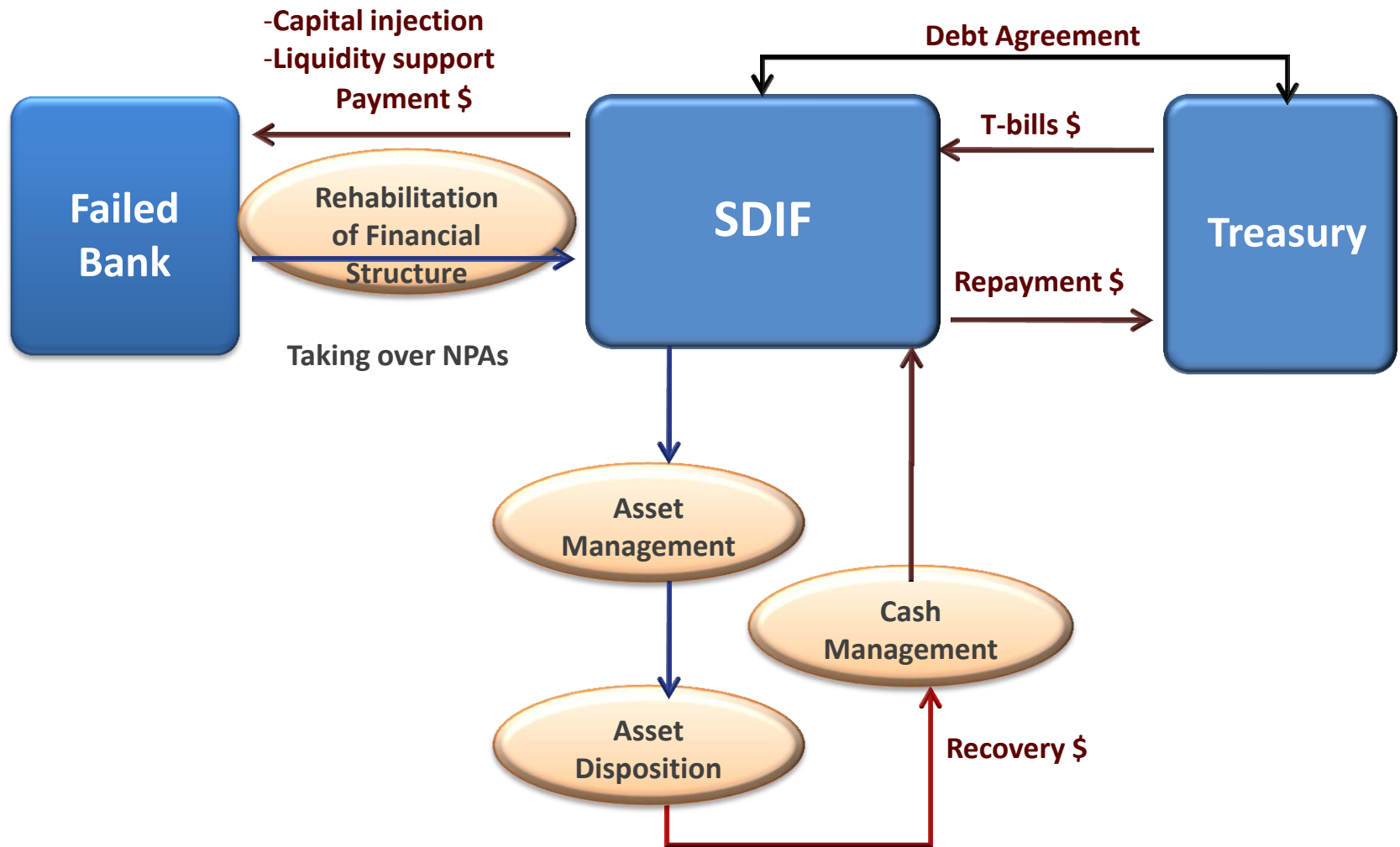
- Well designed IT systems, qualified staff, effective branch coverage
- Connected loans with legal problems
- Lack of interested investors
- High operational costs
- Brand recognition

Liquidation (6)

(Payout & winding-up process)

- Continuation of the bank activities will jeopardize the rights of depositors
- Total liabilities is greater than total assets of the bank
- No systemic effect

Funding of Resolution



Financial Summary of Resolution

(As of March 31, 2014)

(Million USD)

INCOME/RESOURCES

EXPENSES / REPAYMENTS

Resolution Income

21.513

Transferred Amount to the Banks and
Other Resolution Expenses

31.055

Treasury Debt

25.877

Repaid amount to the Treasury

11.634

Advances from the Central Bank

1.330

Repaid Advances to the Central Bank
(Principal+Interest)

1.418

Resources used from DIF

4.227

Payments to Other
Government Corporations

7.060

Evaluation Amount

-1.395

Resolution Reserve

384

31,4
mia
USD

- ❖ Ensure a well-designed legal infrastructure for resolution process
- ❖ Prompt exit is a must for non-viable banks
- ❖ **A recap strategy is necessary for the rest of the banks in the system**
 - **Make sure “owners’ hands are under the rock” as well (They must be written down for the losses)**
- ❖ Preserve the value of assets by using quick asset disposition techniques
- ❖ For funding of nationalized banks;
 - Determine eligibility & exit criterias properly
 - Use legal and administrative powers to recover losses from ex-bank owners
 - Keep ex-management liable for their misconduct
 - Appoint professional management

II. Evaluation of Resolution Regime vs Turkish Resolution Framework

Bank resolutions are too **costly, complex** and **time consuming** process, in particular for big FIs.

Before
Global Crisis

After
Global Crisis

❖ Traditional Resolution Methods Used

- Winding-up failed FIs & Payout
- Purchase & Assumption (P&A)
- Bridge Bank Establishment
- Merger & Acquisition or
- Open Bank Assistance (systemic risk)

❖ Bail-Out Plans

- High Amount of Resolution Costs

❖ No focus on cross border cooperation & coordination

❖ New Concepts for Resolution of FIs

- Definition of SIFI, GSIFI, DSIFI, GSIB, etc.
- Point of Non-viability, Gone Concern vs Going Concern
- Resolvability assessment, Recovery & Resolution Plans
- Loss Absorbance, GLAC, Bail-in, etc.

❖ New Standards or Principles for Financial Regulation

- BIS, Basel III Standards
- FSB, Key Attributes for Effective Resolution Regimes
- EU, Bank Recovery and Resolution Directive

❖ Cross Border Issues

- Home-Host Cooperation & Coordination
- Crisis Management Groups (CMGs)

Definition :

FSB defines Bail-in as

”Restructuring mechanisms to recapitalize a firm in resolution or effectively capitalize a bridge institution, under specified conditions, through the write-down, conversion or exchange of debt instruments and other senior or subordinated unsecured liabilities of the firm in resolution into, or for, equity or other instruments in that firm, the parent company of that firm or a newly formed bridge institution, as appropriate to legal frameworks and market capacity. ”

Benefits

- ❖ Restructure the capital base & improve the liability structure of FIs
(by writing down equity & unsecured claims or converting some/all unsecured claims to equity)
- ❖ Reduce or transfer the possible loss to the creditors
- ❖ Support the viability of the FI and preserve the stability of the financial system



❖ Corporate Governance

- DIS operational independence
- Advance triggering mechanism to start «bail-in» process

❖ Resolution powers

- Nature of bail-in powers (*Statutory or Contractual*) is important

❖ Funding

- Difficulties in funding mechanism (*high borrowing rates, decrease in credit rates*) and adverse affect on liability position of FIs (*insufficient bail-inable portfolio*)
- Possibility of having higher cost for DIS (*If bail-in applied, total cost should not exceed the cost under normal insolvency case*)

❖ Market Distortions

- Changes in behaviour of depositors & creditors (*Danger of «flight to safety»*)
- Market distortions because of shift in bank borrowing towards short term, bail-in exempt securities

❖ Cross Border Issues

- Lack of convergence in resolution powers (*regulatory arbitrage risk*)
- Necessity of having a well-developed cooperation & coordination platform (*Having proper MOUs with other jurisdictions is necessary*)

❖ Hierarchy of Claims

- Necessity of improvement in Depositors/Claims Preference and a clear hierarchy (*In particular «No Creditors Worse than in Liquidation» & «Parri Passu» principles*)

❖ Public Awareness & Disclosure (before and after bail-in process)

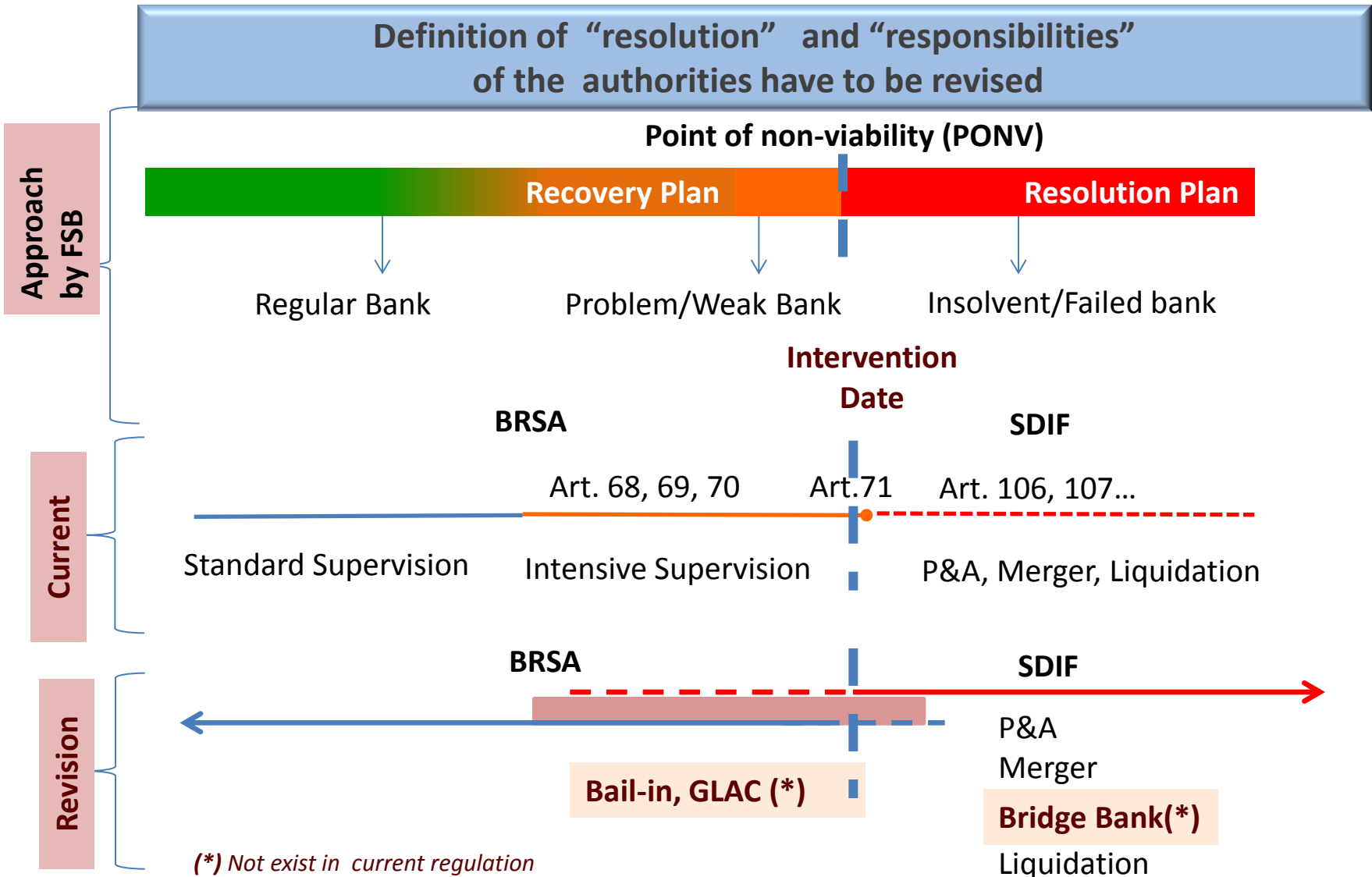
- Necessity of a new strategy/program for depositors, creditors and investors to inform about bail-in process (*DIS should conduct effective programs to inform target customers groups*)

Perception of Bail-in



http://cecaust.com.au/main.asp?sub=pubs&id=NC_07_10.html

Overview of Turkish Resolution Regime with FSB KAs

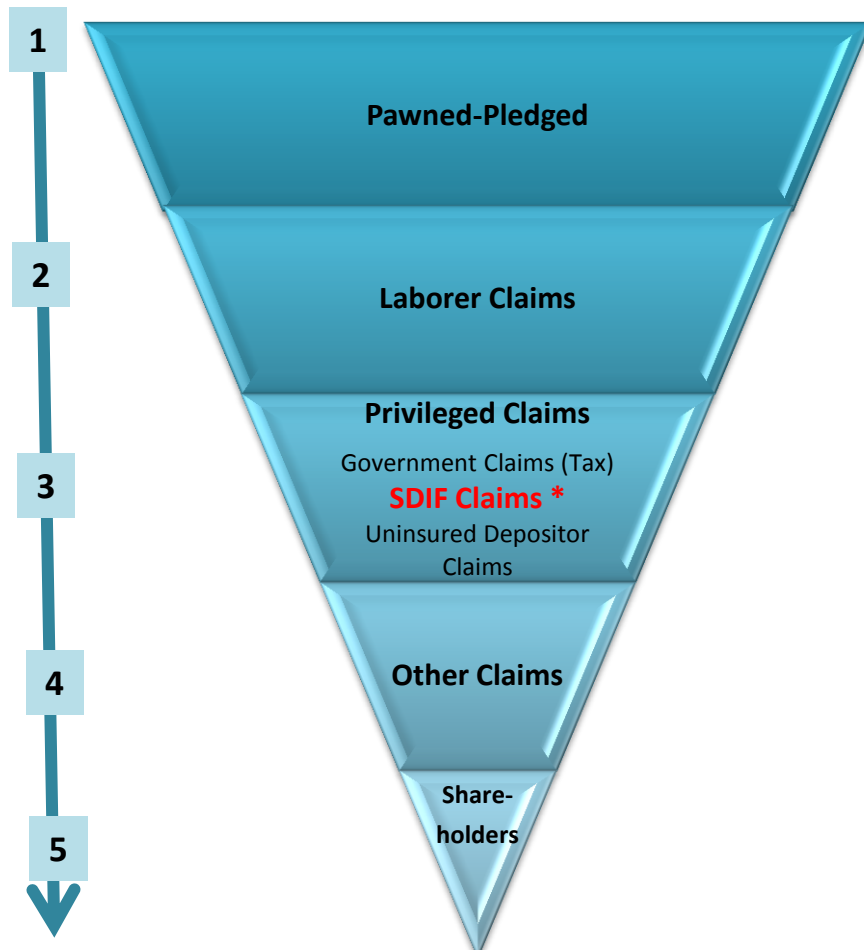


(*) Not exist in current regulation

Article 68-71 : Prompt Corrective Actions , Article 106 & 107: Intervention to a failed bank , Turkish Banking Act

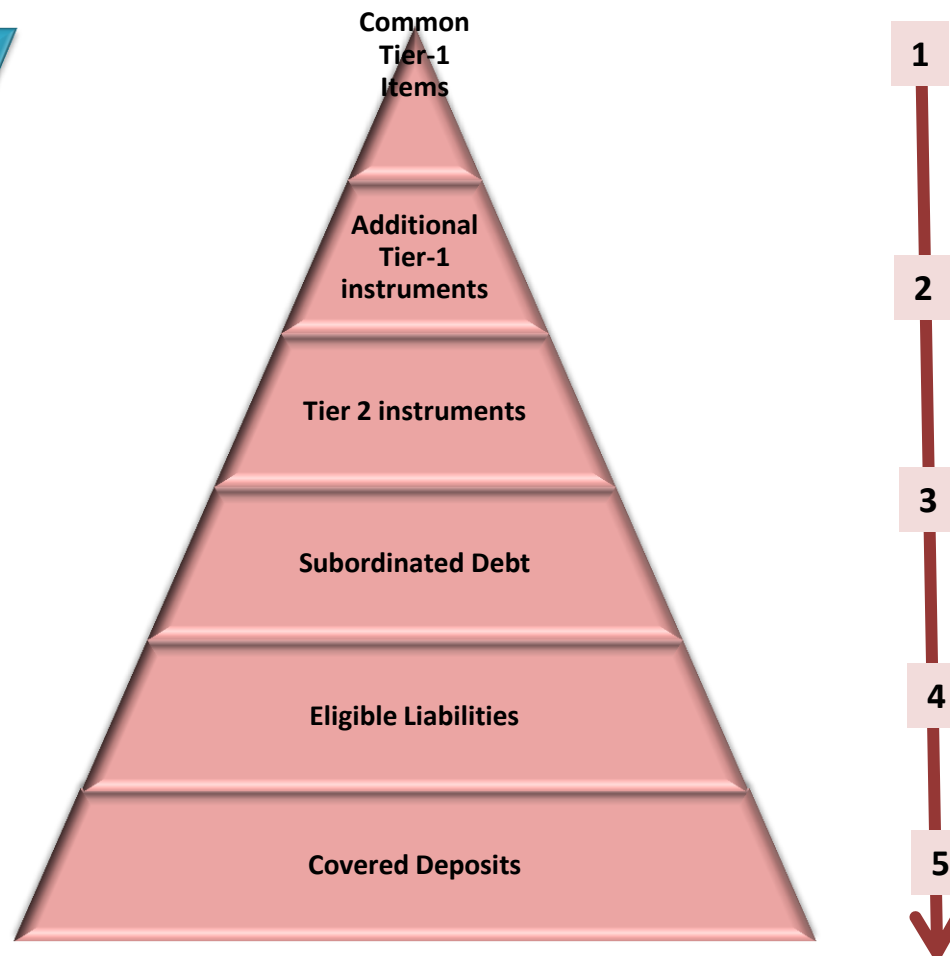
Creditors' Hierarchy vs Bail-inable Debt

Preference of Claims in TURKEY



* Reimbursed insured deposits

Bail-inable Debt **



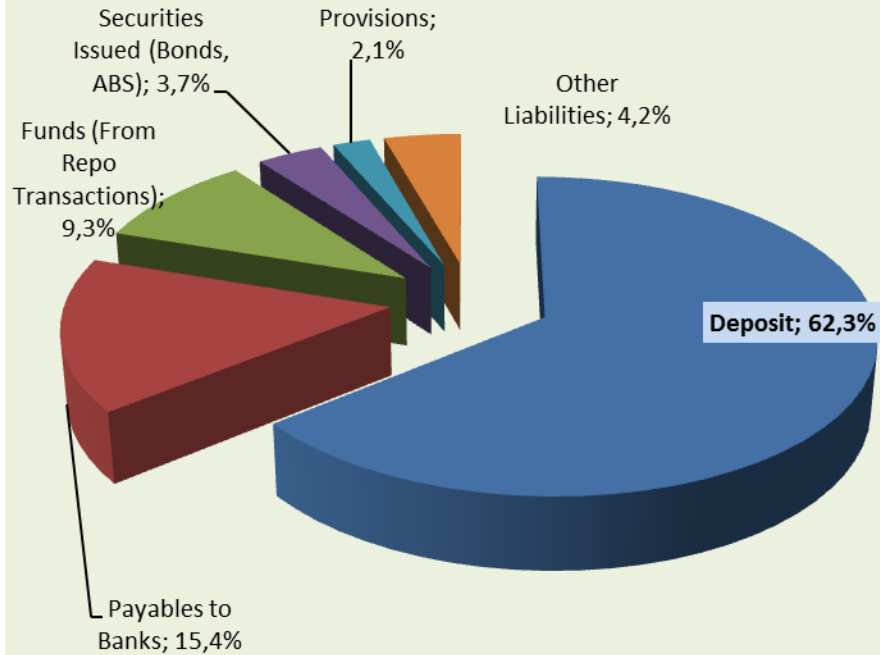
** Sequence of write down or conversion in EU BRRD

Turkish Banking Sector-Liability Structure

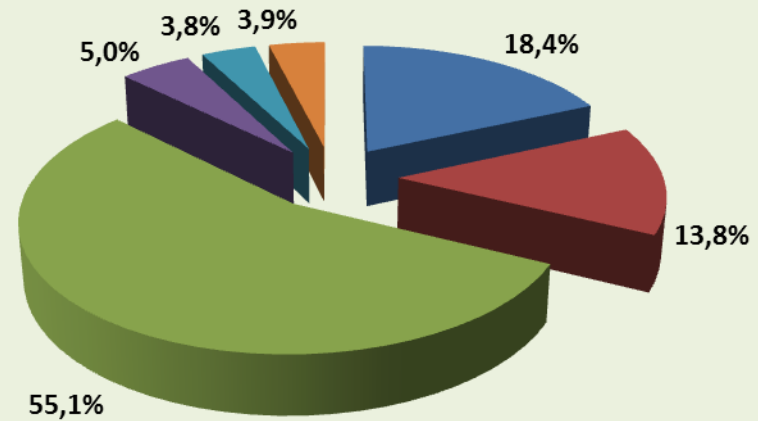


SAVINGS
DEPOSIT INSURANCE
FUND

Liability Composition of Turkish Banking Sector



Maturity Distribution of Deposits



■ Demand Deposit ■ 1 month ■ 1-3 Months
 ■ 3-6 Months ■ 6-12 Months ■ Above 1 year

SDIF's Membership Profile (As of March 31, 2014)

Total Assets	USD 820,6 billion	Insured Deposits / Total Deposits	0.29
Total Amount of Deposits	USD 438,1 billion	Number of Insured Depositors / Total Depositors	0.97
Total Amount of Insured Deposits	USD 124,6 billion	Capital Adequacy Ratio (On Average)	15.7 %
DIF	USD 6,9 billion	Number of Member Banks / Branches/ Personnel	36 banks /11,992 branches/209,992

III. Conclusion



Bail-in is not a «**magic box**», but a new resolution tool and very similar to a corporate restructuring method



Although bail-in approach will deliver comparable outcomes at lower cost to the resolution authorities (RA);

- ❖ It is very complex to implement in small/medium size FIs
(so it is feasible only for SIFI, GSIB or DSIBs)
- ❖ It demands some specific conditions
(bail-inable debt, an advanced/special resolution regime)
- ❖ It will affect depositors & creditors preference and bank's funding mechanism



A well-defined policy and procedures together with appropriate systems and resources is necessary for DIS to apply Bail-in approach effectively

- ❖ Use of **Bail-in method** could be only feasible for *DSIBs* because of liability structure of Turkish Banks.

Bail-inable debt is very limited in Turkey, since deposits are the major portion (% 62) of the total liabilities.

For this reason, the Bail-inable debt & bail-in power (statutory/contractual) are sensitive issues for Turkish regulatory bodies.

- ❖ However, as one of FSB jurisdiction and G20 member country, we have to adopt legislative reforms in the following areas in order to successfully implement new resolution principles,
 - Designation of D-SIFIS or D-SIBs in Turkey
 - Recovery and resolution planning (RRP) and resolvability assessment
 - Temporary stay on early termination rights
 - Funding Mechanism for D-SIFI/D-SIB resolution and finally
 - a Bail-in mechanism for Turkish Resolution regime

FSB KAs Principles

- ❖ **Now**, in conjunction with the G20 commitments and Financial Stability Board's (FSB) efforts to establish a new framework for resolution of systemically important banks (SIFI), SDIF and BRSA had started to work together.
- ❖ Last year, a **Task Force** was established by Turkish FSN members to adopt new international standards, namely FSB Kas including Bail-in.
- ❖ A **resolution workshop** was done with contribution of relevant FSN members of Turkey in February 2014.

IADI Core Principles

- ❖ **Last Year**, a workshop was executed for the Assessment of the Turkish DIS to the IADI Core Principles.
- ❖ **As of now**, SDIF and other FSN players have been working on the **recommended actions** of the IADI assessment report to improve current DIS in Turkey.
- ❖ Some of these recommendations are related with the early intervention process and resolution powers and tools of the SDIF and Turkish DIS.



SDIF aimed to increase the efficiency of resolution tools and to improve its resolution capacity both in accordance with the international standards (IADI and FSB principles) and as well as its past experiences

Thank You..!

